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Senedd Cymru / Welsh Parliament
Y Pwyllgor Cyllid / Finance Committee
Trefniadau ariannu ar ôl gadael yr UE / Post-EU funding
arrangements
PEU 12 NFU Cymru

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NFU Cymru Response

Welsh Parliament Finance Committee Inquiry - Post-EU funding arrangements

1. NFU Cymru welcomes the opportunity to respond to the Welsh Parliament Finance Committee Inquiry on Post-EU funding arrangements.
2. NFU Cymru's vision is for a productive, profitable and progressive farming sector producing world renowned climate-friendly food in an environment and landscape that provides habitats for our nature to thrive. Welsh food and farming delivering economic, environmental, cultural and social benefits for all the people of Wales whilst meeting our ambition for net zero agriculture by 2040.
3. The importance of the farming industry in rural Wales cannot be overstated. Welsh farming businesses are the backbone of the Welsh rural economy and the axis around which rural communities turn. The raw ingredients produced on Welsh farms are the cornerstone of the £7.5 billion Welsh food and drink supply chain employing 229,000 people.
4. The Welsh public associate Welsh farmers, first and foremost, with providing safe, high quality and traceable food. Welsh farmers also look after 80% of the land area of Wales, maintaining and enhancing our natural environment – Wales' key asset. Farming activity supports a diverse range of species and habitats, provides a range of ecosystem services including carbon sequestration, flood alleviation; also delivering the significant backdrop – our iconic Welsh landscapes – for Wales' tourism and recreation sector worth an estimated £3 billion annually.
5. Welsh farmers are key promoters and protectors of our culture, heritage and language with the highest proportion of Welsh speakers of any sector and it has long been recognised that moves to undermine the viability of Welsh agriculture are likely to represent a significant threat to the Welsh language.
6. Overall Welsh farming makes an unparalleled contribution to the economic, environmental, social and cultural well-being of Wales as shown in the NFU Cymru [Farming – Bringing Wales Together report here](#).
7. The Inquiry seeks views on funding following the UK's exit from the EU, specifically progress in establishing and delivering replacement funds for the EU structural funds; how the funding proposed for Wales compares to the funding received while the UK was a member of the EU; the mechanisms and structures being established to administer those funds in Wales; and, legacy funding that Wales is due to receive following the UK's exit from the EU.

Summary

NFU Cymru is absolutely committed to holding our Governments in Westminster and Cardiff Bay to account with regards to commitments made on future funding for Welsh farming. We expect this to mean the value of Pillar 1 and Pillar 2 together with monies arising as a result of the Bew Review, in total circa £375m per annum.

Since 2014, the Pillar 1 budget allocation has been subject to the deduction of funding in the form of a transfer of funds from Pillar 1 to Pillar 2. This pillar transfer continues to be applied and NFU Cymru believes that this decision should be subject to a regular review process. Given the relative importance of the RDP in Wales compared to elsewhere, we continue to seek assurances from Welsh Government that the domestic co-financing is secure for the RDP 2014-20 and that full spend will be achieved. We believe there should be a full independent review of the 2014-20 RDP to learn lessons for future policy.

Whilst significant focus has been placed on the funding lost to Wales in 2021-22 as a result of the 'netting off' methodology used by the UK Government, there has been much less focus and transparency from Welsh Government about whether it provided the corresponding domestic co-financing of £40m for the 2021-22 financial year and, if so, how this was spent.

It is deeply concerning to us that the UK Government has continued to apply the same methodology and that budgets for 2022-23 and 2023-24 are less than anticipated as a result of further 'netting off' of unspent EU funds. We observe there also appears to be a lack of clarity around the domestic co-financing over this period.

NFU Cymru has warmly welcomed Welsh Government's ongoing commitment to farming through Direct Payments (BPS). We also welcome funding for the Rural Economic and Sustainability Programme in the draft Welsh Budget. We are pleased that Welsh Government have stated that this is for farmers and land managers.

However, NFU Cymru is concerned that Welsh Government has not committed to put in place a Rural Development Advisory Board for the replacement RDP funds, in our view, this represents a further significant weakening of governance arrangements that existed previously. Moving forward, we believe the case for long term funding for rural Wales can only be made if appropriate governance structures are in place so that delivery is brigaded around a coherent plan and impact can be properly evidenced and evaluated.

8. Prior to EU exit Wales received approximately £680m in EU funds per annum¹. This included £295m EU Structural Funds via the European Social Fund and the European Regional Development Fund; £274m to farming via Pillar 1 Direct Payments and £80m annually for the multi-annual Rural Development Programme (RDP) to which Welsh Government was required to provide an additional £40m of domestic co-financing annually.

Funding for farming in Wales

9. NFU Cymru is absolutely committed to holding our Governments in Westminster and Cardiff Bay to account with regards to commitments made on future funding for Welsh farming. We are pleased that both governments appear to recognise the strong case for supporting farmers now and in the future.

¹ [Preparations for replacing EU funding for Wales \(senedd.wales\)](https://www.senedd.wales/preparations-for-replacing-eu-funding-for-wales)

10. In line with commitments made relating to Welsh farming receiving 'not a penny less' funding following our departure from the EU, NFU Cymru expects this to mean the value of Pillar 1 and Pillar 2 together with monies arising as a result of the Bew Review, in total circa £375m per annum.
11. We identify long-term, multi-annual, ring-fenced funding is needed for Welsh farming that reflects the scale of ambition that we have set ourselves in being world leaders in the production of climate and nature friendly food. NFU Cymru is clear that farmers should be fairly rewarded for the full range of goods and services they provide including the production of high quality, affordable food for all in society.

Pillar 1 Direct Support

12. As per paragraph 8 above, funding for farming has historically been distributed in the form of the two pillars of the Common Agricultural Policy (CAP). £274m has been allocated annually to farming for Pillar 1 (direct support).
13. Since 2014, the Pillar 1 budget allocation has been subject to the deduction of funding in the form of a transfer of funds from Pillar 1 to Pillar 2. Welsh Government opted to apply the transfer at the maximum allowable rate of 15% - a decision that was not supported by industry and that was unique across Europe. The pillar transfer continues to be applied and NFU Cymru believes that this decision should be subject to a regular review process.

Rural Development Programme (RDP) 2014-2020²

14. As with the Structural Funds, the RDP 2014-20 was a multi-annual fund with a total projected budget of £838m (compared to £847m in the previous RDP 2007-13). The billion pound fund for rural development mooted at the time of the controversial pillar transfer was reduced by Welsh Government at the earliest opportunity through modification so that its domestic co-financing contribution could be reduced. The RDP 2014-20 was made up of EU funds of £559m (including the 15% Pillar Transfer, described above) and domestic co-financing of £279m. In line with N+3 rules, funds must be spent by the end of 2023. Based on Welsh Government published figures total spend stands at just 70% at the end of March 2022.
15. Of note is the rate of spend of domestic co-financing which has not kept pace with the rate of spend of EU funds. So far 66% of the £279m of Welsh Government co-financing has been spent, this lags the drawdown of EU funds which stands at 78%. As a result, £94m of domestic co-financing is now required to ensure total spend of the RDP by the end of 2023 in line with N+3 rules. Given the relative importance of the RDP in Wales compared to elsewhere as a result of the maximum pillar transfer, we continue to seek assurances from Welsh Government that this domestic co-financing is secure and that full spend of the RDP 2014-2020 will be achieved.
16. The implementation of the RDP (2014-2020) has long been a matter of concern to NFU Cymru. Concerns have included Welsh Government's overall level of ambition for the RDP; the slow rate of RDP implementation; the design and appropriateness of some RDP schemes and measures including the Sustainable Management and Enabling Natural Resources and Well-Being Schemes; the reluctance to innovate; the bureaucracy of the application process; the sporadic nature of the application windows; and the funding allocations to those windows.

² Based on [Welsh Government figures](#) published 31 March 2022

17. In our response to the Auditor General for Wales Value for Money Examination of the RDP in 2017, NFU Cymru expressed concern around the governance arrangements in place and called for more robust strategic oversight of the programme. These concerns were reiterated in a second Wales Audit investigation published in June 2020 which determined that £53m of grant funding had been allocated by Welsh Government without measures to ensure value for money, with key aspects of the design, operation, and oversight of Welsh Government controls not effective enough to secure value for money.
18. As a result of our ongoing concerns, NFU Cymru continues to call for a full independent review of the 2014-20 RDP. In the context of developing a new agricultural policy to replace the CAP in Wales, we believe it is essential that lessons are learned.

2021-22 funding settlement for farming

19. NFU Cymru welcomed the fact that the UK Government guaranteed to maintain the current annual budget to farmers in every year of the next Parliament. We understand that Welsh Government and the UK Government have agreed that £337m is the annual figure. The methodology by which this figure was determined has not been shared with stakeholders. In line with 'not a penny less', we also expect Welsh Government to provide additional domestic co-financing of £40m per annum for rural development.
20. It is important to recognise that had the UK remained within the EU, there would have been some overlap of RDP programmes as the 2014-20 programme was phased out and the replacement RDP was phased in from 2021. However, it appears that this was not reflected in the methodology used by the UK Government to determine the funding allocation to farming for 2021-22.
21. In November 2020 when the UK Government announced the funding allocation for the 2021-22 financial year the replacement funding actually provided by the UK Government was £242m, a figure that was just about sufficient to cover Pillar 1 Direct Support but some £95m less than the agreed annual figure of £337m. We understand this is because the methodology used by the UK Government 'netted off' the value of the EU unspent funds expected to be drawn down during this financial year.
22. We understand this methodology is contested by Welsh Government and the other devolved nations, but the impact of this approach and 'netting off' is understood to have been felt most severely in Wales due to the slower rate of RDP implementation during the period 2014-20 compared to Scotland and Northern Ireland.
23. It is important to note, in the period leading up to EU exit, NFU Cymru repeatedly called on Welsh Government to accelerate the implementation of the RDP to ensure not a penny was lost in the context of uncertainty brought about due to EU Exit when the outcome of negotiations could not be predicted. Had the Welsh Government implemented the RDP more expeditiously the figure 'netted off' by the UK Government in 2021-22 would have been lower. That said, it is important to acknowledge that the concept of 'netting off' did not exist previously and Welsh Government was operating entirely within the rural development regulations to implement the RDP to the end of 2023 in line with N+3 rules. Ultimately, wherever responsibility lies, it is Welsh farming and rural communities that have lost out to this valuable investment and that are poorer as a result.
24. Whilst significant focus was placed on the funding lost to Wales in 2021-22 as a result of the 'netting off', there has been much less focus and transparency from Welsh Government about whether it provided the corresponding domestic co-financing of £40m for the 2021-22 financial year and, if so, how this was spent. It is important to recognise that this sits outside

the outstanding domestic co-financing commitments relating to the 2014-20 programme described in para 14 above.

The future funding settlement

25. Moving onto the issue of future funding for farming. The UK Government autumn budget in October 2021 provided Welsh Government with funding for farmers of £900m over the next three years together with Bew Review monies of £2.6m per annum. Our understanding is the financial allocations have been confirmed as £252m in 2022-23, £315m in 2023-24 and £337m in 2024-25.
26. Given that the agreed annual figure for replacement farm funding is £337m per year, it is apparent that the UK Government continues to apply some 'netting off' reflecting EU unspent funds in 2022-23 and 2023-24.
27. Welsh Government confirmed to us that in addition to the £95m netted off in 2021-22, if the same methodology continued to be applied, they anticipated a further £50m would be netted off in 2022-23 and £15m in 2023-24 reflecting the ongoing drawdown of EU funds from the RDP 2014-20 in these years equating to a further 'netting off' of £65m.
28. However, the Autumn Budget and subsequent discussions with UK Government showed that actual netting off for 2022-23 is, in fact, £85m and for 2023-24 it is £22m – in total some £42m more than the anticipated £65m by Welsh Government. We have been led to understand that this is because Welsh Government failed to drawdown the full £95m of EU funds it projected to spend in 2021-22 so this has been carried forward and in effect 'netted off' again.
29. This is a source of significant disappointment to NFU Cymru and represents a further unacceptable loss of funding for farming and rural Wales. Throughout 2021-22 Welsh Government will have been aware of the methodology the UK Treasury was likely to apply when determining future funding for farming in the Spending Review. It is incomprehensible to us that much greater effort was not made by the Managing Authority to ensure programme delivery met the levels of spend Welsh Government had projected to avoid this scenario arising.
30. As above, we also continue to seek assurances from Welsh Government around the £40m domestic co-financing for 2022-23, 2023-24 and 2024-25 so its own commitments to 'not a penny less' are also fully realised.
31. The UK Treasury Spending Review also confirmed the Bew Review³ monies resulting from the Intra-UK allocations convergence review equating to £2.6m per year for the next three years. NFU Cymru is clear that this is expected as a top-up to Pillar 1 Direct Payments via the Basic Payment Scheme (BPS).

Direct Payments

32. NFU Cymru has warmly welcomed Welsh Government's ongoing commitment to farming through Direct Payments (BPS). The Minister for Rural Affairs and North Wales and Trefnydd, Lesley Griffiths MS, confirmed the BPS budget for 2022 last December mirroring levels of support provided to farmers in Wales in 2020 and 2021. An announcement was made earlier in the year that the BPS would also continue in 2023 as part of the transition to future schemes and we are pleased that the draft Welsh Budget includes an indicative budget of £238m for EU Pillar 1 Direct Payments in 2022-23, 2023-24 and 2024-25. We look to the

³ [Intra-UK Allocations Review \(publishing.service.gov.uk\)](https://publishing.service.gov.uk)

Minister to make an early announcement to confirm that the indicative budget will be committed to the BPS in full for 2023 and 2024.

33. We stress the BPS is crucial to maintaining the supply of safe, high quality and affordable food for all in society; also providing much needed stability to the farming industry during a period of profound change as a result of the UK leaving the EU and the ongoing Coronavirus pandemic. The tragic humanitarian crisis in Ukraine which is impacting farm input costs such as feed, fuel and fertiliser with potential consequences for food availability and affordability means that this is now more important than ever.
34. As well as providing security to farming businesses, continued direct support is also a boost for our rural economy and communities as Welsh farms provide the economic, social and cultural foundation of our rural communities.

Rural Economic and Sustainability Programme (RESP)

35. NFU Cymru notes the draft Welsh Budget⁴ also includes funding for a Rural Economic & Sustainability Programme of £27.3m in 2022-23, £99.5m in 2023-24 and £148m in 2024-25; described as a 'rural development framework' in the Minister for Rural Affairs and North Wales and Trefnydd Written Statement dated 1 April 2022. We are pleased that Welsh Government have stated that this is for farmers and land managers⁵.
36. Our understanding is the Rural Economic and Sustainability Programme/rural development framework is the replacement Rural Development Programme. Whilst we very much welcome Welsh Government's commitment to farming through this programme, in terms of funding, the RDP 2014-20 provided in the region of £120m per annum, including the domestic co-financing of £40m per annum, and it is clear that the budget allocations continue to fall short of this in 2022-23 and 2023-24 as they did in 2021-22.
37. We do not believe it is sufficient to point to the availability and continued draw-down of the EU RDP 2014-20 funds during this period, when it is clear, that the replacement RDP would have already started by now had we remained in the EU. We understand that the funding allocations may be the result of the 'netting off' approach used by the UK Government in the methodology for determining replacement farm funding, however, that there is a funding shortfall is an undisputable fact. There is also a lack of transparency around the levels of domestic co-financing that Welsh Government is prepared to commit to replacement rural development programmes over this period.
38. In November 2020, Welsh Government confirmed⁶ that new programme documentation for the replacement rural development programme would be developed in collaboration, also considering the opinion of a 'Rural Development Advisory Board'. To our knowledge Welsh Government has not met these commitments, the Board has not been established with stakeholder engagement in programme development extremely limited as a result. During the 2014-20 programme, NFU Cymru sat on the Programme Monitoring Committee (PMC) for the EU Structural Funds which included the RDP. In the previous programme there was a dedicated PMC for the Rural Development Programme. It is disappointing that we have observed a trend of reducing levels of scrutiny over time. We are concerned that Welsh Government's failure to put in place the Rural Development Advisory Board for the replacement RDP funds, in our view, represents yet another weakening of governance arrangements at a time when all the evidence points to the need for them to be strengthened.

⁴ [budget-expenditure-lines-2022-2023-1.ods \(live.com\)](https://www.gov.wales/budget-expenditure-lines-2022-2023-1.ods)

⁵ [ministers-written-evidence-to-senedd-scrutiny-committees-2022-2023.pdf \(gov.wales\)](https://www.gov.wales/ministers-written-evidence-to-senedd-scrutiny-committees-2022-2023.pdf)

⁶ [40961 Sustainable farming and our Land \(gov.wales\)](https://www.gov.wales/40961)

39. It is also important to contrast Welsh Government's approach to replacement rural development funds with the development of past Rural Development Programmes which would have been subject to set processes of evidence gathering, needs analysis and multiple rounds of public consultation before negotiation and sign-off by the European Commission. The resulting Rural Development Programme (1000 plus pages) have clearly defined funding allocations, objectives, measures, targets and indicators as well as processes for monitoring and evaluation.
40. In line with good governance, the Welsh Government Managing Authority of the RDP (2014-2020) also committed to publish information on funding allocated, committed and spent on a monthly basis. Whilst this commitment has not been fulfilled on a regular basis through the 2014-20 programme, it is our view that, at the very minimum, similar reporting arrangements for replacement rural development funding are going to be vital going forward to aid transparency, accountability and to ensure effective monitoring given the new pressures to spend funding within a financial year or lose it.
41. Overall, it appears that EU rural development funding has not been replaced in full, falling short of the levels of funding rural Wales would have received had the UK remained in the EU. It is also the case that as EU structures governing the implementation of Rural Development Programmes have fallen away, these have not yet been replaced with equivalent or better mechanisms and structures to strategically develop and administer the replacement rural development funds in Wales. NFU Cymru believes it is possible to draw parallels between the approaches of both the UK and Welsh Governments in relation to replacement EU funding, in that, establishing appropriate mechanisms of governance and oversight around replacement funding appears not to have been prioritised by either government. NFU Cymru is clear this is an issue that must be addressed. We must have confidence that farming and rural Wales have not lost out on funding as a result of the decision to leave the EU. We also identify that the case for funding for rural Wales over the longer term can only be made if appropriate governance structures are in place so that delivery is brigaded around a coherent plan and impact can be properly evidenced and evaluated.

Wider structural funds

42. Turning briefly to the position with respect to replacement Structural Funds. It is important to recognise that EU Structural Funds were allocated on an objective assessment of need; historically that needs-based approach resulted in Wales receiving 24% of UK Structural Funding, more per person than any of the devolved nations and English regions, reflecting the gap that exists between the poorest parts of Wales and the UK average.
43. Since devolution, economic development has fallen within the competency of Welsh Government with the result that, over 20 years, it has managed and administered the delivery of EU Structural Funds in Wales via the Wales European Funding Office (WEFO).
44. With EU exit, the established approach to EU structural funding has fallen away. The UK Government has established a new policy regime set out in its recently published Levelling Up White Paper and progress has been made in establishing on the mechanisms to deliver replacement funds.
45. It is our understanding that the UK Government has committed to provide a budget allocation for the period up to 2024-25 of £2.6billion for the Shared Prosperity Fund; a further £4.8billion for the Levelling Up Fund of which £800m will be allocated to Scotland, Wales and Northern Ireland with £121m committed to ten projects in Wales in the first round; and £220m to the Community Renewal Fund of which £45m has been allocated to 160 projects in Wales.

46. Direct comparison is not straightforward and at this stage it is not possible to discern whether Wales can expect to receive replacement of EU structural funds in full and whether these funds have been targeted to where need has been identified to be greatest in line with a coherent and strategic plan.
47. We note the UK Government has committed to create a new regime to oversee its levelling up missions. It is proposed this will include establishing a statutory duty to publish an annual report analysing progress and a new external Levelling Up Advisory Council. It is important to recognise that the governance regime established by the UK Government for levelling up differs significantly from the previous EU structural funds architecture not least because the management and administration of those funds no longer falls to Welsh Government. This, together with the fact that NFU Cymru was represented on the EU Structural Funds Programme Monitoring Committee (PMC) for the 2014-2020 programmes, means that so far, the approach of the UK Government to replacement funds feels more distant and less transparent and accountable.
48. In our view the proposed Levelling Up Advisory Council should include specific Welsh and rural representation. The Annual Reporting process should also include specific reporting for Wales which scans back to 2021 to give confidence that the EU funds have been and are going to be replaced in full. Measures are needed to ensure the impact of investments made in Wales can be assessed against a coherent, evidence-led, co-produced plan. We also believe there needs to be greater emphasis on the allocation of funding based on objective assessment of need rather than a competitive approach which may not favour disadvantaged communities.
49. Through the Levelling Up White Paper, the UK Government identifies that past efforts have been insufficient - short-term, lacking scale and co-ordination and effective oversight. We are not clear of the extent to which the funding mechanisms proposed address these shortcomings given that current funding commitments are shorter term and do not match the EU multi-annual seven year funding cycles which allowed for spending over a ten year period in line with N+3 rules together with the fact that the oversight and governance structures do not yet appear to be in place.
50. Overall, with respect to the replacement EU Structural Funds, we identify there are still significant areas requiring clarification in key areas such as financing, governance, the systems of monitoring, evaluation and audit. NFU Cymru believes there should be formal consultation on future funding streams in order to ensure funds have effective strategic oversight so they can work for Wales, farming and our rural communities.