



Inquiry Response

Welsh Assembly Finance Committee
May 2018

Inquiry into preparations for replacing EU funding for Wales

CLA Cymru: The voice of the Rural Economy

1. The CLA (Country Land & Business Association) is the representative organisation for rural businesses across England and Wales. We work closely with both the UK and the Welsh Government as a consultee-of-choice on issues concerning the rural economy; the land-based businesses it supports, and the wider enabling policies that supports sustainable development.
2. With around 3,000 members in Wales and 33,000 in total, our members own and manage more than 10 million acres across the UK and engage in a wide range of business activities from agriculture and food to forestry and the gamut of businesses that support the land based industry.
3. Our membership relies on us to ensure that the voice of the rural economy is heard in the development of policy. The needs of rural community and businesses are often over-looked and under-represented in UK politics.

The Legacy of EU funding for Rural Wales

4. Wales has only known devolution in the context of EU membership. That membership brought with it participation in established frameworks and funding programmes that have inexorably shaped the structures, ways of working and mentality of Wales.
5. Nowhere is this more apparent than in rural Wales where the Common Agriculture Policy (CAP) has shaped and distorted business practices, impacted our environmental legacy and influenced our understanding of rurality. Designed for a specific post-war purpose, the CAP provided an effective tool for supporting desired outcomes of the day, namely food. As the demands of the public have changed, the CAP has shifted its focus to wider environmental and community outcomes, but at its core, it has failed to create sustainable farms and been ineffective in shaping the growth that should have seen rural communities thrive.
6. Whilst rewarding the 17,000 or so farming business that were eligible for the income support through direct subsidies, the failing of CAP is that it encouraged businesses to stay the same, not to expand or innovate or invest. As such, one of the legacies of CAP is a divide in the hearts and minds of policy makers, politicians and individuals about the type, scope and scale of business activity that should take place in our rural communities and areas. Brexit is bringing this divide into sharp focus
7. Looking beyond the CAP, Economic development has long been a challenge for rural Wales. Despite recent GVA growth rates, overall, our economy lags behind other areas of the UK. Much of the growth has been the result of using structural funds attracting large companies to Wales through lucrative but expensive deals. The legacy of this growth can be fickle and fleeting and often urban centric.

8. This is problematic when you consider that Wales is undeniably rural. There are as many people living in the open countryside in Wales as in our cities and large towns¹ and the opportunities to benefit from this investment has been geographically limited. In Wales, rural business totals nearly 105,000 enterprises – remarkably, only 16% of these are defined as agriculture, forestry and fisheries, the largest other sectors are in professional, technical, wholesale and retail services and the opportunities for economic growth is significant.
9. Arguably, the most notable legacy of EU funding in rural Wales is the false and outdated divide between rural and ‘the rest of the economy’. Rural does not mean ‘farming’ anymore. For the last two generations rural business have been incentivized to solely produce food, then encouraged to diversify and pursue other income streams under the single banner of the farm business but were largely excluded from accessing more significant progressive pots of funding for economic development money due to state aid and primary production restrictions. This might have been understandable when agriculture was the predominant industry of the rural economy, but the evolution in the structure, type and complexity of businesses operating in rural areas has changed significantly over time and it is now timely to consider if such a defined split remains appropriate.
10. Looking to the future, the CLA would advocate that growing of indigenous business would be more organic and offer longer term benefits to the economy of Wales. With changes to funding structures likely for Wales, this is an opportunity to refocus economic growth towards more sustainable development.
11. Leaving the EU has provided a much-needed impetus to re-examine and reshape the future scope of some of our most essential funding avenues. It is encouraging that Welsh Government is proactively discussing the possibilities with stakeholders and the CLA considers the opportunities set out in the Economic Action Plan as progressive and appropriate for *all* businesses including farming. . The priority must be to ensure that economic growth is delivered across Wales, not just in the industrial and urban heartlands.
12. At its core, there is no real difference between a “rural” or an “urban” business; a business growing a crop or one providing tourism services; a sole-trader or a limited company. Fundamentally they are all aiming for the same goals – to become a profitable, productive business - and therefore need to same tools to flourish. The only difference is *proportionality*. The nature and dispersal of the rural economy make it more difficult to support and grow but the rewards for success are equally great as the longevity and development of indigenous business is more sustainable for the health and well-being of our economy and our communities.

Assessment of the current financial planning for replacing EU funding streams in Wales

13. It is our understanding that the current EU programmes have secured match funding from UK government until 2022. This is a significant and positive commitment that will enable current schemes run their course, however, we are concerned about the lack of detail on the terms of

¹ Welsh Government, *Securing Wales’ Future*

the funding and this potentially creates risks for Welsh Government but also recipients until absolute clarity is offered on the amount of money and mechanism through which this money is made available to Welsh Government. Recent announcements by the Cabinet Secretary Lesley Griffiths also suggests that CAP based support will be carried forward to 2019 too.

14. For rural Wales and specifically looking at CAP, much has been made of the need to avoid a 'cliff edge' in support and the need for an orderly transition to the new world order. CLA would absolutely call for a structured transition period, but we must also be cautious that a transition does mean change. There is a significant risk that many businesses will see this period as an opportunity to 'kick the can down the road' and delay taking difficult decisions on the future of their business. This approach will not serve the farming industry well. Clear messaging that transition is a precursor to significant change is essential.
15. Similarly, for Welsh Government, assurances of funding in the short to medium term should not lead to complacency in the urgency to develop successor programmes. We are encouraged by the fact that Welsh Government have issued early consultations to seek views on future funding, and are supportive by the open nature of the discussion around innovative solutions, we are also aware that Wales cannot conclude the discussion on this without wider negotiation with other parts of the UK. Whilst the 'Regional Investment in Wales after Brexit and Securing Wales' Future documents have outlined the Welsh Government's priorities, the planning involved would require input from the UK government in order to maintain fairness across all four nations and not to disadvantage competitiveness. We urge that politicians and decision makers redouble efforts to work together in Cardiff and Westminster to make swift progress on developing new schemes.

Preparation for different potential scenarios around levels of funding

16. The work undertaken on the Welsh Government Evidence and Scenarios Brexit sub group offers a detailed analysis of the impact of Brexit in rural communities provides a useful insight into the challenges ahead for some key farming sectors. The work produced a comprehensive report and painted a stark picture of some of the issues arising.
17. While some of the messages and potential outcomes may be difficult to stomach, it is important that they are shared and the reality of the scenarios are understood. This evidence needs to be the baseline upon which our future policies are based. Furthermore, once clarity does emerge on the nature and length of transition, we must ensure that the time and money is used wisely to ensure that support is concentrated on preparing businesses able to thrive in the new world. This will require scrutiny and prioritisation of funding as opposed to spreading the jam thinly.
18. CLA Cymru believes there is a unique opportunity and urgent need to refresh the approach taken to supporting the diaspora of SME's and micro businesses operating in our rural communities across Wales. Too often the focus of "rural" has been "agriculture" – as rural businesses have developed and diversified, it is no longer acceptable to allow such narrow interpretations to continue.

19. Fundamentally, CLA Cymru would suggest that more emphasis should be placed on strengthening Governments' relationship with private business. Government at a national and local level cannot deliver economic growth and sustainability; this is the preveue of the private sector. It is the role of the public sector to act as enablers for this. The objective for Welsh Government should be to align all relevant policy areas to deliver and enable sustainable economic development across Wales. CLA Cymru would suggest a need to fundamentally review some of the regional models currently operating in Wales. The majority are heavily dominated by the public sector and do little to engage with private business.

Administrative Responsibility of EU Funding

20. As an organisation working across England and wales, we are aware of the emerging ideas by Westminster Government as to how the Shared Prosperity Fund could be used as a framework to replace EU structural Funds across the UK. We are realistically not far from a world where current Structural Funds in Wales collide with the UK Governments ideas set out in the UK Prosperity Fund with funding mechanisms for city deals, regional growth deals and sector deals becoming the norm.
21. CLA Cymru is acutely conscious of the sensitivities associated with the impact that Brexit is having on inter-governmental relationships between the UK and Welsh Government. While we appreciate the importance of clear understanding between the roles and responsibilities of both Governments, we also believe that Brexit may offer an opportunity for better co-working and a move away from the parent / child relationship and tensions currently felt. We would encourage Welsh Ministers to explore ways to further enhance collaborative working arrangements, particularly those that bring private business and communities into the fold.
22. The Local Enterprise Partnership (LEP) Model seen in England has seen mixed results for businesses. The strength of LEP's in creating a framework which allows local businesses to influence and direct how money is used for local economic development priorities is beneficial but has created some areas of 'postcode lotteries' with inconsistencies in terms of delivery and value for money. We would be cautious about Wales being seen as a single LEP, but equally concerned about developments of local LEPs that could lead to fragmentation –many sectors operating in wales would benefit from a “once in Wales” approach whilst come supply chains could be strengthen with more local collaboration.
23. CLA Cymru would suggest a need to fundamentally review some of the regional models currently operating in Wales. The majority are heavily dominated by the public sector and do little to engage with private business. It is worth exploring the possible benefits of the Local Enterprise Partnerships model as developed in England where regional investment is delivered with more private sector input. There is real opportunity to be creative and develop a bespoke delivery model for Wales to take advantage of the emerging ideas and capitalise on a new approach. The risk of getting things wrong is seeing activity and growth beyond Offa's Dyke and not in Wales.
24. There are also significant questions emerging as to the future basis of funding. EU structural funds have enabled Welsh Government to deliver funding in areas of greatest need. This is provided a mechanism to target funding to achieve desired outcomes. Increasingly, some of

the proposals suggest a move away from needs based model towards a challenge fund. While the competitive element may encourage high quality bids, we would be extreme concerned that Wales, and in particularly rural Wales, is not geared up to compete for public support. There does exist the expertise, the critical mass of businesses and entrepreneurs and the density of ideas and projects needed to show the return on Investment. Not being able to deliver a needs based system could see even greater depletion of economic development activities in rural communities

25. In Wales, there is a need to review administrative responsibility for delivering funds through creating streamlined services, to scale back duplication and deliver better value of money. Currently each sector such as health, education and public sector for example are all working within their regions but without being mapped together in terms of delivery.
26. Welsh Government has an unparalleled opportunity to redress some of the economic barriers inherent in our current policies and support mechanisms. The best solutions for the communities and businesses of Wales can only be delivered if collectively we are all willing to question and challenge the core tenants and fundamental beliefs that have evolved through several decades of delivering European Investment and Structural Funds.

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