Farmers' Union of Wales response to a Senedd Finance Committee short inquiry into funding following the UK's exit from the EU

May 2022

About the FUW

1. The Farmers' Union of Wales (FUW) was established in 1955 to exclusively represent the interests of farmers in Wales. Since 1978 the union has been formally recognised by UK Governments, and subsequently by Welsh Governments, as independently representing those interests.

2. The FUW's Vision is thriving, sustainable, family farms in Wales, while the Mission of the Union is To advance and protect Wales' family farms, both nationally and individually, in order to fulfil the Union's vision.

3. In addition to its Head Office, which has thirty full-time members of staff, the FUW Group has around 80 members of staff based in twelve regional offices around Wales providing a broad range of services for members.

4. The FUW is a democratic organisation, with policies being formulated following consultation with its twelve County Executive Committees and eleven Standing Committees.

Funding following the UK's Exit from the European Union

Common Agricultural Policy funding

5. The UK Government's 27th October 2021 Spending Review revealed that an average of £300 million a year would be allocated to Wales as replacement EU Common Agricultural Policy (CAP) funding over the next three financial years.

6. This is £37 million less than the budget allocated in 2019 - the year in which the Conservative Party manifesto pledged to *"guarantee the current annual [Common Agricultural Policy (CAP)] budget to farmers in every year of the next Parliament."*

7. In 2020, Wales received £137 million less than was anticipated based on that Conservative manifesto commitment.

8. Had the UK remained in the EU and Wales continued to receive the same proportion of the EU's CAP budget, the average annual Welsh allocation of CAP funding would have been around £334 million (based on previous allocations and the £0.89/€ exchange rate).

9. As such, the UK Government's budget decisions mean that Welsh agriculture and rural development will, by 2025, have received around £¼ billion less than would have been the case had the 2019 budget been fixed, as promised.

10. The FUW naturally believes that the promises made by leaders of the Brexit campaign and in the 2019 Conservative Party manifesto, to maintain CAP funding, should be honoured.

11. While the FUW has been a harsh critic of the fact that the UK Government has reneged on the 2019 Conservative Party manifesto commitment, it is notable that the UK Treasury was able to include unspent Rural Development Programme (RDP) monies in its calculations in order to justify the cut to Welsh CAP funding.

12. The FUW maintains that it was fundamentally dishonest of the UK Treasury to include unspent EU funding in calculations to defend cuts to the budget on the grounds that the total budget available equals what was available in 2019.

13. The FUW also agrees that the Welsh Government had every right to carry funding over from the 2014-2020 CAP budget, as is allowed under EU Regulations, without expecting it to be subtracted from subsequent UK Treasury allocations.

14. Notwithstanding this, it must be noted that prior to the November 2020 Spending Review a number of warnings were made that suggested the UK Treasury was likely to take such a disingenuous approach to calculating CAP replacement fund allocations, and that, as such, actions might have been taken to reduce Wales' RDP underspend and therefore the cuts referred to above.

15. The FUW believes that the cut to Wales' CAP replacement budget has been exacerbated by the decision in 2013 to annually transfer 15% of Wales' Single Payment Scheme budget to the RDP budget - 15% being the maximum proportion that can be transferred under the Pillar Transfer mechanism of the EU Regulations.

16. By contrast, other EU Member States countries announced Pillar Transfer rates of 0% at the time, while it is understood that the average Pillar Transfer rate in the EU continues to be below 5%.

17. To date, the 15% Pillar Transfer rate has resulted in Welsh farm payments being reduced by a total of circa £256 million since 2014 - reductions which farmers in other EU regions were not subject to - and Welsh farmers feel much aggrieved that the Welsh Government's failure to spend funding in the pot to which this money was transferred has been used by the UK Treasury to further undermine their own incomes, and Wales' total CAP replacement budget.

Post EU CAP scheme monitoring

18. The FUW believes that, while efforts should be made to streamline the monitoring of CAP replacement spending, future regimes should be subject to levels of scrutiny that mirror the EU regime.

19. Moreover, given failings found by the Auditor General for Wales in terms of the 2014-2020 RDP - despite monitoring and scrutiny processes - the FUW believes that areas exist where scrutiny should be strengthened.

20. Those failings include the fact that *“Key aspects of the design, operation and oversight of the Welsh Government’s Rural Development fund were not effective enough to ensure £53 million of grant awards would deliver value for money...between January 2016 and January 2019 the Welsh Government adopted an approach of granting funds without competition and, in some cases, without taking any alternative steps to ensure the projects would deliver value for money.”* (Auditor General for Wales, June 2020)

21. Since the Auditor General published its report, the dangers of failing to have proper monitoring and scrutiny processes in place in terms of public funding have been brought into sharp focus by the revelation that almost £5 billion worth of Covid ‘bounce-back’ loans were effectively lost or smuggled out of the UK, while fraud investigations relating to the awarding of Personal Protection Equipment contracts are ongoing.

22. As such, the FUW believes that robust systems should be in place to scrutinise and monitor future RDP spending.

23. In this context, the FUW notes the Welsh Government’s 2020 document *A Framework for Regional Investment in Wales: A proposal for Monitoring and Evaluation,* which states that *“...effective monitoring and evaluation activities play a crucial role in all policy and programme delivery…”*, and that this is also true in terms of RDP policy development and scrutiny, and identifying and quantifying beneficial investments and outcomes which might otherwise be swept aside by new frameworks.

24. The FUW maintains that many of the failings identified by the Auditor General for Wales in terms of the RDP were a direct consequence of the former Welsh Government’s decision to abolish a number of EU Programme Monitoring Committees (PMCs) and place the monitoring of all EU funding under the jurisdiction of a single PMC - thereby reducing the time available for PMC members to monitor and scrutinise EU programmes.

25. As such, the FUW has consistently argued that the monitoring and scrutiny of the current and any future RDP type programmes requires an independent and dedicated PMC Committee that is provided with the information and time to function properly and take action.

26. Failure to set up such scrutiny processes for future programmes will inevitably lead to criticism and may provide a motive or excuse for the UK Government to reduce levels of funding or undermine devolution by centralising planning and decision making.

27. Moreover, while the FUW has the utmost respect for Senedd Committees and the quality and broad spectrum of work they undertake, we do not believe that a Senedd Committee would have the time or expertise to provide the level of scrutiny necessary and that can be provided by a dedicated PMC.

28. The FUW would also take this opportunity to highlight that previous RDPs were drawn up following extensive engagement with stakeholders and lengthy processes of public consultation, whereas plans relating to the future domestic RDP appear to be being or have been drawn up by the Welsh Government without such consultation.

EU Structural Funds and the Shared Prosperity Fund

29. Since the Shared Prosperity Fund (SPF) was first announced as the UK Government's replacement for EU Structural Funding in 2017, details have been slow to emerge, leading to major uncertainty for interested parties.

30. Notwithstanding this, it became clear early on that the UK Government intended to administer the SPF centrally, thereby circumventing the Welsh Government, which was previously responsible for administering Structural Funds.

31. Whilst concerns have been expressed regarding how the Welsh Government may have administered EU Structural Funds, the FUW believes that the undermining of devolution in this way is a cause for worry, both in terms of respecting the roles of the Welsh Government and Senedd, and the potential for the politicisation of funding, not least given that the Prime Minister stated in 2019 that there should be a *"strong Conservative influence"* over how replaced EU funds are spent in Wales.

32. The uncertainty relating to the replacement for EU Structural Funds has been exacerbated by delays in announcing the outcome of Community Renewal Fund (CRF) applications - the funding stream intended to bridge the gap between the end of EU Structural Funding and the introduction of the SPF - and while the announcement in November 2021 of £47 million in funding for successful Welsh CRF applications was welcome, the Welsh Government has highlighted that had UK

Government commitments been honoured, Wales would have been receiving £375 million in new money each year from January 2021.

33. As such, it would appear that the UK Government's replacement for EU Structural Funding will fall short of the previous budget by around £750 million over the period 2021-22 to 2023-24, and the FUW shares the concerns of the WLGA and Welsh Government regarding not only this apparent cut in funding, but also the circumvention of devolved influence over how funding is allocated.

34. As such, it would appear that the funding made available by the UK Government to replace EU CAP and Structural Funds will by 2024 be £1 billion less than would have been received had the UK remained a member of the European Union.

35. In terms of the scrutiny and monitoring of the SPF, CRF and related schemes, the FUW has concerns similar to those already stated in relation to the monitoring of a future RDP; specifically, while the administration of EU Structural Funds was subject to bureaucratic processes that were sometimes problematic, this nevertheless ensured at least a degree of scrutiny, and while the UK Government has issued monitoring and evaluation guidance for CRF project deliverers, it remains to be seen whether these are sufficient to ensure value for money, and whether systems that ensure transparency and independent monitoring and scrutiny will be introduced as the schemes are developed.