

Cyflwynwyd yr ymateb i ymgynghoriad y [Pwyllgor Cyllid](#) ar [Cyllideb Ddrafft Llywodraeth Cymru 2025-26](#).

This response was submitted to the [Finance Committee](#) consultation on the [Welsh Government Draft Budget 2025-26](#).

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To: Senedd Finance Committee Date: 28th November 2024
Ref:
Cc: Contact:
Tel: [REDACTED]
Fax:
Email: [REDACTED]

Dear Finance Committee

A call for information – Welsh Government Draft Budget proposals for 2025-26

NFU Cymru champions Welsh agriculture and represents farmers throughout Wales and across all sectors. 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 with 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.

We are pleased to be able to provide the Senedd's Finance Committee with this submission in order to help inform its scrutiny of the Welsh Government's Draft Budget Proposals for 2025-26

Executive Summary of key asks

- BPS is maintained at £238m for 2025.
- The 2025-2026 Rural Affairs Budget is restored to at least the level which it was set at in 2022, with the Rural Affairs Budget receiving its full pro-rata allocation of the additional £1.7 billion made available by UK Government to Welsh Government
- Welsh Government advocates for a fair agricultural support uplift mechanism to give Wales an uplift which reflects the level of agricultural production found in Wales in relation to the rest of the UK, rather than a Barnettised population share uplift which is very disadvantageous to Wales.
- Welsh Government recognise the need for an uplifted multi-annual on farm agricultural support budget of at least £500m so that our shared ambitions for food, nature, climate and communities can be met.

Background

1. The importance of the farming industry in rural Wales cannot be over-stated. Welsh farming businesses are the backbone of the Welsh rural economy, the axis around which rural communities turn. The raw ingredients that we produce are the cornerstone of the £9.3 billion Welsh food foundation sector, a sector which has now grown to

reach a turnover of £9.3 billion whilst employing 228,500 people, the equivalent to 17% of Wales' total workforce.¹

2. Welsh farmers also play a key role in maintaining and enhancing our natural environment – Wales' key asset. Farming activity supports a diverse range of species, habitats, and ecosystems, provides a range of ecosystem services including flood alleviation, carbon sequestration, climate change mitigation; and delivers the significant backdrop for Wales' tourism and recreation sector worth an estimated £2.5 billion annually.
3. Our rural and agricultural communities are also strongholds for the Welsh language and culture, with census figures showing that 43% of those involved in agriculture (farmers and farm workers)² speak Welsh as opposed to around 19% of Wales' wider population. By safeguarding the future of Welsh agriculture and our rural communities we therefore help safeguard the future of our language and culture, and help the Welsh Government towards its target of one million Welsh speakers by 2050.
4. NFU Cymru is well-aware of the significant challenges faced by all sectors of the economy, by governments both national and local and by the public sector as we continue to feel the effects of both high inflation and higher interest rates, an economy which is struggling to grow alongside increasing demand on public services. Welsh farming has not been immune from many of these stresses, with high input costs on farm putting margins under pressure.
5. We recognise that all areas of UK and Welsh Government expenditure are under very significant levels of pressure, and we are particularly aware of the challenges and tensions which come to the fore once again during this critical stage of the budget setting cycle.
6. We also recognise that the rural affairs budget is not immune to these pressures. We would however make the point that it has been subject to very significant cuts over the last year or so, and it is our view that we need to see the Rural Affairs funding allocation restored in forthcoming Welsh Government draft budget. Even if the budget were restored to its 2022 level, in real terms this would still represent a cut due to the effects of significant inflation over the last two years.
7. Funding in the Rural Affairs budget is not only used to support farmers it is used amongst other things to uphold animal health and welfare, and to pay for Bovine TB surveillance, control, and eradication, as well as the control of a range of pests and diseases. These represent important, public, animal and plant health measures which have to be maintained in addition to this, the Rural Affairs budget supports economically important functions such as the promotion of Welsh food and drink domestically as well as in export markets.

¹ <https://www.gov.wales/welsh-food-and-drink-industry-grows-10>

² <https://businesswales.gov.wales/farmingconnect/sites/farmingconnect/files/documents/laith%20y%20Pridd%20report.pdf>

The Rural Affairs Budget and support for agriculture

8. The Rural Affairs budget for the financial year 2023-24 was set at £482.5m at the end of 2022. Following the in-year cuts identified and applied at the end of 2023, it was subject to a reduction of £37.5m or 7.8%, taking it down to £445m.
9. The current Rural Affairs budget 2024-25 was set at £420m at the end of 2023, this means it is now down £62.5m (or 13%) on the £482.5m level at which it was set at the end of 2022.
10. We are therefore calling on the Welsh Government, at the very least, to restore the Rural Affairs budget to the level it was set at in 2022. Restoring the budget to the 2022 level would still however represent a real terms cut as there has been significant inflation since the beginning of 2022 and the end of 2024.
11. The total Rural Affairs budget for 2023-24 (including the Basic Payment Scheme at £238m) was set at £482m, representing just 2.1% of a total Welsh Government budget of £22,968m. In exchange for this very modest outlay, farmers look after around 80% of the geographical area of Wales and produce the safe affordable food we all eat. The food which also enjoys a fantastic reputation for quality, provenance, and environmental credentials around the UK home nations and in a range of export markets near and far.
12. In November 2023 NFU Cymru commissioned survey work from polling company YouGov. Having surveyed more than 1000 Welsh adults, it found that 82% support the Welsh Government providing financial support to farmers to produce food. When taking into account the Welsh Government's spending priorities, 72% said that supporting Welsh farmers was a good use of public spending³. This shows a high level of backing amongst the public for supporting farmers financially to produce food.
13. By supporting Wales' farmers through the Basic Payment Scheme (BPS) in 2022 to the tune of £238 million⁴, the sector produced a gross output of £2.1bn in the same year⁵. Investment in support for agriculture by the Welsh Government therefore produces a return of almost of almost £9 for every £1 given in support.
14. Historically of course, agriculture in Wales has been supported from EU funds with the role of Welsh Government pretty much limited to the administration, oversight and delivery of these payments to some 16,000 claimants for Pillar 1 (BPS), in accordance with the prevailing EU rules and with a co-financing element of Welsh Government funds for Pillar 2 (Rural Development)
15. Since Brexit, and as an interim measure until the Sustainable Farming Scheme has been rolled out, Wales continues to operate CAP legacy schemes, with the key difference that these schemes are now funded by the Welsh Government, via the money given to Wales each year by the UK Treasury.

³ <https://www.nfu-cymru.org.uk/news-and-information/new-nfu-cymru-survey-reveals-high-levels-of-public-support-for-government-spending-on-welsh-farming/>

⁴ [Written Statement: Publication of Basic Payment Scheme \(BPS\) financial budget ceiling for 2023 scheme year and announcement BPS will continue in 2024 \(15 December 2022\) | GOV.WALES](#)

⁵ <https://www.gov.wales/aggregate-agricultural-output-and-income-2022>

16. The Treasury funding which had previously been made available to farmers in Wales derives from a commitment in the Conservatives' 2019 Election Manifesto to *'guarantee the current annual budget to farmers in every year of the next Parliament'*⁶ after Brexit.
17. NFU Cymru acknowledges that with the 2024 General Election, this funding commitment falls away, and it is open to the new UK government to allocate resources to fund agriculture as it sees fit.
18. We would however make the point that the baseline chosen by the Conservatives for their 2019 manifesto pledge relating to funding for agriculture is increasingly 'in the rear-view mirror'. It should not represent the starting point when it comes to deciding on what is an appropriate allocation of Treasury support for UK agriculture.
19. This is because the 2019 figure used by the last Conservative Government is based on the EU budget which was set at the end of 2013 ahead of the 2014-2020 CAP period, and so its real terms value has been steadily eroded by inflation, particularly given that in this same period we have seen very high rates of agricultural inflation.
20. Prior to EU-Exit, annual funding for farming in Wales comprised of £238m via Pillar 1 Direct Payments and £99m for the multi-annual Rural Development Programme (RDP) to which Welsh Government was required to provide an additional £40m of domestic co-financing annually. In line with commitments made relating to Welsh farming receiving 'not a penny less' following our departure from the EU, NFU Cymru believes that this means the value of Pillar 1 and Pillar 2 together with the co-financing obligation and monies arising as a result of the Bew Review⁷, to total circa £380m per annum.
21. By running these historic budget figures through the Bank of England's inflation calculator, NFU Cymru arrives at the view that there should be an uplifted annual agricultural support budget of just over £500m for Wales' farmers, reflecting the effect of recent inflation as well as the scale of the ambition NFU Cymru and Welsh Government have for the sector. This level of funding would give farmers the confidence they need to invest for the future and to safeguard our food security and meet our ambitions for nature, climate, and communities.
22. In its correspondence with the Chancellor Rachel Reeves and Welsh MPs this Autumn NFU Cymru has been advocating for a UK wide annual agricultural support budget of £5.6 billion to be shared out amongst the home nations, and we will continue to do so.
23. We are grateful to Welsh Government for cascading support from the UK Treasury down to farmers via the BPS over the last few years, and for preserving the level of BPS support at the previous level. This has been crucial in underpinning Welsh farming and all the allied industries who rely on Welsh farming businesses for so much of their income.

⁶ <https://www.conservatives.com/our-plan/conservative-party-manifesto-2019>

⁷ <https://assets.publishing.service.gov.uk/media/5f61fb80e90e072bc1a75335/intra-allocation-uk-review.pdf>

24. We also commend Welsh Government on getting an advance payment worth approximately 70% of their Basic Payment Scheme to 96% of Wales' farmers in mid-October this year.
25. As a Union we believe that maintaining payments at the current rate should be a priority for Welsh Government given the economic, social, and cultural benefits which accrue from supporting domestic primary production.
26. Confirmation of payments to farmers for 2025, at historic levels or above, would offer some much-needed certainty to a sector which is going through an extremely challenging time at present, and we urge the Welsh Government to do this as soon as possible.
27. Over the last year NFU Cymru has engaged extensively with all of the main political parties, arguing the case for funding to be made available to support agriculture across the home nations for the length of the next Parliament. Our position has been and remains that the agricultural support budget should be uplifted to take account of the significant inflationary pressures we have been subject to over the last few years, as well as also taking account of the additional requirements and undertakings being asked of farmers in relation to food production, the environment and climate alongside supporting and underpinning our rural communities. .
28. In conjunction with such a funding commitment from the UK Government, we would like to see a corresponding commitment from Welsh Ministers that funds allocated by a future UK Government to support farmers are spent for those purposes and those purposes alone.
29. NFU Cymru would like to see the UK Government's spending review, which will conclude in late Spring 2025 and determine spending plans for a minimum of three years, set out the level of support which is being made available to each of the UK home nations for the purposes of agricultural support. NFU Cymru's view is that doing so would in turn allow Welsh Government offer farmers some near-term certainty about the levels of support that they can expect from Welsh government so that they can better plan their businesses.
30. It is worth bearing in mind that farmers who are committing to participating in the Sustainable Farming Scheme are committing to scheme conditions which will have long term impacts on their farming system, including in some instances permanent land use change. We believe that in return farmers need a commitment from Welsh Government that there will be long-term funding made available to support them in doing so.
31. We would see such a commitment on the part of Welsh Ministers as the natural corollary of the obligation the Agriculture (Wales) Act already imposes on Welsh Ministers at Section 11 regarding the preparation of multi-annual support plans giving information about the expected use of Welsh Ministers' powers to provide support under Section 8

Funding for agriculture and the UK Government Budget

32. We were pleased to see confirmation on Page 9 Paragraph 3.1 of last month's Treasury Statement of Funding Policy⁸ that the funding for agriculture from 2024-25 has been baselined into each devolved government's block grant (essentially locking in the historic funding allocation, which is itself based on historical levels of agricultural production in each of the home nations). We believe that locking in support at this level represents a positive first step by the UK Government.
33. Based on what appears to be a £2.4 billion allocation to Defra for agricultural support⁹, it is NFU Cymru's assumption that there should then be approximately £340m baselined into the Welsh Government's block grant for the purposes of agricultural support in Wales.
34. Despite this, it is NFU Cymru's contention that the baseline which has been selected is very much 'in the rear-view mirror'. This is because this £340m figure replicates the figure used by the last Conservative Government for the allocation of agricultural support amongst the UK home nations at the beginning of its term in 2019, a figure which is itself based on the EU budget which was set at the end of 2013 ahead of the 2014-2020 CAP period.
35. The real terms value of this £340m has been steadily eroded by inflation, particularly over the last two years which have seen very high rates of agricultural inflation. Running this historic £340m figure through the Bank of England's inflation calculator indicates that there should be an uplifted allocation to Wales for agricultural support of just over £500m reflecting the effect of recent inflation as well as the scale of the ambition NFU Cymru and Welsh Government have for the sector.
36. At page 9 Paragraph 3.1 in the Statement of Funding Policy is confirmation *that 'the Barnett formula will apply in the usual way to funding for agriculture and fisheries, rather than the devolved governments receiving a ringfenced addition to the block grant as they did for Spending Review 2021'*. The fact that the UK Government is proposing the use of the Barnett formula to calculate any block grant adjustments/future uplifts to agricultural funding for the devolved governments is both concerning and inequitable.
37. CAP payments from the EU, when received by the UK Government, were allocated between England, Scotland, Wales and Northern Ireland in a way which reflected historical levels of agricultural production, whereby parts of the UK with historically higher levels of agricultural production received higher levels of support under the Common Agricultural Policy.

EU CAP Pillar 1 funding was shared out amongst the home nations as follows:¹⁰

England	65.526%
Scotland	16.345%

⁸ https://assets.publishing.service.gov.uk/media/6721134c3ce5634f5f6ef441/Statement_of_Funding_Policy_addendum.pdf

⁹ [Inaccurate coverage on DEFRA's budget – Defra in the media](#)

¹⁰ <https://assets.publishing.service.gov.uk/media/5f61fb80e90e072bc1a75335/intra-allocation-uk-review.pdf>

Wales	8.956%
Northern Ireland	9.173%

38. Once the UK's participation in the Common Agricultural Policy ended in 2020, the then Conservative Government allocated £3.7 billion per annum in replacement, domestic agricultural support, to be shared amongst the home nations in the exact same proportions as had been done when the UK was an EU Member State. We consider this allocation to be far more equitable as this historic allocation is reflective of the levels of agricultural production in each of the home nations.

39. If the Treasury were to allocate an extra £100 of funding for farm support in England then by analogy to the historic allocation of support amongst the home nations this would imply a total pot for distribution amongst the home nations $100/65.526 = 1.526 = £152.60$, which would break down amongst the home nations as follows

England =	£152.60 x 65.526%	=£100.00
Scotland =	£152.60 x 16.345%	=£24.84
Wales =	£152.60 x 8.956%	=£13.61
Northern Ireland =	£152.60 x 9.173%	=£13.94

Using this historic arrangement as the basis for our calculation means an implied increase in Wales farm support funding of £13.61 for every additional £100 made available to England.

Rebasing this uplift according to the Barnett formula would mean that the extra funding for Wales would be determined in the following way.

Extra funding for Wales = Extra Funding for England x Population Proportion compared to England x The Comparability Factor x The Transitional needs-based factor

Therefore

$$\text{Extra funding for Wales} = £100 \times 5.48\% \times 100\% \times 105\% = £5.75$$

In making this calculation we are assuming that Wales population is 5.48% of that of England, the comparability factor is 100% and that the transitional needs-based factor of 105% applies.

40. If future funding uplifts are made according to the Barnett formula rather than by analogy to the historic allocation, Wales would be in receipt of £5.75 instead of £13.61 (for every additional £100 of expenditure in England), and so would lose out on £7.86 of uplift. Expressed another way Wales would only receive 42% of the expected uplift in funding under a Barnettised arrangement than it would under an EU historic allocation.

41. NFU Cymru is deeply concerned about the disadvantage to Wales which is implied by these calculations. We reject the idea that uplifts to agricultural support funding are in any way amenable to simple population based Barnettisation owing to the relative scale and weight of the agricultural sector in each of the UK home nations.

42. We also firmly believe that the Welsh Government and Senedd members should be concerned about the disadvantage that is inherent in the use of the Barnett formula instead of an arrangement which is reflective of the historically higher levels of agricultural production in Wales.
43. We call on the Welsh Government to advocate for a fair agricultural support uplift mechanism for Wales, which gives Wales an uplift which corresponds to level of agricultural production found in Wales rather than a Barnettised population share arrangement which is very disadvantageous to Wales.
44. NFU Cymru notes and welcomes the confirmation that Welsh Government will receive an additional £1.7 billion in funding in 2025-26, giving the Welsh Government a total of £25.4 billion to allocate at its budget which is due to be published shortly. This represents an increase of 7.2% on the £23.7 billion Welsh Government budget for 2024-25. We call on Welsh Government to ensure that the Rural Affairs Budget receives its full pro-rata allocation of this additional £1.7 billion.

Agricultural Property Relief and Business Property Relief

45. Although the policy proposals relating to Agricultural Property Relief and Business Property Relief are reserved to Westminster, NFU Cymru wishes to put on record its disappointment at the Chancellor announced the Government's intention to change both APR and BPR at the end of October, particularly as assurances had been sought and obtained from the Labour party when in opposition that there would not be any change to these vital reliefs from inheritance tax.
46. We believe this policy proposal to be ill-judged and misguided, and if it goes ahead, it will leave farmers without the means, confidence, or incentive to invest in their business. This comes against the backdrop of a sector already under an extreme amount of pressure, whether that be due to rising costs, the weather, regulation, and policy changes.
47. Returns from farming are typically extremely modest, with the return on capital employed for farming, after taking into account a wage for the farmer, averaging less than 1%. This means that the vast majority of farm owners would be unable to meet an inheritance tax charge even if they were to utilise their entire return on capital employed during their career/period of ownership, leaving them with little choice but to take on additional borrowings or to sell of part of the farm in order to meet the charge. Although a family farm may look like a valuable asset on paper, that does not mean those who work it are wealthy or are able to meet a large tax bill.
48. NFU Cymru is clear in its view that the majority of Wales' working family farms will be brought into the scope of this tax (despite Treasury claims to the contrary), rather than it being a tax which captures those individuals who have purchased agricultural land as a speculative investment, as may perhaps have been the intention behind this reform.

49. Our fear is that this will lead to the breakup of family farms as parts of them are sold off in order to meet tax liabilities, or as farmers are forced to take out borrowings in order to meet the tax which falls due.
50. The resulting decline in the family farm will have an impact on all of the businesses who in turn rely on them, such as those selling goods and services onto farm as well as those businesses which purchase the outputs which our farms produce. As has been mentioned our farms and rural communities are also strongholds of Welsh language and culture, with 43% of those involved in the sector speaking Welsh as opposed to 19% of Wales wider population.
51. NFU Cymru's fear is that if last month's changes go ahead as planned, they will cause lasting damage to Welsh agriculture, those businesses which rely on our family farms as well as our culture and Welsh language. We therefore re-iterate our call on the UK Government to halt these changes.

Conclusion

52. NFU Cymru is very much of the view that support for agriculture represents a good return on investment for Welsh Government, with the current modest outlay of just 2% of the total Welsh Government budget securing a host of positive benefits for Wales.
53. We believe that any reduction to the Rural Affairs budget would be misguided and would represent a false economy in terms of the detrimental impact it would have on the Welsh landscape, on the viability of our rural areas as places for the people to live and work, the rural economy and the wider Welsh economy as well as on the rich cultural heritage of Wales.
54. On the contrary it is NFU Cymru's view that the budget should now be restored to its previous level, having sustained some significant cuts over the last two years.
55. There is of course a role here for future Westminster governments to ensure that funding allocations to Wales reflect the fact that funding for agriculture is now something which is domestically and not EU derived, with sufficient and equitable allocations of funds made available to support Welsh agriculture by the UK Treasury.
56. We re-iterate our call that funds made available to support agriculture by the UK Government are spent for those purposes and those purposes alone by the Welsh Government.
57. It is self-evident that the Barnettisation of future uplifts to agricultural support is detrimental to Wales as compared to the use of a formula which accounts for actual levels of agricultural production within Wales. We call on Welsh Government to advocate for a fair agricultural support uplift mechanism for Wales, a mechanism which provides an uplift which corresponds to level of agricultural production found in Wales rather than a Barnettised population share arrangement which is very disadvantageous to Wales.
58. Our view is that these funding allocations should be uplifted to take account of the fact that we are now over ten-years on from when the baseline was established, and in the

intervening time there have been periods of high very inflationary pressure together with the higher level of ambition Welsh Government now has for farming in delivering key climate and nature objectives alongside securing the stable supply of safe, high quality and affordable food.

59. It must be remembered that the rural affairs budget in its entirety for the 2024-25 budget year was subject to a £62m cut, seeing it fall to £420m, taking the largest relative reduction of any of the Welsh Government departmental budget when the final budget was published this spring. This followed on from a £37.5million, or 7.8% in year budget cut, to the 2023-24 budget announced in October 2023.
60. The budget cuts made to the Rural Affairs Budget last Autumn must be reinstated in full, and further to this NFU Cymru is calling on Welsh Government to ensure that the Rural Affairs Budget receives its full pro-rata allocation of the additional £1.7 billion in resource which was announced for Wales in the UK Government budget.
61. The Union is grateful for the opportunity to provide the Committee with written evidence, and we would be pleased to provide any further information that the committee might like and to come in to provide oral evidence to the Committee.