National Assembly for Wales Finance Committee Inquiry into Preparations for Replacing EU Funding for Wales

Farmers' Union of Wales Response

11th May 2018

Financial planning for replacing EU funding streams in Wales - what is being done to prepare for different potential scenarios around levels of funding and administrative responsibility

1. The guarantee provided by the Chancellor, Philip Hammond (13th August 2016) that EU derived funding for Wales would continue to 2020 was clearly welcome at the time, as was Secretary of State Michael Gove's commitment (8th January 2018) to maintain the CAP budget until 2022, and possibly 2024.

2. However, there continues to be ambiguity around the meaning of such commitments in terms of how funding will be allocated, administered and transferred to Wales.

3. Such uncertainty is exacerbated by the ongoing negotiations with the European Union relating to transitional and post-Brexit arrangements which may or may not include means by which EU funding remains accessible for Wales.

4. As such, while the significant work undertaken by the Welsh Government in relation to post-Brexit scenarios and arrangements is welcome, including the work on post-Brexit rural policies and the *Regional Investment in Wales after Brexit* paper, the ambiguity over the replacement of intermediate and long term EU funding represents a major obstacle in terms of preparing for different potential funding scenarios and potential changes to administrative responsibilities.

5. The FUW therefore believes the UK Government should seek a means by which to provide long term assurances that Wales will continue to receive funding which at least matches historical allocations in real terms, in line with promises made in the EU referendum campaign.

Approaches to administering replacements for current EU funding streams which might deliver best for Wales, and how these might replicate or differ from current arrangements

6. The Farmers' Union of Wales has responded to the Welsh Government's *Regional Investment in Wales* document, broadly agreeing with the principles it outlines, but highlighting the need to:

   a. To ensure elements of existing approaches which work well are not lost, and that we seek to develop and improve what is already in place, as opposed to rapidly introducing new and disruptive approaches

   b. Minimise changes which would result in the loss of or disruption to established systems of administration, causing unnecessary additional costs

   c. Ensure a safe transition over an appropriate timescale during which ways to evolve and improve upon what is already in place are sought

   d. Develop a better model for assessing geographic needs at a more local level, taking into account a range of measurements and the differing needs and economies of rural and urban areas

   e. Ensure regional plans and funding are mapped to areas on objective grounds and at sufficient resolution, rather than to Local Authority areas

   f. Recognise the differing needs of rural and urban areas, while ensuring the needs of urban and rural areas, people and businesses can be addressed together

   g. Proactively ensure funding differences do not develop, inadvertently or deliberately, along political boundaries

   h. Return to the position whereby a number of dedicated Programme Monitoring Committees monitor the delivery of programmes

Common Agricultural Policy Budget Allocations within the UK

7. Given that funding provided through the Common Agricultural Policy[1] represents around 50% of Welsh EU derived funding, and the contribution such funding makes to the Welsh economy, the uncertainty referred to above in terms of future funding arrangements is a major concern.

8. In order to consider future funding streams, it is important to understand the rational which underpins current arrangements.

9. Under the European Union's 2014-2020 Multiannual Financial Framework, a total of €408.31 billion is allocated to the Common Agricultural Policy (CAP), representing 38% of the total EU budget.

10. 76% of this is allocated to Pillar 1 (Direct Payments), while the remaining 24% is allocated to Pillar 2 (Rural Development).

11. On the 8th November 2013, the then UK Government announced that national allocations from the UK's share of the EU CAP budget would be based on historic spend, thereby leaving the proportions allocated to devolved nations unchanged compared with previous CAP periods (Tables 1 and 2)[2].

Table 1	Pillar 1 allocation 2014-2020 (millions)	Pillar 2 allocation 2014-2020 (millions)	Total excluding national contributions (millions)
EU	€308,720	€99,600	€408,310
UK	€25,100	€2,600	€27,700
England	€16,421	€1,520	€17,941
Northern Ireland	€2,299	€227	€2,526
Scotland	€4,096	€478	€4,574
Wales	€2,245	€355	€2,600

[1] Through European Agricultural Guarantee Fund (EAGF) Pillar 1 Direct Payments and the European Agricultural Fund for Rural Development (EAFRD)
[2] https://www.gov.uk/government/news/uk-cap-allocations-announced

Table 2	Pillar 1		Pillar 2		Total	
	% of EU budget	% of UK budget	% of EU budget	% of UK budget	% of EU budget	% of UK budget
EU	100%	-	100%	-	100%	-
UK	8%	100%	3%	100%	7%	100%
England	5%	65%	2%	58%	4%	65%
Northern Ireland	1%	9%	0%	9%	1%	9%
Scotland	1%	16%	0%	18%	1%	17%
Wales	1%	9%	0%	14%	1%	9%

12. As such, Wales' Pillar 1 allocation reflects agricultural production before 2005, and the proportion of the Pillar 2 budget allocated to Wales under the previous (2007-2013) CAP.

13. Had the budget been allocated based upon population figures, Wales would have received significantly less (around €183 million less) of the budget, as would the other Celtic nations – reflecting the concern regarding the Barnettisation of any rural funding formulae (Table 3).

Table 3	Current CAP allocation (millions)	Population based CAP allocation (millions)	Difference (millions)	Difference per annum (millions)	% difference
England	€17,941	€23,258.18	€5,317	€759.60	30%
Northern Ireland	€2,526	€786.23	-€1,740	-€248.54	-69%
Scotland	€4,574	€2,280.99	-€2,293	-€327.57	-50%
Wales	€2,600	€1,315.61	-€1,284	-€183.48	-49%

14. This concern has been acknowledged by Secretary of State Michael Gove, who, in response to a question from Ceredigion MP Ben Lake, stated on 26th April 2018 that *"We want to make sure that, as is the case at the moment, farmers in Wales—indeed, farmers under all the devolved Administrations—receive more money than would be strictly the case under the Barnett formula. It is appropriate that they should continue to do so, because of the unique nature of the landscapes they farm."*[3]

15. The Scottish Government has continued to express frustration with the CAP allocation formulae adopted by the UK Government, arguing that Scotland should have received an additional €187 million, as the 'convergence uplift' in the UK share of the EU CAP budget was due to Scotland's low average payment per hectare[4].

[3] Hansard, 26th April 2018
[4] http://www.gov.scot/Topics/farmingrural/Agriculture/CAP/CAPEurope10112012/budget-facts31102012

16. It is notable that, had the Scottish proposal been adopted, Wales' share of the CAP budget would have been around 3% lower, and that despite the UK Government's decision the average payment per farm in Scotland continues to be higher than in all other UK nations, and around 55% higher than the Welsh average.

17. The impact of allocating CAP funding on the basis of each nation's agricultural area (including woodland) – in line with the principles underpinning the EU's convergence principle - is shown in Table 4.

Table 4	Current CAP allocation (millions)	Agricultural area based CAP allocation (millions)	Difference (millions)	Difference per annum (millions)	% difference
England	€17,941	€14,099.88	-€3,841	-€548.73	-21%
Northern Ireland	€2,526	€1,553.09	-€973	-€138.99	-39%
Scotland	€4,574	€9,236.99	€4,663	€666.14	102%
Wales	€2,600	€2,751.05	€151	€21.58	6%

18. As alluded to Michael Gove's answer of the 26th April 2018[3], factors such as the nature of landscapes must also be taken into account. Less Favoured Area (LFA) designation, which is assigned to 80% of Wales, is a reflection of the nature of landscape and other features, including socio-economic conditions.

19. Table 5 shows the impact of basing allocations of current CAP monies purely on the size of each nation's LFA.

Table 5	Current CAP allocation (millions)	LFA based CAP allocation (millions)	Difference (millions)	Difference per annum (millions)	% difference
England	€17,941	€4,692.94	-€13,248	-€1,892.58	-74%
Northern Ireland	€2,526	€2,229.23	-€297	-€42.40	-12%
Scotland	€4,574	€16,140.59	€11,567	€1,652.37	253%
Wales	€2,600	€4,578.23	€1,978	€282.60	76%

20. The examples shown in Tables 3, 4, and 5 illustrate the complexity and political issues around establishing new and objective formulae by which to allocate funding to the UK nations and devolved administrations.

21. However, it should be noted that the current allocations are based upon a UK Government decision made following consultation with the devolved Administrations (and with the Welsh Government's agreement) which was outside the influence of the EU (notwithstanding overarching EU laws governing allocations).

22. The FUW has argued for a needs-based allocation of post-Brexit budgets based, for example, upon the proportion of a region which is subject to handicaps such as poor climatic conditions and soil productivity, socio-economic constraints and the proportion of businesses affected by market failure.

23. Whilst the focus of the Welsh and UK Governments is on the provision of public goods, the FUW would emphasise the importance of including economic factors in any calculations in order to ensure that the economic, cultural and social well-being of Welsh communities is not compromised by an inappropriate allocation which disadvantages Wales.

24. In line with the above principles, the FUW has lobbied for assurances that in the short term Wales' share of the fixed budget assured by Secretary of State Michael Gove should remain unchanged, and that in the long term Wales should receive a needs-based allocation which is no less than would have been the case had the UK voted to remain in the European Union.

Multiannual Framework

25. Notwithstanding potential variations caused by, for example, exchange rate fluctuations and the CAP Financial Discipline, the fact that the CAP budget is effectively fixed within the EU Multiannual Financial Framework (MFF) for periods of seven years provides significant stability.

26. Conversely, there is a risk that whatever method is used to assign rural funding to the UK nations post-Brexit, the overarching budget could be subject to significant and disruptive annual fluctuations as a result of changes to Government spending priorities.

27. Given this, the FUW believes a multiannual framework for rural funding should be adopted, similar to the EU MFF.

Wales' Common Agricultural Policy budget

28. The various elements which make up Wales' CAP budget are shown in Table 6[5]

Table 6 Wales' CAP budget		2014-2020 budget before 15% Pillar transfer (millions)	2014-2020 budget after 15% Pillar transfer (millions)*	Average annual CAP budget 2014-2020 after 15% Pillar transfer (millions)	% of annual total
Pillar 1	EU Basic Payment Scheme budget	€ 2,245	€ 1,908	€273	66%
Pillar 2	EU European Agricultural Fund for Rural Development (EAFRD)	€ 363	€ 363	€52	13%
	Welsh co-funding	€ 320	€ 320	€46	11%
	15% Pillar transfer	-	€ 288	€41	10%
Totals	TOTAL EU contribution	€ 2,608	€ 2,560	€366	89%
	Total CAP budget	€ 2,929	€ 2,880	€411	100%

*Note that the 2020 15% Pillar transfer is not available in the 2014-2020 budgetary period, thereby reducing the total for the period after the 15% has been transferred

29. It should be noted that contributions such as those made from national funds and through Pillar transfers and must fall within strict EU thresholds – a provision aimed at allowing a degree of freedom while nevertheless reducing divergence between EU regions.

30. Under the EU rules, at least 85% of Pillar 1 support which must go to farmers through forms of direct support.

31. Pillar 2 funding can be spent on a broad range of rural development measures specified within EU regulations within specific funding thresholds. For example, at least 30% of the budget must be spent on the environment and mitigating climate change.

32. As such, there is a funding framework in place which, notwithstanding a degree of flexibility, proscribes what proportion of the total budget can be spent in different areas. This helps prevent divergence between regions of the EU by ensuring direct agricultural support and expenditure on specific issues does not differ more than a certain amount, and is aligned with overall EU CAP policy objectives.

[5] Based on figures from the following sources: https://ec.europa.eu/agriculture/sites/agriculture/files/rural-development-2014-2020/country-files/uk/factsheet-wales_en.pdf
https://www.gov.uk/government/news/uk-cap-allocations-announced

Post-Brexit Financial Framework

33. The UK's departure from the EU does not change the rational for having such a financial framework to prevent, for example, one nation spending the majority of a budget on direct support for farmers, and another spending the equivalent proportion on, say, rural transport, thereby introducing gross divergence between industries, regions and sectors.

34. The FUW therefore believes that, post-Brexit, a similar financial framework, agreed through discussions between devolved Administrations, must be put in place to ensure relative uniformity in terms of expenditure in specific areas, while also recognising devolution and the need for a degree of flexibility.

35. Without such a provision, major differences between areas of expenditure are likely to emerge, resulting in gross market distortion between producers and industries within the UK single market.

36. The FUW has regularly sought clarity from the Welsh and UK Governments regarding discussions on national funding allocation formulae and financial frameworks, but has yet to receive any assurances that any progress has been made in relation to such issues, despite the imminence of Brexit in less than twelve months' time.