

Ref: 253SOS20

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Dear Janet,

Thank you for your letter of the 24 November expressing your concern about how the Spending Review would affect future funding for agriculture in Wales.

I am sure you will have seen the announcement at today's Spending Review on the allocations for agriculture funding for 2021/22. I thought it would be helpful to set out how the UK Government is fulfilling the manifesto commitment on farmers' funding.

The UK Government has provided certainty on future funding in two ways. First, the Withdrawal Agreement states that the UK will continue to participate in all EU programmes financed by the Multiannual Financial Framework 2014-2020 until their closure. This ensures that there is continued access to EU funding for several rural programmes, including CAP Pillar 2, EMFF and ERDF until their completion. The UK Government stands by its commitment to guarantee to fund the tail of CAP Pillar 2 commitments that fall outside of the scope of the Withdrawal Agreement.

Second, as you highlight we stood on a clear manifesto commitment to guarantee the current annual budget to farmers in every year of this Parliament. The quantification of the manifesto commitment sets the overall annual envelope at £337m for Wales. This excludes Wales' existing Exchequer co-financing for CAP Pillar 2; it is for the Welsh Government to continue to provide this from their block grant funding.

Our manifesto committed to "guarantee the current annual budget to farmers in every year of the next Parliament". We have ensured that the full scope of EU funding is recognised within the manifesto commitment, including amounts that do not go directly to farmers. There are no ceilings within this funding envelope as it is for the Welsh Government to use this funding in the best way possible to deliver the policy outcomes it desires. This funding can be supplemented by block grant funding if the Welsh Government decides to.

This manifesto commitment is being achieved through a combination of Exchequer

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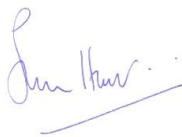
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funding and EU funding that will continue to be accessed for CAP Pillar 2 under the terms of the Withdrawal Agreement until those funds are exhausted. While the amount of remaining EU funding varies across the four nations, HM Treasury have adopted a consistent approach, topping up EU receipts with Exchequer funding to the level of the manifesto commitment. This ensures that the commitment to guarantee the current annual budget is met in each nation.

Farmers in all parts of the UK are in fact in a better position than if the UK had remained in the EU for three reasons:

- CAP Pillar 2 funding makes use of N+3, meaning we often spend a seven-year budget over up to ten years. The manifesto commitment, however, includes 1/7th of the funding within this seven-year budget in each year, so more each year on average than we spend under CAP. **This means that the manifesto commitment is greater than what was spent on average each year under the CAP.**
- In quantifying the manifesto commitment, we have used the 2019 exchange rates. This has **removed the previous uncertainty of the exchange rate being set each September for Direct Payments and is some 22% higher than the lowest exchange rate (2015) in the period in question (CAP 2014-20)**. Under the current CAP period, exchange rate fluctuations caused changes as significant as c. £534m in a single Direct Payments scheme year across the UK (c. £45m in Wales).
- The EU CAP budget has been cut by around 10% for 2021-2027 compared to 2014-2020, decreasing from €383bn to €344bn (excluding the UK contribution). Assuming the UK was impacted proportionally, a 10% cut to annual budgets amounts to c. £360m each year across the UK (c. £34m in Wales). Across this Parliament, this reduction is greater than the existing EU funding remaining in each nation under CAP Pillar 2 and means that **farmers in all parts of the UK may in fact receive more funding than if the UK had remained in the EU.**

I would like to thank you again for writing to me on this matter.



Rt Hon Simon Hart MP
Secretary of State for Wales
Ysgrifennydd Gwladol Cymru