

Jane Hutt AC / AM  
Y Gweinidog Cyllid  
Minister for Finance



Llywodraeth Cymru  
Welsh Government

Nicky Morgan MP  
Economic Secretary  
HM Treasury  
1 Horse Guards Road  
London  
SW1A 1NA

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Dear Nicky,

I am writing in response to your letter of 21 October 2013 which invited comments on the Review of the Balance of Competences. My comments are focused on the EU Budget.

During the UK Government's negotiation of the Multi Annual Financial Framework for 2014-2020 I discussed the UK Government's policy position with the successive Financial Secretaries to the Treasury. Both the UK Government and the Welsh Government agreed that the EU Budget should focus on jobs and growth, however our views differed about how to achieve that objective through the EU budget negotiation. As you will be well aware the UK Government's priority was to see a reduction in the size of the EU budget and the preservation of the UK abatement. The Welsh Government acknowledged the need for some budget restraint, however we emphasised the importance of a budget settlement that would enable Structural Funds to support disadvantaged communities, and an outcome on the Common Agricultural Policy (CAP) that would avoid large cuts to the income of rural areas of Wales.

The call for evidence asks whether the EU Budget is sufficiently focused on 'added value' areas of expenditure. Whilst we acknowledge the need for reform of the CAP, and are working to reduce the reliance of rural businesses on it, the Welsh Government maintains that the CAP Pillar 1 is not a 'low value' area of expenditure. The future of CAP is important to rural Wales, paying agricultural businesses in Wales over £350m every year, keeping businesses afloat and thousands of people in work. The money also benefits the wider community and economy. Pillar 1 reductions have a major impact on the sustainability of rural communities in Wales.

The call for evidence also enquired about the rationale for an EU budget. The Welsh Government is strongly supportive of the institutions of the European Union, and the resources that go with them. Some of the most economically deprived areas of the UK can be found within Wales, and these areas have benefitted significantly from European Structural funds.

The Welsh Government holds the view very strongly that the Treaty basis for a European-wide fund, which aims to reduce regional disparities in order to facilitate the cohesion of the Single Market, continues to have a strong rationale.

The Welsh Government is also supportive of long-term EU Budget agreements. The European Commission's explicit recognition of long term economic challenges and its specific targeting of those challenges through the multi-annual financial nature of funded programmes is vitally important to Wales. Structural fund programmes guarantee funding for a 7 year period and this certainty and transparency has had a strong and positive impact on strategic planning by the Welsh Government and its partners. The nature of UK budgeting, where annual UK Budget and Autumn Statement have resulted in frequent changes to the Devolved Administration's budgets, is much more challenging to manage.

The Welsh Government is working with the UK Government to improve the economic competitiveness of Wales, and in doing so we aim to reduce the reliance on this funding. However the tangible benefits of Structural Funds to Wales have been significant. During the 2007-13 Programme in Wales, as at 30 November 2013, a total of 287 projects have been approved which represents an investment of EU funds of over £1.9 billion. These will help provide over 23,000 opportunities for businesses and over 620,000 employment and training opportunities for individuals across Wales. We therefore consider Structural Funds an effective mode of expenditure which adds significant value to the businesses and communities of Wales.

Following the agreement of the EU Budget at last February's EU Summit, we welcomed the constructive approach that UK Ministers took to ensuring an equitable allocation of Structural Fund resources across the UK for the 2014-2020 programme. We agree with the suggestion in the Call for Evidence that a degree of national flexibility can be necessary to compensate for anomalies that may arise in the high-level negotiating process.

The Welsh Government has been a keen supporter and user of alternative EU modes of expenditure. The £150m JEREMIE fund (Joint European Resources for Micro to Medium Enterprises) is helping support businesses to grow. Managed by Finance Wales it is backed by a European Investment Bank (EIB) loan and £65m from the European Regional Development Fund. We are also supportive of other innovative EIB instruments, such as 'Project Bonds,' and would be keen to participate in such approaches at a future date when the right sort of proposals can be brought forward.

*Best wishes,*



**Jane Hutt AC / AM**  
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