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24 November 2020

Dear Fergus, Edwin, and Lesley,

Thank you for your letter of 23 November about the replacement for EU funding.

We have discussed some of the points that you have raised in this letter, most recently at the Inter-Ministerial Group meetings on 2 November and on 16 November.

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, 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 £2,333m for England, £595m for Scotland, £337m for Wales and £330m for Northern Ireland. This excludes each nation's existing Exchequer co-financing for CAP Pillar 2; it is for each devolved administration 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 each nation 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 in each nation.

This manifesto commitment is being achieved through a combination of Exchequer 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, we 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)**. I should note that, 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. £345m in England, c. £88m in Scotland, c. £45m in Wales and c. £56m in Northern Ireland).

- 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. £233m in England, c. £60m in Scotland, £34m in Wales and £33m in Northern Ireland). 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**.

The UK Government has met its commitment to implementing Lord Bew's recommendations on farm funding by providing £51m and £5m of additional time-limited funding for Scotland and Wales. As this is a one-year Spending Review, we cannot agree funding beyond 2021/22; nevertheless, we are keen to agree a process of engagement ahead of the next Spending Review to address this issue from 2022/23 onwards.

Ministers in each nation took a decision on the level of inter-pillar transfer to apply in December 2019. This decision was independent of the level of funding provided by HM Treasury under the manifesto commitment; meaning the inter-pillar transfer did not affect the total level of funding available since the 2019 ceilings considered for both CAP Pillar 1 and CAP Pillar 2 are inclusive of the inter-pillar transfer made in 2019 and there were no changes to the inter-pillar transfer rates. If this inter-pillar transfer had not been made, the

Direct Payments 2020 ceiling would have been retained in full, and, since the same exchange rate was used, then it would mean that the level of funding for Direct Payments 2020 would have been higher than the amount that is included in the calculation of the manifesto commitment. Maintaining the manifesto commitment level of spend would therefore require a reduction of the same amount to be spread across the remainder of this Parliament. Each nation could have chosen to fund over and above the HM Treasury level of funding from their existing block grants.

Following my commitment at the Inter-Ministerial Group on 2 November, we have provided your officials with the analysis that sets out the profile of the remaining EU funds for England and you already have the relevant information on the quantification of the manifesto commitment for England.

I am copying this letter to the Chief Secretary to the Treasury.

George Eustice

RT HON GEORGE EUSTICE MP