

## **Cabinet Secretary for Energy, Planning and Rural Affairs**

### **Finance Committee - Inquiry into preparations for replacing EU funding for Wales**

#### **Introduction**

1. This evidence paper should be read alongside that submitted to the Committee by the Cabinet Secretary for Finance ahead of his appearance before the Committee, also on 27 June.
2. As the Cabinet Secretary for Finance's paper outlines, the Committee's inquiry is timely, as we continue to develop and publish ideas and proposals on how replacement funding could be invested in Wales.
3. The implications of the EU Referendum are profound for my portfolio. In Agriculture, Fisheries, Food, Animal Health, Climate Change and the Environment, our legislation and funding is steeped in the EU's operating framework. Agricultural and environmental policy is wholly devolved to Wales and there are areas where nearly two decades of devolution has resulted in a divergence of both policy and primary legislation between the different parts of the UK.
4. The Energy, Planning and Rural Affairs portfolio oversees nearly £340m a year of the £680m a year of EU funding that comes to Wales.
5. We have maximised the flexibilities afforded to us and our schemes have been used as examples of best practice across Europe.
6. We are actively considering our options with Welsh stakeholders despite the considerable uncertainty around the fiscal and legislative context in which any future funding arrangements will operate.

#### **Replacing EU funding streams in Wales**

7. **Annex 1** outlines the main areas of EU funding related to my portfolio and the associated levels of funding.

#### ***Domestically managed EU funds***

8. The main source of funding to my portfolio derives from the Common Agricultural Policy. In particular Pillar 1 - Direct Payments to Farmers (which will run from 2015 – 2020) and Pillar 2 - the Rural Development Programme (RDP) 2014-2020.

9. In relation to CAP Pillar 1 Direct payments, scheme year 2019 will be the last to be administered using EU funding and rules, if an implementation period is agreed (2018 if there is no deal). Scheme years 2020 and 2021 will be administered using national funds. This is expected to require adjustments to Departmental baselines to deliver the UK Government Guarantee (to maintain cash levels of agricultural funding to the end of this Parliament. Subsequent years agricultural funding is expected to feature as part of the 2019 UK Spending Review.
10. In relation to CAP Pillar 2 schemes (RDP), commitments made up to Exit will be honoured by the UK Government Guarantee for the lifetime of the agreement. New commitments beyond 2020 will be made in the context of the UK Government Guarantee to 2022.
11. The Welsh Government is making the necessary preparations to implement changes through to its payment system with the expectation Welsh farmers will continue to receive agricultural support. Detailed discussions are required to agree the levels of funding and UK frameworks to be put in place, in parallel to any negotiations taking place with the EU.
12. In May 2018, the Welsh Government received further details regarding the UK Government Guarantee. Further clarification is being sought to ensure the maximum commitment under the RDP is covered by the guarantee.
13. The latest guidance identifies Technical Assistance as not being covered by the guarantee. In Wales Technical Assistance is used for mandatory activities such as Monitoring and Evaluation, The Wales Rural Network and required IT systems as well as providing funding for the management and appraisal of projects.
14. The guidance also clarifies that the guarantee is not intended to support funding agreements between government bodies. Further clarification has been sought which indicates that specific projects run by government departments may still be covered, however, funds committed to intermediate bodies that have not been committed to specific projects may now fall out of the scope of the guarantee.
15. Officials are exploring alternative arrangements for committing any funding that may be left outside of the scope of the guarantee following this guidance. Options may include strategic activities, additional expression of interest rounds and extensions to existing activities.
16. On 8 May I made an Oral Statement to Plenary setting out my initial proposals on future land management support. Brexit brings significant changes and we must have a well-planned and multi-year transition. I learned the importance of avoiding a cliff edge removal of subsidies during my recent visit to New Zealand.

17. I have set out five principles to underpin future land management support. These are:

1. We must keep land managers on the land. To produce maximum benefit, land must be actively managed by those who know it best. This is what is best for our environment and communities.
2. Food production remains vital for our nation.
3. Future support will centre on the provision of public goods which deliver for all the people of Wales. The richness and diversity of the Welsh landscape means there is no paucity of public goods to procure, from clean air, to flood management, to better habitats.
4. All land managers should have the opportunity to benefit from new schemes. However, land managers may need to do things differently in return for support.
5. We need a prosperous and resilient agricultural sector in Wales, whatever the nature of Brexit. To make this a reality, we need to change the way we support farmers.

18. We intend, therefore, to have two elements of support, one for economic activities and one for public goods production.

19. I will fight to protect a full and fair allocation of funding to support land management in Wales. The UK Government has so far failed to provide any detail or commitment beyond 2022. We will continue to insist Wales receives its current share (10%) and therefore based on need, rather than a population share through Barnett (6%).

20. I was very pleased that Scottish Government counterparts, Fergus Ewing, Cabinet Secretary for the Rural Economy and Connectivity and Roseanna Cunningham, Cabinet Secretary for Environment, Climate Change and Land Reform joined me in writing to the Secretary of State for Environment, Food and Rural Affairs to ask for further clarity on future funding. We have also secured that funding is a standing item on the monthly meetings the Devolved Administrations have with the Secretary of State.

21. Despite this uncertainty, I want to set a clear timetable for Welsh farmers. By 2025 I want to have completed implementation. I will set out further details in July and can guarantee that changes will be subject to explicit consultation.

22. The European Maritime and Fisheries Fund (EMFF) is another important source of established funding to fishing and coastal communities across Wales. As fishing in Wales is undertaken, in the main, by small coastal businesses, this fund is vital if they are to adapt to the changing nature of their activities and supply chains as we exit the European Union. However, EMFF is a UK level programme within which there is a specific allocation to Wales.
23. As fish stocks cross international boundaries and different nationalities of vessels fishing within our waters, the EMFF funds programmed science and enforcement activity. The science undertaken on behalf of Wales, is co-ordinated by the International Council for the Exploration of the Seas (ICES) who then provide advice around the sustainability and fishing levels for the stocks. Post exit from the EU, International obligations require fishing to take place at sustainable levels, based on the scientific mechanisms of the region. Wales and the UK will need to continue to gather evidence and supply ICES to undertake sustainability assessments. The scientific element of the fund will need to continue to be made available to Wales, post exit and into the future, to underpin this work. Similarly, marine enforcement against vessels, including installing remote devices on board vessels and around data collection, will continue. The nature of at-sea enforcement may change but will be no less onerous. The enforcement element of the fund will to be made available to Wales, post exit and into the future, to underpin this work.
24. The Welsh Government has also successfully bid under the EMFF for funds around the development of the First National Welsh Marine Plan. This is, of course, in recognition of the shared nature of our seas and maritime activity. Wales will need to continue to work with Ireland, as well as other UK Marine Planning Authorities. Funding of this type will need to continue to be available to Wales to implement and refine marine planning, particularly in relation to joint research arrangements with Ireland.
25. In the immediate future there are concerns that exiting the EU and the Common Fisheries Policy (CFP) may have implications on the current EMFF scheme. The Secretary of State for Environment, Food and Rural Affairs has provided some assurances around UK Government honoring any commitments made by 2020 and any associated payments which may continue until 2023. However, this is the view of DEFRA. There are other UK Government Departments, including the Treasury involved in the delivery of the EMFF and these have been largely silent. Also, DEFRA have yet to clarify the position in relation the science and enforcement funding.
26. Officials are working with colleagues from administrations across the UK to consider the implications of leaving the CFP and will continue to press UK Government on clarity around the fund.
27. The Welsh Government and Welsh European Funding Office (WEFO) are working with the Department for Business, Energy and Industrial Strategy (BEIS) to seek clarity on how the UK Government guarantee will impact on delivery of the current scheme and on the extent of the guarantee.

28. In addition, my officials are working on a Future Fisheries Policy Programme. This is largely dependent on continued UK Government funding for Wales at levels currently made available by the European Union. Given the remaining time we have to prepare for an orderly exit, a continued lack of clarity is unhelpful in terms of planning future priorities and to the industry in terms of seeking investment.
29. We will also need to address those areas not covered by the UK Government Guarantee such as Animal Disease funding.
30. As Annex 1 explains, annual EU funding is received on an annual basis for the implementation of approved UK TB Eradication Plans, however, EU funding is annually approved for the UK.
31. Funding varies year on year depending on the number of cattle TB tested and slaughtered under the TB Eradication Programme in Wales as a proportion of the equivalent total numbers in England and Northern Ireland.
32. The ending of EU funding will have particular implications for other TB budgets, principally the TB compensation budget. We are drawing up options that could offer savings to this budget as part of contingency plans.
33. The EU Transmissible Spongiform Encephalopathies (TSEs) Compensation programme is a 5 year UK multi-annual program which runs until 2018. Decisions on how these measures will be funded post EU exit are being considered as part of wider negotiations on operability and funding post EU exit.
34. Elsewhere, Warm Homes Arbed 3 is our three year programme (2018-20210) of area based investment in energy efficiency measures and renewable energy technologies, to address fuel poverty.
35. The current programme will have a total budget of £55m, of which £24m will be from structural funds. Whilst European funding for the current programme appears to be secure, Warm Homes Arbed has relied significantly upon structural funds in the past, with fuel poverty being a persistent problem in Wales. It is estimated over 20% of households in Wales are living in fuel poverty (where greater than 10% of net income is required to maintain a satisfactory heating regime). Whilst significant progress has been made (since 2011 over £240 million has been invested in Warm Homes (including Nest and Arbed, improving the energy efficiency of 45,000 homes), progress needs to be at least maintained and a replacement for European funding is likely to be essential to the range of solutions.
36. We are currently examining what type of successor programme, if any, might be needed whilst we continue to call for a needs-based replacement for those EU funds we would have expected had we remained in the EU, but which we will no longer receive when we leave.

### ***European Territorial Cooperation programmes***

37. As the Cabinet Secretary for Finance's paper explains, Wales also takes part in a number of European Territorial Cooperation programmes.
38. The Welsh Government's *Economic Action Plan* sets out the Welsh Government's commitment to building and maintaining European partnerships in areas of common interest.
39. My officials are currently progressing a number of collaborative projects which will support our broader commitments to grow the Welsh food and drinks industry, as set out in *Towards Sustainable Growth: An Action Plan for the Food and Drinks Industry 2014-2020*. Annex 1 sets out details of these projects.
40. Overall, we are keen to demonstrate that Wales is firmly open for business. Developing and maintaining such EU regional partnerships is a vital part of our future strategy.
41. Such initiatives to strengthen Welsh links with EU regions and partners will help solidify relationships and support greater sector readiness for the Welsh food and drinks industry in advance of Brexit.
42. The Welsh Government is also a partner in the Circular Economy for SMEs (CESMEs) Interreg programme.
43. This Interreg funding helps the Welsh Government develop and implement policies to achieve innovation in resource efficiency in SMEs in Wales. We are one partner out of a total of 10 partners drawn from six regions of the EU. The lead partner is Northern Denmark. The funding is modest and pays for staff time to develop an Action Plan and to attend project meetings in each region. This has proved very informative for the sharing of best practice in policy making and in sharing case study examples. The project is due to complete in September 2019.

### ***European Commission managed funds***

44. The EU LIFE programme is the EU's funding instrument for the environment and climate action. The general objective of LIFE is to contribute to the implementation, updating and development of EU environmental and climate policy and legislation. The current LIFE programme covers the period 2014-2020. The LIFE Programme contributes to sustainable development, the Europe 2020 Biodiversity Strategy, the 7th Union Environmental Action Programme and other relevant EU environment and climate strategies and plans.
45. The 'Environment' strand of the LIFE programme covers three priority areas: environment and resource efficiency; nature and biodiversity; and environmental governance and information.

46. The Welsh Government provides the financial support (under our Green Infrastructure Capital Grant) for Natural Resources Wales and for the Snowdonia National Park Authority which together have three projects that have succeeded in receiving funding under the EU LIFE programme. Annex 1 outlines these three projects.
47. The timescale of these projects varies, with the first programmed to end in August 2021, and the two others in December 2022 and July 2026 respectively
48. This raises the issue of continued EU support for these project post Brexit. As it stands, if there is an agreement between the UK Government and EU upon the UK leaving the EU, the European Commission will continue to honour its financial commitments made the under LIFE programme. If there is no such agreement upon the UK leaving the EU, the projects will be financially underwritten by the UK Treasury, even where projects continue beyond the UK's departure from the EU. This includes any additional projects that are bid for prior to EU exit but which are awarded by the Commission after exit.
49. The new LIFE Programme will commence on 1 January 2021 and will cover 27 Member States. Whilst the UK is not included within the 27 Member States covered by the new proposal, the LIFE Programme continues to be open to association with third countries within certain parameters. Third countries can officially associate in accordance with the conditions laid down in a specific agreement which covers a fair balance as regards to the benefits, and requires a financial contribution.
50. Legal entities established in a non-associated third country will be required to bear the cost of their participation. This could limit the participation of non – associated third countries (including organisations in the UK) whose involvement helps to achieve Union objectives.
51. It is currently unclear if there will be any fund to replace LIFE funding at a UK level.
52. A further European Commission managed fund is the EU Apiculture Programme. The current EU Apiculture Programme is due to finish in 2019. My officials have had initial discussions with Defra officials concerning options for replacing this source of funding for the Bee Health programme. These discussions are at an early stage and my officials will be in a position to offer me advice in due course.
53. We are also in receipt of a funding stream from the European Investment Bank's ELENA programme for Re-fit Cymru. The grant covers a period of 3 years commencing January 2016 (ending December 2018).
54. We are starting to see strong returns on earlier investment and are reviewing the potential to build on its success by extending or replacing with a new contract. We are currently exploring alternative sources of funding including utilisation of self-generated revenue: Re-fit can currently charge clients £10k for each successful project.

55. We are at an early stage in our review of the contract and the feasibility of extending beyond December 2018.

56. My portfolio also has a keen interest in the future of the Horizon 2020 programme. The UK Government appears to agree that continued access to the successor for Horizon 2020 (known as Horizon Europe, and with a significant proposed increase in funding) should be a priority and we will work with them to try and influence the development of successor arrangements and the terms of the UK Government's access. For example, we submitted and published a position paper to respond to an EU consultation on the future of Horizon 2020 in March this year.

### ***Regional Investment: future administration***

57. As the Cabinet Secretary for Finance's paper notes, we have set out initial proposals for replacing the European Structural and Investment funds in our policy paper *Regional Investment in Wales after Brexit*.

58. We followed this up with a number of engagement activities including an event in North Wales that I attended one in South Wales, attended by the Cabinet Secretary for Finance.

59. We are not seeking to replicate EU programmes in Wales and the major opportunities we have identified are to do things differently.

60. I am working closely with the Cabinet Secretary for Finance and colleagues across Cabinet to ensure successor arrangements dovetail with each other and with wider Welsh Government policy.

### ***Summary***

61. As stated earlier, I continue to seek agreement with the UK Government on future funding arrangements. A new funding framework needs to be agreed between all four UK nations, and I am keen to ensure we have effective collaborative working between governments to consider joint proposals.

62. Further discussion is required to confirm the actual level of funding which will be available to Wales and the funding formulae to be adopted, mechanism for market support measures and replacement for other types of funding.

63. Through the consultation next month (July) on proposals on future land management support a significant step will be taken in setting out some of our preparations for replacing EU funding for Wales.

**Lesley Griffiths AM**

**Cabinet Secretary for Energy, Planning and Rural Affairs**

**June 201**

## Main areas of EU funding related to the Energy, Planning and Rural Affairs portfolio and the associated levels of funding.

### 1. Common Agricultural Policy (CAP)

#### Pillar 1 - Direct Payments

The Common Agricultural Policy's Pillar 1 - Direct Payments to Farmers is the successor to the Single Payment Scheme (SPS) and will run from 2015 – 2020. The funding framework provides direct income to support farmers to manage their land in an environmentally friendly and sustainable manner, as well as maintaining animal welfare standards enhancing the long-term resilience of farms.

The Direct Payments, which is **100% EU monies** from the European Agricultural Guarantee Fund (EAGF) provides income support to agricultural businesses. **The total budget for 2014-2020 is £1676m.**

15% has been transferred from Pillar 1 to Pillar 2 (RDP). This is the maximum allowed under European Regulations. This equates to £252m (at the current RDP planning exchange rate of €1 = £0.85) and has been transferred over the period of the programme (2014-20).

<b>Total EU funding</b>	£1676m
<b>Annual Average</b>	£240m

### 2. Rural Development Programme (RDP)

The Rural Development Programme 2014-2020 was adopted by the European Commission on 26 May 2015. The programme is worth £827.8m over the 7 year period (at current planning exchange rate), of which the Welsh Government must contribute approximately £276m with the remaining £551m EU funded, (€651.6m, this is fixed over the MAFF). The amount of co-financing required is affected by both the currency exchange rate at the time of claims, and the co-financing rate applied to expenditure. The current co-financing rate is EU 53% and WG 47%, which is the maximum allowed under regulations.

EU allocations run from 01/01/14 to 31/12/20. The N+3 rules means that the EU allocation from Year N must be spent by the end of that year plus 3 years, Hence N+3.

The programme will support a wide range of activities which align with one or more of the European Rural Development objectives:

Technical assistance is also included through the funding programme, supporting actions such as management, monitoring, evaluation, information and communication and networking, complaint resolution, and control and audit. Technical Assistance is also used to support actions for the reduction of the administrative burden on beneficiaries and actions to reinforce the capacity to administer the programme.

The maximum **Pillar 1 transfer of 15% to RDP equates to £252m** (also included in this figure is a **small amount of modulation** from the previous programme period). This element of RDP is not co-financed. A key variant within the CAP funding is the exchange rate which is based on a planning rate of €1=£0.85.

<b>Total EU funding</b>	£551.6m
<b>Annual Average</b>	£78.8m

### 3. European Maritime Fisheries Fund (EMFF)

This European Maritime Fisheries Fund intends to adapt the fisheries sector to the requirements of the Common Fisheries Policy (CFP) which include statutory obligations, such as the landing, enforcement and data collection obligations. The funding framework also provides a vehicle to achieve the aims of the Wales Marine Strategic Action Plan.

The fund focuses on:

- helping fishermen in the transition to sustainable fishing;
- supporting coastal communities in diversifying their economies;
- financing projects that create new jobs and improve quality of life along European coasts;
- making it easier for applicants to access financing.

EMFF co-finance %	Description	Total EU	Total Co-finance	Total Programme
75%/25% (max)	Core	£10,219,815	£3,406,605	£13,626,420
90%/10%	Enforcement	£2,112,752	£234,750	£2,347,502
80%/20%	Data Collection	£1,528,926	£382,231	£1,911,158
<b>Total Requirement</b>		<b>£13,861,494</b>	<b>£4,023,587</b>	<b>£17,885,081</b>

The current EMMF allocation is circa. £18m, for 2014-20. EMFF is managed similarly to the RDP (co-financed), however this is an UK Programme and the EU allocation can vary.

<b>Total EU funding</b>	£13.9m
<b>Annual Average</b>	£1.9m

#### 4. Small Business Research Initiative (SBRI)

The aim of SBRI is to develop and market health related food and drink in Wales. This has been identified through the Food and Drink Action Plan, that strategic intervention in the sector could aid healthy eating within Wales. The governance approaches set out in the Well-being of Future Generations Act 2015 - Sustainable Development Principle is core to the development of the SBRI:

- Thinking about the long-term;
- Taking an integrated approach;
- Collaborating together with others;
- Involving people and communities affected by their decisions;
- Focusing on taking preventative measures.

The total SBRI funding equates to £1m for a period of 3 financial years commencing 2016/17, of which Welsh Government co-finances £600k with the remaining £400k financed through EU funding.

<b>Total EU funding</b>	£400k
<b>Annual Average</b>	£133k

#### 5. LIFE funding

The Welsh Government provides financial support for the following projects which have been awarded LIFE funding:

- a) New LIFE for Welsh Raised Bogs (Natural Resources Wales) The project funding totals £4.239m for a period of 3 financial years (September 2017 – August 2021); for which the Welsh Government provides support of £1.060m with the remaining financed through LIFE (£3.18m)
- b) Sands of LIFE (Natural Resources Wales) The project funding totals £4.067m for a period of 3 financial years (July 2017 – December 2020); for which the Welsh Government provides support of £1.016m with the remaining financed through LIFE (£3.050m).
- c) Celtic Rainforests LIFE (Snowdonia National Park Authority). The project funding totals £7.66m for a period of 7 financial years (September 2018- July 2026), for which the Welsh Government provides support of £2.00m, with the remaining financed through other stakeholders (£1.07m) and LIFE (£4.59m).

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<b>Total EU funding</b>	£10.82m
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<b>Annual Average</b>	2.74mN/A
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## 6. Re-fit Cymru

This funding stream is from the European Investment Bank's ELENA programme and was secured in December 2015. The grant covers a period of 3 years commencing January 2016 (ending December 2018).

The programme provides professional support for public sector organisations to implement large and complex energy efficiency projects. The service enables access to Energy Performance Contracts, where the public bodies secure guaranteed energy savings and release funds for front line services.

The re-fit Cymru service is 90% subsidised through Welsh Government securing a £1.5m grant from the European Commission's Intelligent Energy Europe ELENA programme which is administered through the European Investment Bank (EIB)..

<b>Total EU funding</b>	£1.5m
<b>Annual Average</b>	£500k

## 7. Circular Economy for SMEs (CESMEs) – Interreg

CESME project commenced in May 2016 and is funded for 4 years. The Circular Economy is a key concept of the Green Economy and a fundamental step for promoting Green Growth across the EU. It is based on optimising systems rather than components, moving away from “resource to waste” to “resilient and productive circular systems”.

Through exchange of experiences, across the EU, on relevant policy instruments, support packages to assist SMEs to enter the circular economy, best practices identification, estimation of economic and social benefits of circular value chains, as well as the production of a white book guide, SMEs will be introduced step by step into circular economy.

CESME was initiated by the Business Development Centre North Denmark, the Lead Partner, along with North Denmark Region. The project partnership includes overall 10 partners from Denmark, Italy, Finland, Bulgaria, Greece and the UK.

The total project cost equates to €1.73m which will be co-funded by Interreg Europe Programme. The Welsh Government's share equates to €150k with Interreg funding provided 85% (€127k) with Welsh Government's 15% contribution €22.5k will be primarily existing staff time.

<b>Total EU funding</b>	£108k
<b>Annual Average</b>	£27.3k

\* Exchange rate £0.85:€

## 8. European Collaboration in the Food and Drinks sector

Officials are progressing a number of collaborative projects which will support our broader commitments to grow the Welsh food and drinks industry, as set out in *Towards Sustainable Growth: An Action Plan for the Food and Drinks Industry 2014-2020*. The projects include:

- a joint initiative to help food sector SMEs from the Atlantic Area (AA) regions to develop innovative strategies and improve their competitiveness in international markets. The **Atlantic Area Food Export Project**, funded through the Interreg Atlantic Area Programme and co-funded by Welsh Government, is encouraging business cooperation between the AA partner regions to overcome barriers food sector SMEs face when they try to go international. The partners include the Dordogne (France), Asturias (Spain), Andalucia (Spain), Norte (Portugal), Cork (Ireland), Northern Ireland, and Wales. The overall aim of the project, which is due to run until end of 2019, is to improve the participating SMEs' competitiveness and increase their exports. For the Interreg Atlantic Area project, under the UK Treasury Guarantee we have certainty that the project will be unaffected by Brexit and Welsh partners will continue to benefit from being part of the project until its closure.
- Welsh Government has joined a new European Network of the Regions and Gourmet Food (**REGAL Network**) focussed on developing food culture, supporting entrepreneurship and innovation, developing local supply chains and growing food tourism. It incorporates a significant focus on improving and strengthening the recognition of quality products through protected designations and quality brands, making specific references to Protected Food Names (PFN). The Network membership includes Lombardy (Italy), Liguria (Italy), Basque Country (Spain), Navarra (Spain), and Wales. The Network is currently in the process of becoming a formal legal not for profit entity. Once this is completed, it is expected that the members will look to develop opportunities for shared learning and enable future joint working on projects of common interests.
- As an integral part of the EU's Horizon 2020 framework programme for research and innovation, the European Institute of Innovation and Technology (EIT) brings together businesses (industry and SMEs) and academia to form dynamic cross-border partnerships. As part of this, '**EIT Food**' is a consortium of 50 partners from 13 countries aiming to boost the skills and entrepreneurial spirit in the sector and unlock the potential of small and medium sized enterprises (SMEs), which in turn will accelerate innovation, create jobs, benefit businesses and increase Europe's competitiveness. In 2017, the Welsh Government became an Associate Member of EIT Food (a status that

enables Welsh Government to collaborate with EIT Food on joint activities and information exchange). Officials are in further discussions with EIT Food to explore how Welsh Government (or other Welsh stakeholders) could continue to be involved and have an active role in future developments in this project.

- In recent years, Welsh Government has developed an innovative ‘cluster-based’ approach to communication, learning and business planning with industry. Through this, six Food and Drink ‘**Clusters**’ have been established which includes more than 500 businesses in these networks all now working together to develop new opportunities and collaborative projects to benefit the sector in Wales. Now that the Welsh Clusters are firmly established, we are now looking further afield to build relationships, share best practice and explore potential new partnerships with other EU regional food Clusters. As part of this, I visited Catalonia and the Basque Country in early June 2018, alongside a representative delegation from our Welsh Clusters.

### 9. **Future Area-Based EU energy Efficiency scheme (Arbed 3)**

Arbed is a three year programme (2017-2020) of area based investment in energy efficiency measures and renewable energy technologies, ending in 2020. The programme will be targeted at those areas in Wales where households are most likely to be living in severe fuel poverty. The project will deliver social, economic and environmental benefit by tackling severe fuel poverty, generating employment and training opportunities and reducing the carbon footprint of Wales’ existing housing stock.

The ARBED 3 Programme is designed to deliver a total investment of £35m over 3 years, of which £12.06m will be funded by Welsh Government and £22.4m from the European Regional Development Fund (ERDF). Under EU rules, the total scheme cannot exceed the major project threshold of €50m (£38m).

<b>Total EU funding</b>	£22.94m
<b>Annual Average</b>	£7.6m

### 10. **TB - EU Funding**

TB EU Funding varies year on year depending on the number of cattle TB tested and slaughtered under the TB Eradication Programme in Wales as a proportion of the equivalent total numbers in England and Northern Ireland. Generally between £2-4m is received annually by the Welsh Government, however, the level of funding depends on a variety of factors including the cut made by UK Treasury and disallowance following audit. Disallowance may be applied in respect of inaccuracies/miscalculations in the data which mean that an over claim has taken place. Additionally, disallowance has previously been applied following scrutiny of Wales’ TB compensation figures when comparing them to Defra’s and following this, Wales’ figure was adjusted downwards. EU funding is claimed and received in retrospect, following evaluation of biannual claims.

Although, TB policy is directed by an EU legislative framework, it is important to note that there is domestic legislation in place which also governs TB policies in Wales as well as a comprehensive TB Eradication Programme. Therefore, following withdrawal from the EU, the TB Eradication Programme would continue.

<b>Total EU funding</b>	£3m
<b>Annual Average</b>	£3m*

\*based on previous years'

## 11. Transmissible Spongiform Encephalopathies (TSEs) Compensation

Regulation (EU) no 652/2014 established a Common Financial Framework (CFF) for the management of expenditure relating to the food chain, animal health and animal welfare, plant health and official controls. It enables Member States to access grant funding to co-fund a number of measures, including emergency measures, eradication and control programmes and official controls such as EU Reference Laboratories (EUR-L)

CFF involves an average annual spending of EUR 270.3 million, with a maximum ceiling for expenditure of EUR 1,891,936,000 over the 7-year period 2014-2020. The budget is allocated according to priorities agreed with EU Member States in annual or multi-annual work programmes.

TSEs are fatal neurodegenerative diseases, that cause spongiform degeneration of the brain, which ultimately results in death. TSEs are zoonotic diseases that may occur in both animals and humans, but by definition it is a disease that can be passed between animals and across species, including from animals to humans. These include Bovine Spongiform Encephalopathy; Scrapie; and, Chronic Wasting Disease.

The EU TSE programme Compensation is a 5 year UK multi-annual program which runs until 2018, which is focused on active surveillance measures, BSE and Scrapie eradication (which including compensation and genotyping programmes). The Commission approves the programme for specific amounts of funding on a year-by-year basis. The estimated co-financing is around €950,000 for UK administrations in 2017/18 and the WG's share is around 13.32% or €126,540 (£109k).

Based on DEFRA's projections for the EU's forward programme for the 2017 calendar year, UK's expenditure is estimated as €1,944,196.86. Based on the contribution rate, Welsh Government's contribution is estimated to be €258,967 (\*£222k). These are demand led costs, therefore, Welsh Government's expenditure may be higher or lower depending on whether there is a requirement for any compensations or genotyping costs (costs funded by the country in which the animal was identified).

Due to the continuing worldwide decline in the BSE epidemic, co-financing for the control and eradication of TSEs is expected to reduce year-on-year and to end in

2021 (The EUs TSE surveillance plans are not known beyond this date). As a result, consideration needs to be given to funding capability extending beyond 2021. Decisions on how these measures will be funded post EU exit are being considered as part of wider negotiations on operability and funding post EU exit.

<b>Total EU funding</b>	£222k
<b>Annual Average</b>	£222k

\* Exchange rate £0.86:€ (as at 13/11/16)

## TSE Compensation

Section 32 of the Animal Health Act 1981 confers the power to slaughter animals for disease control purposes on Welsh Ministers and also imposes a duty on them to pay compensation in respect of those animals.

Welsh Ministers can reclaim the costs of compensation paid to owners from the EU. Compensation can be paid to the owners of animals that are slaughtered or culled, and owners of products of animal origin that are destroyed, where they meet certain conditions under Regulation (EU) no 652/2014. Compensation is limited to the market value of animals if they had not been affected by the disease and to the value of products immediately before any suspicion of the disease arose or was confirmed. Production value of the animal cannot be compensated for.

The Welsh Government makes compensation payments for animals slaughtered for the purpose of TSE control. Payments made by the Welsh Government since 2013 include:

	BSE Compensation	Scrapie Compensation (CSFS)	Total
2013	£13,240	£309,900	£323,140
2014	-	-	-
2015	£727	-	£727
2016	£47,392	-	£47,392

As part of the wider EU TSE Co-financing programme, the Welsh Government receives co-financing support from the EU for TSE compensation payments. As part of the wider co-financing programme for TSE controls, income from the UK has only been committed until 2021. Details of the EU's TSE control programme including funding details beyond this point are not yet known.

Decisions on how the costs of compensation will be funded post EU exit are being considered as part of wider negotiations on operability and funding post EU exit.

## 12. Bee Health Programme

The Bee Health Programme has been set up to support the objectives of the Healthy Bee Plan which aims to achieve a sustainable and healthy population of honey bees for pollination and honey production in the UK. It incentivises stakeholder to work together to respond effectively to pest and disease threats and to sustain honey bees and beekeeping for the future.

The Bee Health Programme is funded by the National Bee Unit annually, **which equates to £440k**. From this sum, £76k is recoverable from the EU as part of the EU Apiculture Programme. The current EU Apiculture Programme is due to finish in 2019. Discussions are ongoing with DEFRA on the future of the Programme and replacement funding.

<b>Total EU funding</b>	£76k
<b>Annual Average</b>	£76k