

How is the Welsh Government preparing for Brexit?

February 2018



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How is the Welsh Government preparing for Brexit?

February 2018



About the Committee

The Committee was established on 28 June 2016. Its remit was agreed on 15 September 2016 and can be found at : www.assembly.wales/SeneddEAAL

Committee Chair:



David Rees AM
Welsh Labour
Aberavon

Current Committee membership:



Dawn Bowden AM
Welsh Labour
Merthyr Tydfil and Rhymney



Michelle Brown AM
UKIP Wales
North Wales



Suzy Davies AM
Welsh Conservative
South Wales West



Jane Hutt AM
Welsh Labour
Vale of Glamorgan



Mark Isherwood AM
Welsh Conservative
North Wales



Steffan Lewis AM
Plaid Cymru
South Wales East



Jenny Rathbone AM
Welsh Labour
Cardiff Central

The following Members were also members of the Committee during this inquiry:



Eluned Morgan AM
Welsh Labour
Mid and West Wales



Jeremy Miles AM
Welsh Labour
Neath

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Chair's foreword

It is now over nineteen months since the referendum on the UK's membership of the European Union and the subsequent decision of the people. In March, we will mark one year since the UK Government triggered the Article 50 withdrawal notice, leaving only a further 12 months until the UK leaves the European Union. During the last year, the first phase of the negotiations have reached a point where satisfactory progress has been made toward reaching a political agreement between the European Union and the UK Government on three aspects of the UK's withdrawal and although much remains to be negotiated, many questions about how Wales is preparing for Brexit are coming into a sharper focus.

During this inquiry, we as a Committee, set out to explore how Wales, and the Welsh Government in particular, should be preparing for Brexit. The quality of our evidence base was greatly improved both by our traditional consultation and oral evidence sessions in the Senedd, and our visits to speak to stakeholders in Caerleon, Swansea University and Llanelli. Our sincere thanks goes to all those who contributed to this inquiry.

In preparing this report, we have worked with the hope that the Article 50 negotiations will conclude with a successful outcome for all parties. However, we do not shy away from addressing the possibility of a 'no deal' situation being in existence on 29 March 2019. Whilst we are clear that this is not an outcome that we would endorse as desirable, we do believe that, as this is still a possibility, there is a need for the Welsh Government to be doing more in terms of scenario planning, including for a 'no deal', to prepare Wales. Governments, national and regional, elsewhere in the EU, and the European Commission itself, have preparations in place for such an outcome, why not Wales.

Our inquiry also found that people across the public, private and third sectors in Wales need a stronger steer from the Welsh Government about how they should be preparing for Brexit. In particular businesses, like manufacturing and farming, would welcome more information on the potential impacts of Brexit. Similarly, in terms of engagement, we found that – whilst there are pockets of good practice – more needs to be done to ensure that information is filtering down through organisations to the staff and service providers on the frontline.

Finally, we heard many sectoral concerns, particularly in the fields of health, higher education and equalities. In including them in our report we hope to bring them to the attention of the Welsh Government. We will also take forward some of these strands both as part of our work on Wales' future relationship with Europe and also as part of our wider future work programme.

David Rees AM

Chair of the External Affairs and Additional Legislation Committee

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..... Page 16

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..... Page 16

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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..... Page 19

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..... Page 21

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..... Page 25

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..... Page 27

Our views

We are concerned about the implications of continued uncertainty regarding the eventual outcome of the Brexit negotiations between the UK Government and the EU and recognise the challenge this poses in terms of preparedness for the Welsh Government, businesses, and public services..... Page 13

We agree with the view expressed by stakeholders that planning for Brexit is best progressed on an all-Wales level and should be led by the Welsh Government.
..... Page 13

We recognise that the possibility of “no deal” in the Brexit negotiations and have serious concerns about the implications (some of which are covered later in the report) that this may have on Welsh public services and the Welsh economy.
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We are also aware that governments (including at sub-state level) elsewhere in the EU, and the European Commission itself, are planning for a “no deal” scenario as one of the possible outcomes in the Brexit process. Page 15

We agree that transitional arrangements should be sought, however, we also note the House of Lords European Union Committee view that such transitional arrangements will be of limited value if they are not agreed in the first quarter of 2018. We also recognise that whilst that both sides (of the negotiations) acknowledge the need for a transition period; ambiguities remain in determining the desired end point to which the UK will eventually be transitioning. Page 15

There is a clear sense from the evidence that public services in Wales have lacked the information they need to adequately prepare for Brexit. Furthermore, a lack of clarity from the UK Government, and the potentially broad range of scenarios that may still arise are also seriously inhibiting the ability of public services, the third sector, and others to sufficiently plan and prepare for Brexit..... Page 18

We heard that, although the Welsh Government is engaging with stakeholders at the representative level, there are challenges in relation to cascading that information down to individual delivery organisations and frontline staff. Page 18

We recognise our own role in ensuring that the public and civil society in Wales have access to reliable and authoritative information as the Brexit process unfolds. We would therefore like to highlight the regular **Brexit updates** produced by the Assembly’s impartial Research Service, which are published on **our website**.
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We share the concerns of stakeholders that the loss of future European funding would present a challenge to services and organisations in Wales. Page 21

We reiterate our previously expressed view that Wales should not be any worse off in terms of equivalent funding, as a consequence of leaving the EU, than it would have been had Wales remained in the EU..... Page 21

We acknowledge the concerns expressed by stakeholders in relation to changes to immigration rules after Brexit and will maintain a watching brief with regards to UK Government action in this area as the Brexit process unfolds..... Page 22

We acknowledge the initiative shown by the Welsh Government in producing a position paper on changes to freedom of movement rules after Brexit. We would also encourage the Welsh Government to look at the implications of Brexit in terms of workforce planning across the public sector..... Page 23

Stakeholders from across the public sector drew our attention the variety of ways in which Brexit could affect services and service provision. The Welsh response will require effort across government. We will be writing to other relevant subject committees at the National Assembly to bring their attention to areas of interest and in order to help facilitate scrutiny of other Cabinet Secretaries..... Page 23

We note the concerns expressed by the WCVA and intend to explore the implications of Brexit for equalities during the spring term 2018. Page 23

We further note that the Equalities, Local Government and Communities Committee work on the implications of Brexit for human rights is currently on-going..... Page 23

We received a substantial amount of evidence relating to the importance of continued access to EU programmes after Brexit. We intend to examine these issues in more depth as part of our new inquiry into Wales' future relationship with the EU. Page 24

We believe that there is an important role for the higher education sector to play in preparing Wales for the potential opportunities after Brexit. However, we also note the potential risks to the sector from a loss of access to funding, and the mobility of research staff in particular. Page 25

We welcome the announcement of new funding to prepare businesses and organisations and look forward to scrutinising deployment of this funding in the coming months. Page 27

1. Introduction

- 1.** In our work to date, we have heard on numerous occasions from witnesses about the importance of preparing Wales for the various scenarios that we might face when the UK leaves the European Union.
- 2.** Our inquiry set out to look in more detail at the issue of Wales' resilience and preparedness in the context of Brexit. The terms of reference for the inquiry were 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.
- 3.** To inform our work, we ran a public consultation and received 13 written responses. We also held formal and informal evidence sessions with witnesses and stakeholders. The stakeholder sessions took place in Caerleon, with frontline staff involved in healthcare, in Swansea with staff and students at Swansea University, and in Llanelli with managers and staff at the firm Calsonic Kansei. We would like to thank all those we visited for the welcome we received and for their valuable contribution to our inquiry.

2. Scenario planning and engagement

2.1. Planning for various Brexit scenarios

5. Scenario planning, and the extent to which the Welsh Government should be modelling the potential impacts of different negotiation outcomes for Wales in order to inform planning, was a key consideration during our inquiry.¹ During our scene-setting session with Michael Trickey, Wales Public Services 2025, and Dr Victoria Winckler, Director of the Bevan Foundation, we asked them specifically about scenario planning. Michael Trickey explained that:

“We saw you a year ago, and I don’t think we’re actually very much more advanced in our understanding of the implications of Brexit than we were a year ago. And the breadth of issues, which are quite significant issues in terms of finance and the economy and regulation, and so on, and the span of possibilities for all those issues, from ‘no deal’ at one extreme to colleagues of ours who’ve told us that they think Brexit might not happen at all, at the other end of the extreme. So, in a sense, we are in an extraordinary situation of having to cope with a potentially very wide span of possibilities from where we are now, and that’s going to require some very, in terms of capacity of Government and of organisations, to handle this. It is, I think, something that still hasn’t been fully recognised.”²

6. In written evidence, the Welsh NHS Confederation (WNHSC) recognised the difficulties faced by the Welsh Government in the context of planning for Brexit.³ At the same time, during oral evidence Vanessa Young, Director of the WNHSC, explained that once it is possible to establish what the potential scenarios are, then organisations would be able to start thinking about the resources needed for each outcome.⁴

7. The National Trust told us that they would like to see specific farm business planning advice relating to the various trading scenarios after Brexit.⁵ Similarly, evidence from the Farmers’ Union of Wales (FUW) showed the specific vulnerabilities of the Welsh agriculture sector – particularly the red meat industry –

¹ **RPB04 Pembrokehire Council**

² National Assembly for Wales, Record of Proceedings, **paragraph 7** – 23 October 2017

³ **RPB01 Welsh NHS Confederation**

⁴ Record of Proceedings, **paragraphs 212-213** – 23 October 2017

⁵ **RPB09 National Trust**

to changes in the UK's trade relationships after Brexit.⁶ Furthermore, the FUW called for the Welsh Government to “quantify the possible impacts of different post-Brexit scenarios, in order to inform Welsh Government policy, other policy makers and individual businesses”.⁷

8. Pembrokeshire County Council told us:

“What is needed is some way to remove some of the uncertainty in order to provide space in which policy responses can be formulated. This can be done by simplifying the number of possible futures into just a small number of scenarios based on latest intelligence about the progress of the exit negotiations, statements from HM Government, the European Commission and others, socio-economic evidence and high quality academic research etc.”⁸

9. A number of witnesses, including stakeholders at Aneurin Bevan University Health Board, told us that it would be helpful to be given a steer by the Welsh Government in relation to scenarios. Victoria Winckler also told us:

“simply breaking down what the issues are for public sector organisations is in itself quite helpful. It seems to us that those are around trade and the supply chain, workforce issues, changes to regulations, changes in public finance and then how you prepare for all that.”⁹

10. Pembrokeshire County Council argued that identification of these scenarios is best done at an all-Wales level by the Welsh Government and shared with organisations across Wales.¹⁰

11. During oral evidence, the Cabinet Secretary for Finance, Mark Drakeford AM, told us that the Welsh Government had been scenario planning “from the beginning” but that it was difficult given that “we don't know the scenarios against which we are best able to direct our efforts”¹¹. The Cabinet Secretary also highlighted the impact assessments produced to date, including the **Securing Wales' Future** White Paper, the **Chief Economist's Report 2017** and the **Welsh**

⁶ **RPB13 Farmers Union of Wales**

⁷ Ibid.

⁸ **RPB04 Pembrokeshire County Council**

⁹ Record of Proceedings, **paragraph 78** – 23 October 2017

¹⁰ **RPB04 Pembrokeshire County Council**

¹¹ Record of Proceedings, **paragraph 9** – 20 November 2017

Government's position paper on migration.¹² He also stated that further work, including on future trade policy, was currently in development.¹³

Our view

We are concerned about the implications of continued uncertainty regarding the eventual outcome of the Brexit negotiations between the UK Government and the EU and recognise the challenge this poses in terms of preparedness for the Welsh Government, businesses, and public services.

We agree with the view expressed by stakeholders that planning for Brexit is best progressed on an all-Wales level and should be led by the Welsh Government.

2. 2. Deal or no deal?

12. On the issue of “no deal”, Michael Trickey told us that the “no deal” scenario, which had at one stage seemed a remote possibility, had “seemed to become much more a live possibility over the last few months”.¹⁴ Victoria Winckler agreed, adding that there was a “very real possibility of a “no deal” or a “very limited deal” Brexit”¹⁵. Dr Winckler also said that that work was needed to “sketch out the parameters” of what various scenarios, including a “no deal” scenario, could mean.¹⁶

13. Both Dr Winckler and Mr Trickey recognised that, even though the potentially wide range of negotiation outcomes could make scenario and contingency planning quite challenging for government and public services, any scenario planning that had been undertaken so far seemed relatively limited.¹⁷ Furthermore, Mr Trickey stated that although umbrella organisations were engaging with Brexit, the issue felt “very, very remote” at the level of individual delivery organisations.¹⁸

14. During our evidence sessions in Cwmbran, Swansea and Llanelli, many stakeholders told us that it would be useful to have a steer from the Welsh

¹² Record of Proceedings, **paragraph 16** – 20 November 2017, **Written Evidence – Mark Drakeford, Cabinet Secretary for Finance**

¹³ Record of Proceedings, **paragraph 16** – 20 November 2017

¹⁴ Record of Proceedings, **paragraph 11** – 23 October 2017

¹⁵ Record of Proceedings, **paragraph 12** – 23 October 2017

¹⁶ Record of Proceedings, **paragraph 4** – 23 October 2017

¹⁷ Record of Proceedings, **paragraphs 17 to 19** – 23 October 2017

¹⁸ Record of Proceedings, **paragraph 18** – 23 October 2017

Government on what scenarios they should be thinking about, including a potential “no deal” scenario.¹⁹ Some participants at Calsonic Kansei in Llanelli expressed the view that there was a lack of urgency in terms of preparing for the various Brexit scenarios that Wales could face.²⁰

15. Participants at the stakeholder sessions at Swansea University expressed concern at the lack of clarity from the UK Government about what a “no deal” would entail in practical terms.²¹ There was also a sense from stakeholders that Brexit was not always on the list of immediate priorities for individual organisations. For example, staff at Aneurin Bevan University Health Board said that staff felt overstretched and that it was difficult to think about Brexit when facing so many day-to-day challenges and shortages.²²

16. The recent House of Lords, European Union Committee report, “Brexit: deal or no deal”, highlighted the potential damage of a “no deal” outcome to the UK economy.²³ Furthermore, the report highlighted the negative impact of continuing uncertainty and the limited value of a transitional deal if agreement cannot be reached before March 2018. The report stated that:

“There is still a risk of a chaotic ‘no deal’ Brexit, and for the reasons we have set out in this report, we are not confident that a legally certain and binding transition deal can be reached by March 2018, the point at which uncertainty is likely to inflict more serious damage on the UK economy.”²⁴

17. In relation to the issue of planning for a “no deal” scenario, the Cabinet Secretary argued that “no deal” would be “disastrous for the Welsh economy” and that the Welsh Government’s focus was on “communicating that to the UK Government to prevent a “no deal” from being the outcome”.²⁵ The Cabinet Secretary said:

“If anybody thinks that that amounts to a plan to protect yourself against a ‘no deal’ Brexit, then I’m saying to them that I don’t think that that is the case. No amount of public money, no amount of preparation,

¹⁹ [Summary of rapporteur discussions](#)

²⁰ [Summary of rapporteur discussions](#)

²¹ [Summary of rapporteur discussions](#)

²² [Summary of rapporteur discussions](#)

²³ House of Lords, European Union Committee [“Brexit: deal or no deal”](#) – 5 December 2017

²⁴ Ibid.

²⁵ Record of Proceedings, [paragraph 11](#) - 20 November 2017

will avoid the harm that will be done to Wales and its economy by leaving the European Union without a deal. [...]

But I think we are fooling ourselves if we believe that that sort of detailed preparation amounts to an ability to withstand the impact of a 'no deal' on Wales.

That's why I say that the idea that you can simply plan for it, as though this was all overcome-able by a plan—I don't think that that adequately describes to people in Wales what the impact of a 'no deal' basis of leaving the European Union would actually be like for them.”²⁶

18. The Cabinet Secretary also told us that in his conversations with the Secretary of State for Exiting the EU:

“He is completely clear that he is focused on making a deal. That is his intention; that is his plan. He is not planning for no deal. He may have to be thinking about what would happen if there wasn't one, but that is not his intention—that's not what the UK Government, he says, is in this to achieve.”²⁷

Our view

We recognise that the possibility of “no deal” in the Brexit negotiations and have serious concerns about the implications (some of which are covered later in the report) that this may have on Welsh public services and the Welsh economy.

We are also aware that governments (including at sub-state level) elsewhere in the EU, and the European Commission itself, are planning for a “no deal” scenario as one of the possible outcomes in the Brexit process.

We agree that transitional arrangements should be sought, however, we also note the House of Lords European Union Committee view that such transitional arrangements will be of limited value if they are not agreed in the first quarter of 2018. We also recognise that whilst that both sides (of the negotiations) acknowledge the need for a transition period; ambiguities remain in determining the desired end point to which the UK will eventually be transitioning.

²⁶ Record of Proceedings, **paragraphs 65 to 67** – 20 November 2017

²⁷ Record of Proceedings, **paragraph 69** – 20 November 2017

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.

2. 3. Impact assessments

19. In his written evidence, the Cabinet Secretary for Finance said:

“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 the 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.”²⁸

20. In correspondence, the Cabinet Secretary also told us that the Welsh Government has commissioned research from Cardiff Business School to “understand the way in which larger companies are preparing for Brexit”.²⁹ It is expected that this research will be published early this year.

21. On 3 July 2017 (as part of our inquiry into the implications of Brexit for Welsh ports), the Cabinet Secretary for Economy and Infrastructure told us that a sector by sector analysis of impacts of Brexit on the Welsh Government’s nine priority sectors had taken place.³⁰

Our view

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.

²⁸ **Written Evidence - Mark Drakeford, Cabinet Secretary for Finance**

²⁹ **PTN5 - Letter from the Cabinet Secretary for Finance regarding resilience and preparedness.**

³⁰ Record of Proceedings, **paragraph 31** – 3 July 2017

2. 4. Engagement and communication

22. Michael Trickey told us about the importance of regular engagement between the Welsh Government and public service organisations. He said:

“things that public services say to us are that it would be helpful just to have a regular statement about the process – so, where things are at in terms of the Welsh Government and the negotiation process.”³¹

23. The Welsh Council for Voluntary Action (WCVA) said that:

“the sector requires clear, open and accessible dialogue in relation to the direction of travel. It’s extremely difficult to engage with Brexit discussion if we don’t know what it is we’re engaging with [...] WCVA believes it’s crucial that the third sector and wider civil society is fully engaged in debates and decisions around Brexit in order to support better outcomes for all.”³²

24. The Welsh Local Government Association (WLGA) also highlighted the importance of engagement with the Welsh Government.³³ In its written evidence the WLGA highlighted a number of formal and informal ways in which the Welsh Government has involved local authorities including through the EU Advisory Group, the publication of Welsh Government position papers and the environment and rural affairs working group.³⁴ In particular, the WLGA praised the inclusive approach adopted by the Cabinet Secretary for Environment and Rural Affairs, something that it would like to see replicated in other areas.

25. Caerphilly County Borough Council (CCBC) told us that although the WLGA were currently acting as a “go between” the local authority felt that “more needs to be done by WG to communicate with those currently responsible for implementing EU programmes”.³⁵

26. The Academy of Medical Royal Colleges Wales (the AoMRCW) told us that they had not received any advice, support or assistance from the Welsh

³¹ Record of Proceedings, **paragraph 53** – 23 October 2017

³² **RPB10 Welsh Council for Voluntary Action**

³³ **RPB11 Welsh Local Government Association**

³⁴ **RPB11 Welsh Local Government Association**

³⁵ **RPB12 Caerphilly County Borough Council**

Government to date. The AoMRCW added that they would welcome the opportunity to engage with the Welsh Government in preparation for Brexit.³⁶

27. The Wales Co-operative Centre told us that social businesses will need increased help and support to meet the challenges of Brexit.³⁷ During our visit to Calsonic Kansei, stakeholders told us that although the company has been looking at the various scenarios that could unfold at the end of the Brexit process, engagement with the Welsh Government had been limited.³⁸

28. Vanessa Young, Director of the WNHSC, also told us that more communication from the Welsh Government would be welcomed, stating that:

“at the moment we’re a bit reliant on what we hear in the news or what we read in newspapers as to the next set of developments.”³⁹

29. During oral evidence, the Cabinet Secretary explained that engagement on Brexit issues by the Welsh Government is primarily conducted on a representative level.⁴⁰ At the same time, the Cabinet Secretary recognised that there were difficulties associated with cascading that information down to the operational level.⁴¹

Our view

There is a clear sense from the evidence that public services in Wales have lacked the information they need to adequately prepare for Brexit. Furthermore, a lack of clarity from the UK Government, and the potentially broad range of scenarios that may still arise are also seriously inhibiting the ability of public services, the third sector, and others to sufficiently plan and prepare for Brexit.

We heard that, although the Welsh Government is engaging with stakeholders at the representative level, there are challenges in relation to cascading that information down to individual delivery organisations and frontline staff.

We recognise our own role in ensuring that the public and civil society in Wales have access to reliable and authoritative information as the Brexit process unfolds. We would therefore like to highlight the regular **Brexit updates**

³⁶ **RPB08 Academy of Medical Royal Colleges Wales**

³⁷ **RPB02 Wales Co-operative Centre**

³⁸ **Summary of rapporteur discussions**

³⁹ **RPB08 Academy of Medical Royal Colleges Wales**

⁴⁰ Record of Proceedings, **paragraph 47** – 20 November 2017

⁴¹ Record of Proceedings, **paragraph 51 and 56** – 20 November 2017

produced by the Assembly's impartial Research Service, which are published on [our website](#).⁴²

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.

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.

⁴² Go to www.assembly.wales/SeneddEAAL and click on “[Latest Updates about leaving the European Union \(Brexit\)](#)”

3. Preparedness of public services and the economy

3.1. Preparedness in relation to the financial implications of Brexit

30. We heard from a number of stakeholders in both written and oral evidence about the challenges that public services in Wales will face as a result of Brexit. Many of these concerns focused on the implications for funding. Wales is currently a significant beneficiary of European funding totalling around £680 million a year.⁴³

31. In relation to funding, the Wales Co-operative Centre, following a survey of the social business sector, told us that:

“they are concerned their future trading environment is going to be affected adversely by leaving the EU, in particular from the loss of European funding and from the wider impact on the economy.”⁴⁴

32. The Welsh Language Commissioner (“the Commissioner”) was also concerned about the loss of access to European funding after Brexit, and highlighted the potentially negative consequences that this could have on projects that support the Welsh language.⁴⁵

33. Cytûn: Churches Together in Wales (Cytûn) also had concerns about loss of European funding in Wales. Furthermore, Cytûn expressed concerns about the proposed Shared Prosperity Fund (to replace EU structural funds), arguing that any future fund should be administered by the Welsh Government (rather than UK Government) on the basis of need rather than a population share.⁴⁶

34. Dr Tim Peppin of the WLGA had similar concerns about the proposed Shared Prosperity Fund stating that future funding should be allocated to Wales to operate within a Welsh context.⁴⁷ Caerphilly County Borough Council (CCBC) echoed these concerns stating that:

⁴³ [**PTN5 - Letter from the Cabinet Secretary for Finance regarding resilience and preparedness**](#)

⁴⁴ [**RPB02 Wales Co-operative Centre**](#)

⁴⁵ [**RPB06 Welsh Language Commissioner**](#)

⁴⁶ [**RPB07 Cytûn: Churches Together in Wales**](#)

⁴⁷ Record of Proceedings, [**paragraph 238**](#) – 23 October 2017

“Welsh Government should oppose the concept of a Shared Prosperity Fund administered at the UK level.”⁴⁸

35. CCBC also stated that:

“the amount of funding available to Wales should be no less than if the UK had remained in the EU.”⁴⁹

36. The Cabinet Secretary told us in his paper that it was “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”.⁵⁰

37. On 8 December 2017, the Cabinet Secretary provided more detail in terms of the Welsh Government’s approach to the future of regional investment funding through publication of a position paper: “Regional Investment Funding in Wales after Brexit”.⁵¹

Our view

We share the concerns of stakeholders that the loss of future European funding would present a challenge to services and organisations in Wales.

We reiterate our previously expressed view that Wales should not be any worse off in terms of equivalent funding, as a consequence of leaving the EU, than it would have been had Wales remained in the EU.

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.

3. 2. Changes to immigration rules

38. During our stakeholder session at Swansea University, many participants expressed concerns that changes to immigration rules after Brexit could pose a challenge to the university sector.⁵² For example, many noted that international students currently subsidise home students and stated that anything that makes it more difficult for students from overseas to come to Wales could undermine

⁴⁸ **RPB12 Caerphilly County Borough Council**

⁴⁹ Ibid.

⁵⁰ **Written Evidence – Mark Drakeford, Cabinet Secretary for Finance**

⁵¹ Welsh Government, “**Regional Investment Funding in Wales after Brexit**” – 8 December 2017

⁵² **Summary of rapporteur discussions**

this income stream.⁵³ Likewise, the submission from Universities Wales highlighted the fact that a drop in student recruitment from the EU would have significant financial implications for the sector. Universities Wales called on the Welsh Government to:

“publicly affirm the value placed on EU students and their contribution to Welsh universities, invest in supporting future recruitment overseas through promotional activity, and provide reassurances to current EU students that they will remain welcome in Wales following its departure from the EU.”⁵⁴

39. Stakeholders in the health and social care sector also highlighted that there has been a heavy reliance on overseas recruitment because of existing or longer-term recruitment challenges.⁵⁵ Similarly, the WNHSC argued that health and social care should be recognised as a priority sector for overseas recruitment after Brexit.⁵⁶

40. Participants at Swansea University also told us that the final settlement in relation to the free movement of people should not affect international mobility programmes such as Erasmus+ and that the UK should negotiate third party agreement for continued access to such programmes.⁵⁷

41. The Welsh Government has previously set out its position in relation to changes to immigration rules after Brexit in its paper “Brexit and the Fair Movement of People”.⁵⁸ The paper proposes linking migration more closely to employment and also states that students should not be counted as migrants for the purpose of net migration figures.⁵⁹

Our view

We acknowledge the concerns expressed by stakeholders in relation to changes to immigration rules after Brexit and will maintain a watching brief with regards to UK Government action in this area as the Brexit process unfolds.

⁵³ [Summary of rapporteur discussions](#)

⁵⁴ [RPB05 Universities Wales](#)

⁵⁵ [Summary of rapporteur discussions](#)

⁵⁶ [RPB01 Welsh NHS Confederation](#)

⁵⁷ [Summary of rapporteur discussions](#)

⁵⁸ Welsh Government, “[Brexit and the Fair Movement of People](#)” – 7 September 2017

⁵⁹ Ibid.

We acknowledge the initiative shown by the Welsh Government in producing a position paper on changes to freedom of movement rules after Brexit. We would also encourage the Welsh Government to look at the implications of Brexit in terms of workforce planning across the public sector.

Stakeholders from across the public sector drew our attention the variety of ways in which Brexit could affect services and service provision. The Welsh response will require effort across government. We will be writing to other relevant subject committees at the National Assembly to bring their attention to areas of interest and in order to help facilitate scrutiny of other Cabinet Secretaries.

3. 3. Implications for equalities

42. In terms of equalities and human rights, the WCVA described the way in which the EU had served as a “safety net” and expressed “deep reservations [...] regarding the prospect of these commitments being weakened over time”.⁶⁰ The WCVA also told us that it had concerns about the absence of provisions in the European Union (Withdrawal) Bill to transpose the EU Charter on Fundamental Rights into domestic law after Brexit.

Our view

We note the concerns expressed by the WCVA and intend to explore the implications of Brexit for equalities during the spring term 2018.

We further note that the Equalities, Local Government and Communities Committee work on the implications of Brexit for human rights is currently on-going.

3. 4. Implications for health

43. The WHNSC told us about the importance of continued cooperation between the EU and the UK in areas such as disease prevention, public health and health technologies regulation.⁶¹ These views were echoed by AoMRCW who identified the following as key areas as in need of addressing as part of the exit negotiations:

- recognition of medical qualifications;
- maintaining medical research links and funding;

⁶⁰ [RPB10 Wales Council for Voluntary Action](#)

⁶¹ [RPB01 Welsh NHS Confederation](#)

- continued cooperation on public health issues;
- reciprocal healthcare arrangements; and
- regulation of medical devices.⁶²

Our view

We received a substantial amount of evidence relating to the importance of continued access to EU programmes after Brexit. We intend to examine these issues in more depth as part of our new inquiry into Wales' future relationship with the EU.

3. 5. Research and innovation

44. Both the higher education and health sectors expressed concerns about the implications of Brexit for research collaboration and innovation. The WNHSC stated that “the NHS has a long tradition of EU collaborative research” and that similar participation in collaborative research is not possible with other regions of the world.⁶³ The AoMRCW expressed the same concerns and the implications that reduced collaboration would have in terms of clinical trials in Wales.

45. Similarly, Universities Wales identified loss of funding for research and innovation, and damage to international research collaboration as key vulnerabilities in relation to Brexit.⁶⁴ Furthermore, their paper highlighted the risks to research collaboration should the UK fail to negotiate a deal at the end of the Article 50 period, whereby the UK would be relegated to the status of a third country within Horizon 2020.⁶⁵

46. Stakeholders at Swansea University told us that universities in Wales are particularly reliant on EU funding, with around 40 per cent of Swansea's funding coming from EU sources.⁶⁶ Furthermore, participants felt that universities in Wales had good relationships with institutions that administered funding in Brussels, but less so with those that administered funding at a UK level and noted that no

⁶² [RPB08 Academy of Medical Royal Colleges Wales](#)

⁶³ [RPB01 Welsh NHS Confederation](#)

⁶⁴ [RPB05 Universities Wales](#)

⁶⁵ Ibid.

⁶⁶ [Summary of rapporteur discussions](#)

Welsh university received funding as part of the first wave of the recent Innovate UK investment.⁶⁷

Our view

We believe that there is an important role for the higher education sector to play in preparing Wales for the potential opportunities after Brexit. However, we also note the potential risks to the sector from a loss of access to funding, and the mobility of research staff in particular.

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.

3. 6. Preparedness of businesses

47. In relation to the economy, participants from the session with Calsonic Kansei told us that many companies are currently deferring investment decisions in response to the continued uncertainty regarding the eventual outcome of the Brexit negotiations. They felt that the Welsh Government should continue to prioritise securing the best possible access to the European Single Market after Brexit and welcomed the Welsh Government’s stated position in relation to this.⁶⁸

48. In a similar vein, the FUW stated in its response that it welcomed the Welsh Government’s “frequent highlighting of the importance of maintaining access to the EU Single Market”.⁶⁹ In its paper the FUW also highlighted the significant risks to the Welsh agriculture industry by loss of access to the Single Market, the imposition of tariffs and the potential impact of tariff-free food imports from around the world.⁷⁰

49. Michael Trickey also highlighted the importance of transitional arrangements after the UK leaves the EU. Mr Trickey said:

“a transition period seems to be absolutely essential in terms of the economy. If it’s not there, I think we are on very, very thin ice indeed in

⁶⁷ **Summary of rapporteur discussions**

⁶⁸ **Summary of rapporteur discussions**

⁶⁹ **RPB13 Farmers’ Union of Wales**

⁷⁰ Ibid.

terms of the economy, and the bigger organisations will take their own course.”⁷¹

50. The Welsh Language Commissioner highlighted concerns about wider negative impacts on the economy in terms of employment in Welsh-speaking communities, stating that:

“It is absolutely essential that Brexit does not undermine the efforts to create more Welsh speakers or to increase the use made of the Welsh language.”⁷²

51. The Federation of Small Businesses Wales (FSB Wales) stated in written evidence that they supported the £5 million Brexit support package for businesses, agreed as part of the budget deal with Plaid Cymru.⁷³ FSB Wales told us that the funding should be used to help Welsh Small and Medium Enterprises to risk assess their business in relation to Brexit and that this support could be delivered through Business Wales.⁷⁴

52. On the 8 January 2018, the First Minister announced a new £50 million EU Transition Fund to provide support for businesses and the public sector prepare for Brexit.⁷⁵

53. On the issue of UK Government funding to prepare for Brexit, in a letter to the Committee the Cabinet Secretary stated that:

“The Chief Secretary to the Treasury has confirmed we will receive a Barnett share of the £250 million being allocated from reserves in 2017-18 as set out in the Written Statement from the Chief Secretary to the Treasury on 12 October. The level of funding will be confirmed at UK Supplementary Estimates. In addition, we will also receive a Barnett share of the £3 billion allocated in the UK Budget. The level of consequential funding will be known early in the New Year once allocations to UK departments have been made.”⁷⁶

⁷¹ Record of proceedings, **paragraph 108** – 23 October 2017

⁷² **RPB06 Welsh Language Commissioner**

⁷³ **RPB03 FSB Wales**

⁷⁴ **RPB03 FSB Wales**

⁷⁵ Welsh Government, “**£50m fund to help prepare Wales for Brexit**” – 8 January 2018

⁷⁶ **PTN5 – Letter from the Cabinet Secretary for Finance regarding resilience and preparedness**

Our view

We welcome the announcement of new funding to prepare businesses and organisations and look forward to scrutinising deployment of this funding in the coming months.

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.

Annex A – List of oral evidence sessions

The following witnesses provided oral evidence to the Committee on the dates noted below. **Transcripts of all oral evidence sessions** can be viewed on the Committee's website.

Date	Name and Organisation
23 October 2017	Dr Victoria Winckler, Bevan Foundation Michael Trickey, Wales Public Services 2025 Vanessa Young, Welsh NHS Confederation Councillor Anthony Taylor, Welsh Local Government Association Tim Peppin, Welsh Local Government Association
6 November 2017	The Committee broke into two rapporteur teams to undertake roundtable discussions with stakeholders. The session in Caerleon focused on healthcare. The sessions in Swansea and Llanelli focused on higher education and manufacturing respectively. A summary of the discussions was published on the inquiry homepage.
20 November 2017	Mark Drakeford AM, Cabinet Secretary for Finance Shan Morgan, Permanent Secretary to the Welsh Government

Annex B – List of written evidence

The following people and organisations provided written evidence to the Committee. All **consultation responses and additional written information** can be viewed on the Committee's website.

Organisation	Reference
Welsh NHS Confederation	<u>RPB 01</u>
Wales Co-Operative Centre	<u>RPB 02</u>
FSB Wales	<u>RPB 03</u>
Pembrokeshire County Council	<u>RPB 04</u>
Universities Wales	<u>RPB 05</u>
Welsh Language Commissioner	<u>RPB 06</u>
Cytûn: Churches Together in Wales	<u>RPB 07</u>
Academy of Medical Royal Colleges Wales	<u>RPB 08</u>
The National Trust	<u>RPB 09</u>
Wales Council for Voluntary Action	<u>RPB 10</u>
Welsh Local Government Association	<u>RPB 11</u>
Caerphilly County Borough Council	<u>RPB 12</u>
Farmers Union of Wales	<u>RPB 13</u>