

Farmers' Union of Wales' response to the Senedd Finance Committee's call for information on the Welsh Government Draft Budget proposals for 2023 to 2024

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About the Farmers' Union of Wales

1. The Farmers' Union of Wales (FUW) was established in 1955 to exclusively represent the interests of farmers in Wales, and since 1978 has been formally recognised by the UK Government, and subsequently by the Welsh Government, 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.

Summary

5. The FUW continues to engage with the Senedd Economy, Trade and Rural Affairs Committee to scrutinise how the allocated funding for agriculture and rural affairs should be prioritised in future as the Sustainable Farming Scheme is introduced.
6. Nevertheless, the FUW trusts that providing the below comments to the Finance Committee will provide information as to why the overall Common Agricultural Policy (CAP) replacement budget for agriculture (BPS) and rural development (RDP) should be maintained at at least 2019 levels.
7. This is particularly important given the 2021 UK Government budget and spending review which revealed that Welsh agriculture will receive around £37 million less per year for the next three financial years (up to 2025) than was anticipated in light of commitments made in the UK Conservative Government's manifesto.
8. Notwithstanding the impacts of the covid-19 pandemic (alongside Brexit) on UK and global food supply chains and labour resources, it should be noted that much of the agricultural and food sector worked throughout the pandemic with very little financial support compared with grants provided to other businesses.
9. It should also be recognised that despite the UK Government's announcement on 21st September 2022 which outlined plans to help cut energy bills for businesses, this support came too late for some including CF Fertilisers UK, a branch of CF Industries which produces 60% of Britain's carbon dioxide supplies, which announced it would

temporarily halt ammonia production at its Billingham Complex due to the massive hike in production costs.

10. Furthermore, inflation in the costs of energy and other key inputs throughout food supply chains is adding additional pressures for businesses that are critical in terms of food production, leading countries across the EU such as France, Poland and Germany to provide financial assistance and incentives of billions of euros for business such as food processors and fertiliser manufacturers - while the support provided in the UK to date has been negligible, risking a reduction in capacity to produce key commodities and increasing the UK's exposure to current global shortages.
11. As such, budgets allocated to agriculture and rural development must not only be maintained but also increased in light of current financial pressures, inflation rates and the energy crisis.
12. In light of the above, the FUW has provided the comments below in response to the relevant questions set out in the consultation letter and trusts that such information will be considered in full.

Impact of UK spending review

13. The UK Government spending review on 27th October 2021 revealed that the Welsh Government will receive an average of £18 billion per year for the next three financial years, the largest annual budget since devolution. However, the Welsh Government's budget in 2024-25 will be nearly £3 billion lower than if it had increased in line with the economy since 2010-11.
14. In this context, it is essential that the multiplier effect of funds - in terms of employment and local economies - allocated to agriculture are recognised and that agricultural budgets are increased in line with other budgets. Agriculture employs circa 55,000 people and is part of a food and farming sector that employs circa 220,000 people. In rural areas, up to 28% of people are employed in agriculture.¹
15. The UK budget and spending review also revealed that an average of £300 million a year would be allocated to Wales for agriculture and rural development (i.e. replacement BPS and RDP funding) over the next three financial years.
16. This is £37 million less than the budget allocated in 2019 - a year in which the Conservative manifesto pledged to *"guarantee the current annual [Common Agricultural Policy (CAP)] budget to farmers in every year of the next Parliament."*
17. This means that Welsh agriculture and rural development will have received £248 million less by 2025 than it would have had the 2019 budget been fixed.

¹Share of Welsh workers in the agricultural sector, Census of Employment 2011

18. In September 2021, the FUW welcomed Minister Lesley Griffiths' announcement that Welsh BPS payments would be maintained at the same rate until 2023 if sufficient funds were provided by the UK Treasury. The FUW believes sufficient funds *have* been provided as annual BPS payments amount to around £243 million - leaving some £57 million (out of the £300 million) for rural development.
19. The FUW also believes that the Welsh Government should commit to the same payment rate for 2024 given that the three financial years reviewed in the 2021 UK budget included 2022-23, 2023-24 and 2024-25.
20. The impact of such cuts in funding by the UK Government on the spending priorities of the Welsh Government is a concern but maintaining direct BPS payments at the current rate must be a top priority for the agricultural budget, given the additional economic, employment, social and environmental benefits that come from such support.
21. Given that, on average, 80% of farm business income comes from direct (BPS) payments, the continued provision of such direct economic support at at least current rates will likely grow in importance if adverse impacts from coronavirus, Brexit trade barriers, the war in Ukraine and liberal trade deals with Australia, New Zealand are further realised.²
22. It is also essential that the BPS and RDP budget in its entirety is increased in line with inflation wherever possible given the increased allocation of total funding for Wales from the UK Treasury.
23. In this context, it is notable that EU funding was ringfenced for agriculture and rural development, and that in order to secure EU rural development funding the Welsh Government had to commit to a degree of co-funding. It is a concern that in future, there will be no such requirements and the Welsh Government will be free to allocate what funding it sees fit to agriculture and rural development. Therefore, the FUW has long maintained that such funding should continue to be ring fenced for agriculture and rural development in order to provide clarity and certainty for Wales' farmers.
24. In a similar vein, although not directly related to agriculture and rural development funding, the FUW maintains that budget allocations towards tackling climate change should be based on the evidence available on greenhouse gas emissions in Wales in such a way that supports all sectors and industries rather than using agriculture as a scapegoat for carbon sequestration.
25. Budget allocations for agriculture and tackling climate change should also take into account that one of the four Sustainable Land Management objectives outlined in the draft Agriculture (Wales) Bill and Sustainable Farming Scheme is to 'mitigate and adapt to climate change', and farmers will be required to complete an array of additional Universal Actions, most of which focus on the environment, in order to receive a Baseline Payment through the Sustainable Farming Scheme in future.

²Components of Welsh farm business income, 2018-19

Paying for regulatory requirements

26. Successive Welsh Governments have introduced regulations that add costs for businesses and regulatory bodies (including Local Authorities) without considering the affordability of such costs (for example the Wellbeing Act which adds significant costs for all public bodies at a time when their budgets have been cut and for which no additional funding was provided by Welsh Government).
27. It is clear from the introduction of the Water Resources Regulations 2021 alongside numerous consultation papers on other policies that increasing red tape is high on their agenda.
28. It is believed that the Water Resources Regulations in their current form are likely to cost farmers in the region of £1,000 per year to complete all of the required records and calculations in addition to the estimated infrastructure costs of £360 million.³
29. With current inflation rates at 25% for construction materials, this equates to a potential cost of £450 million for Welsh farmers.
30. Furthermore, Natural Resources Wales (NRW) have previously confirmed that they do not have the sufficient resources to be able to enforce the regulations on a pan-Wales basis.
31. As part of the review of the regulations, the Senedd Economy, Trade and Rural Affairs Committee requested for Welsh Ministers to write to the Committee setting out key points of the Service Level Agreement, including resourcing levels and what NRW is expected to do.⁴
32. The additional workloads for both NRW and Local Authorities (in terms of planning) will also be vast and severely hamper compliance.
33. Additional red tape not only increases costs for food producers but also for the regulatory and enforcement bodies responsible for policing such requirements. The costs of such enforcement should be met by the Welsh Government whether they are Government organisations or not and sufficient funding needs to be made available to public bodies and ring fenced for dealing with the implications of Welsh Government decisions.
34. The Welsh Government must also recognise the costs associated with additional red tape for farmers and regulatory bodies and ensure that such changes are reflected in the funds received by the active farmers of Wales.

³Regulatory Impact Assessment for Water Resources (Wales) Regulations 2021

⁴Review of The Water Resources (Control of Agricultural Pollution) (Wales) Regulations 2021

35. The FUW has also questioned on numerous occasions how the Welsh Government proposes to pay for the huge admin and enforcement costs associated with the proposed Sustainable Farming Scheme.
36. Currently, there are only around 3,000 farm holdings in Wales with individual Glastir contracts. The added cost and administrative burden on managing approximately 18,000 unique contracts mustn't result in any decline in funds received by active farmers in Wales.
37. In a similar vein, the Welsh Government has over a number of years allocated vast sums to modelling environmental impacts of policy changes. By contrast, the money allocated for modelling economic impacts for farmers, communities, processors and those employed in the food supply chain is a fraction of this. This must be addressed and should not be paid for from the CAP (i.e. BPS and RDP) budget.

Purpose of agricultural and rural development funding

38. The FUW has always maintained that steps should be taken to ensure Pillar 2 monies result in economic benefits for agriculture and the wider rural economy.
39. Despite the FUW opposing the 15% Pillar Transfer as such a reduction in direct payments ultimately led to an overall decrease in farm incomes for the vast majority, the RDP has offered environmental schemes such as Glastir and grants including the Sustainable Production Grant and Farm Business Grant since its creation and has provided significant aid and income for farmers across Wales.
40. However, the RDP in recent years has provided increasing amounts of funds for community, woodland and tourism projects which provide negligible benefits for the agricultural sector and rural communities in some cases.
41. Figures recently released by the Welsh Government have confirmed that a growing proportion of Welsh Government Glastir Woodland Creation (GWC) scheme money is used to pay for tree planting on Welsh farmland bought by investors with addresses outside Wales.
42. Between GWC application windows 8 (November 2019) and 10 (November 2020), the number of applicants with addresses outside Wales grew from 3% to 8%.
43. It was also revealed that between windows 8 (November 2019) and 9 (March 2020), the proportion of land accepted for the GWC grant following applications from outside Wales rose from 10% to 16%.
44. The figures also reveal that the average area of land planted with trees by GWC applicants from outside Wales was 96 hectares during the 2020 planting season, compared with an average area of 17 hectares planted by applicants with addresses within Wales.

45. The FUW maintains that while it is likely that direct and rural development payments will be combined as part of the transition into the future Sustainable Farming Scheme, such funding which replaces the CAP budget must be ring fenced for active farmers in Wales and provide economic benefits for agriculture and the wider rural economy.

Scrutiny of expenditure

46. The scrutiny of some areas of spending leave much to be desired, so whatever budget is decided there needs to be a robust system of scrutiny, particularly as the (albeit frustrating at times) EU audit systems are phased out.
47. The FUW has welcomed provisions in the draft Agriculture (Wales) Bill to improve scrutiny and transparency in relation to scheme monitoring, and the FUW has previously welcomed the goal for domestic funded schemes to have a clear focus on value for money and the delivery of outcomes in accordance with the framework and principles set out in Managing Welsh Public Money.
48. The provisions in the Bill to strengthen scrutiny are significant given the long standing concerns of the FUW. For example, Audit Wales highlighted major concerns about RDP expenditure being allocated without sufficient scrutiny and in 2020 found that £68 million of rural development funds had been allocated through inviting known individuals or organisations to apply without competition.
49. Similarly, the value and cost benefit of many elements of RDP spending has only been considered superficially, including many aspects of the Farming Connect project. In 2020 the body responsible for delivering Farming Connect, Menter a Busnes, received more CAP funding than any other company or individual in the whole of the UK - £11.2 million.
50. This is a symptom of the role of and information provided to the EU funds Programme Monitoring Committee being severely weakened since 2014.
51. In 2020, the Welsh Government took the unprecedented step of denying coronavirus support to businesses it regarded as less moral (in the view of Welsh Government) than other businesses - setting a very dangerous precedent and highlighting how, in the absence of independent neutral scrutiny, spending might be diverted unscrupulously and for political reasons under a future domestic RDP or similar funding streams.

Payment capping

52. The FUW has supported the capping of direct agricultural payments, after wages and other factors are taken into account, since 2007, on the grounds that this maximises

the amount of money going to typical family farms and those who make the greatest contribution to rural communities and economies, while also taking account of economies of scale and reducing the degree to which high payments bring the entire system of agricultural payments into disrepute.

53. As such, the FUW was instrumental in persuading the Welsh Government to introduce a cap at the lowest possible level allowed by EU regulations (€300,000) when the new Basic Payment regulations came into force in 2015.
54. On a similar vein, the FUW was also successful in persuading the Welsh Government to introduce Redistributive Payments in 2015, a mechanism which is in effect a crude form of taper which reduces payment rates for farms with larger hectarages - an approach which modelling demonstrated would reduce disruption and adverse impacts for lowland areas.
55. In 2018, the Welsh Government's Brexit and our Land consultation document implied that no payment cap would apply for the proposed Public Goods scheme, reflecting a number of prior discussions with Government officials.
56. The FUW made clear its view that any such change would be a regressive move which would move money away from those family farms which make the greatest contribution to the rural economies and communities, and that payments should in fact be capped at a lower level than the current €300,000 threshold after other factors have been taken into account.
57. The FUW believes that any future scheme payments should be capped below the current level while taking full account of labour costs and similar factors such as the number of business partners and families/family members supported by a business.
58. It is therefore welcomed that the latest proposals for a Sustainable Farming Scheme in Wales confirm that consideration will be given to capping payments to ensure that funding is distributed in a fair way, however, no firm ambitions have yet been made.
59. Moreover, given that the National Trust, RSPB, wildlife trusts and other charities are already amongst the recipients of the highest sums under the CAP (2020 payments: National Trust £11.1 million, RSPB £10.1 million), there is a danger that the failure to introduce such a universal cap or taper would see more monies moving to charities and away from the family farms which play a central role in maintaining rural economies.
60. While the FUW's position on the capping of payments refers specifically to the agricultural budget, it should be noted that introducing such a cap and/or a tapered payment system will ensure that the money is distributed in the most effective way for the benefit of genuine farmers and Wales' economy, community, culture and jobs.