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Mike Hedges MS
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Dear Chair

I understand following your comments during the evidence session on the 26th November 2020 that the Climate Change, Environment and Rural Affairs Committee is likely to hold an inquiry into the UK Government's Spending Review and its implications for agricultural and rural development funding.

We would fully support such an inquiry given the far-reaching consequences of what was announced as part of the Spending Review and would like to submit the below comments for consideration by the Committee.

I hope these outline why the FUW believe that the £242 million allocation for Welsh agriculture and rural development represents a cut to Welsh funding of at least 27% and up to 41% if Pillar transfer funds are included, and that the allocation is based on creative accounting and a disingenuous interpretation of the commitments made by numerous Secretaries of State and in the 2019 Conservative Manifesto.

Since we are currently in discussion with the Welsh Government regarding the specific implications of the cut, we are not in a position to speculate about what these may be.

However, I can confirm that we have made it clear to the Welsh Government that cuts to the 2021-22 Basic Payment budget should not be made given the far-reaching consequences of these at a time when Welsh farm businesses are expected to be under major pressures as a result of the UK's departure from the EU, irrespective of whether a trade deal is agreed in the coming weeks.

Yours sincerely

Nicholas Fenwick
Head of Policy

FARMERS' UNION OF WALES ANALYSIS AND OBSERVATIONS ON CUTS TO WELSH AGRICULTURAL AND RURAL DEVELOPMENT FUNDING FOR THE FINANCIAL YEAR 2021-2022 ANNOUNCED IN THE 25th NOVEMBER 2020 SPENDING REVIEW

4th December 2020

1. Leaders of the Brexit campaign promised that leaving the EU would not lead to reduced funding for farming and rural areas.
2. During the Second reading of the 2017-2019 Agriculture Bill, the then Secretary of State for Environment, Food and Rural Affairs, Michael Gove, stated that agricultural funding would not be Barnettised and that the settlement which allocates money to Wales on rural and agricultural criteria will be maintained.
3. The then Secretary of State for Wales, Alun Cairns, reinforced that commitment on the 11th October 2018.
4. The 2019 Conservative Manifesto stated *"...we will guarantee the current annual [Common Agricultural Policy (CAP)] budget to farmers in every year of the next Parliament."*
5. The EU CAP budget for Wales, for the period 2014-2020, confirmed on 8th November 2013 by the then Secretary of State for Environment Owen Paterson was *"...a pillar 1 (direct payment) allocation of around €2,245 million, and pillar 2 allocation of around €355 million."*¹
6. This is a total of €2.6 billion over the seven year (2014-2020) CAP budgetary period – an average of £331 million a year based on the £0.89/€ exchange rate fixed by the UK Government.
7. On 25th November 2020 the UK Government announced that Wales' 2021-2022 financial year allocation for agriculture and rural development would be £242 million - £89 million (27%) less than the average annual EU CAP allocation for the period 2014-2020.
8. The £242 million figure for the 2021-2022 financial year is £95 million (28%) less than the £337 million received in the 2019 funding 'baseline' defined by the UK Government to calculate Wales' allocation.
9. The UK Government maintains that the total budget available to Wales in 2021-2022 should be judged to be the sum of the £242 million announced on 25th November 2020 and the £95 million in unspent EU funding from the 2014-2020 funding period.
10. Under the EU's 'N+3' rule, the Welsh Government is entitled to spend money from the 2014-2020 Rural Development Programme budget in the three years after the end of the budgetary period to which the money 'belongs'.

¹ <https://www.gov.uk/government/news/uk-cap-allocations-announced>

11. The FUW maintains that since the £95 million is part of the 2014-2020 EU budget, it should not be used as part of the UK Government's 2021-2022 calculation.
12. The average annual EU CAP budget for Wales for the 2014-2020 period was £286 million (Pillar 1) plus £45 million (Pillar 2).
13. 15% of the £286 million Pillar 1 budget is transferred annually to Pillar 2 under the 'Pillar transfer' mechanism, reducing the annual amount paid to farmers through Direct (Pillar 1) Payments to £243, and increasing the average annual EU funding for Pillar 2 (Rural Development) to around £90 million.
14. On 30th December 2019, the UK Government announced £243 million would be made available for Welsh Direct payments in 2020.
15. The *total* CAP replacement funding of £242 million for the 2021-2022 financial year announced by the UK Government on 25th November 2020 is therefore £1 million *below* the 2020-2021 Direct Payment budget announced by the UK Government on 30th December 2019 – and takes no account of the EU annual Pillar 2 funding allocation.
16. While the UK Government announced £243 million in funding for the 2020 Basic (farm) Payment on 30th December 2019, they made no reference to the circa £42 million usually transferred annually to the Pillar 2 (Rural Development) budget.
17. Given that the 15% Pillar transfer is regarded as being available in the year after which it is applied, there is effectively an additional £42 million 'missing' from the £242 million 2021-2022 financial year allocation announced by the UK Government on 25th November 2020 – bringing the total reduction in Wales' 2021-2022 allocation to around £137 million (41%) less than had been anticipated, based on successive promises and the 2019 Conservative Manifesto.
18. The UK Government has pointed out in correspondence to the Welsh Government and FUW that the total EU CAP budget for the period 2021-2027 is €344 billion - €39 billion (10%) less than the €383 billion allocated for the 2014-2020 budgetary period, arguing that this would equate to a £34 million reduction in Wales' annual allocation if the UK was still a member of the EU.
19. One of the reasons that the EU CAP budget has been reduced is because the UK has left the EU and will therefore no longer contribute substantially to the EU budget - so the overall EU 2021-2027 budget is lower than would have been the case if the UK was a member of the EU.
20. However, the number of countries eligible to receive funds from the CAP has also been reduced, as the UK is no longer a member, and the UK previously received around 8% of the EU CAP budget – so the use of the new EU CAP budget in justifications for UK budgets is invalid.

21. Notwithstanding this, if Wales was still eligible to receive the same percentage of the *new* EU (€344 billion) budget as under the 2014-2020 CAP, Wales' share in 2021-2022 would on average be £298 million per year - £56 million (23%) more than was announced by the UK Government on 25th November 2020.
22. While the FUW has labelled Wales' replacement CAP fund allocation as a '*Brexit betrayal*', the Welsh Conservatives have claimed that the Welsh Government has pulled the wool "*...over the Farming Unions [sic] eyes*" and believe that unspent funds from the 2014-2020 CAP budget should be included in the funding calculation.
23. Given that the same funding formula has been applied in England, Scotland and Northern Ireland, the FUW is not alone in believing that the 2021-2022 funding allocations are hundreds of millions below what they should be, based on successive assurances by Secretaries of State and what was stated in the 2019 Conservative Manifesto commitment; those who share the FUW's belief include the Welsh Government, the Scottish Government, the Northern Ireland Executive, NFU Cymru and NFU Scotland.