Circulation: balanceofcompetences@hmtreasury.gsi.gov.uk
Date: 15 January 2014
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Balance of Competences: EU Budget

The National Farmers' Union (NFU) welcomes the opportunity to respond to the Balance of Competences, call for evidence: Agriculture. The NFU represents 47,000 farm businesses in England and Wales. In addition we have 40,000 countryside members with an interest in farming and the countryside. The NFU has responded to a number of previous "calls for evidence" and these can be viewed here.

The EU budget is a key issue for the agricultural sector, given that funding for the Common Agricultural Policy (CAP) is allocated within the overall budget. However, it should also be remembered that CAP expenditure as share of the EU budget has evolved considerably over the last two decades. Agriculture's share has decreased very sharply over the past 25 years, from almost 75% to 44% in 2011. This decrease has taken place despite the successive EU enlargements. This reduction in the cost of CAP in the EU is due mainly to the CAP reforms and to the increase of other EU policies. The CAP deal that is now in place for 2020 will see further reductions in the agricultural budget.

Nevertheless, the CAP continues to play an incredibly important role in underpinning UK agriculture, particularly the role of decoupled direct support. For example, in 2012 CAP support payments accounted for 68% of Total Income from Farming (TIFF). The rationale for a common policy remains given the common market in agricultural goods that first necessitated the creation of a common agricultural policy, which was intended to minimise distortions of competition that otherwise would have persisted were countries to have retained their own different agricultural policies.

The NFU has never shied away from budget cuts at the European level for agriculture, but reductions must be applied equally and fairly. In future, the NFU believes that the policies that comprise the CAP should be pared right back to the primary objective of increasing agricultural productivity by promoting technical progress and rational development of agricultural production. Initiatives relating to the social development of the agricultural sector could be left for national competences.

What do you see as the rationale for having an EU budget?
The EU budget provides a vital funding source for EU level initiatives that support the existence of a single market and the development of EU rather than national interests, just as it does with the CAP. If left to individual member states, differing priorities of EU countries could see differing levels of support or initiatives that could distort the single market. In essence, the EU budget has a role in adding value where individual member states would not.

Current examples include funding for the European Innovation Partnership and Horizon 2020, where the European focus on research and innovation is aimed at improving the EU's competitiveness globally. Similarly, structural funds have been used to support the development of specific regions in the EU as a degree of economic convergence is sought.

What are your views on the appropriate roles of national and European institutions, particularly the voting rules and relationship between the domestic and European Parliaments, the Council and the Commission, in agreeing the EU budget?
The EU budget has become an increasingly political issue, as evidenced by the negotiations surrounding the most recent multi-annual financial framework. Enlargement of the EU has arguably

made the process more difficult, particularly considering the need for unanimity and there is a risk of polarisation amongst member states in their view of appropriate contributions and the wider remit of the EU. The variety of institutions involved in the process at present ensures rigorous discussion of budgetary issues, yet it also creates a risk of deadlock and invariably a focus on the net balance for individual member states when securing an outcome.

Relevant to this discussion on roles in decision making is consideration of the UK's influence in Europe. Despite negotiating from a position of theoretical strength; the UK has 73 MEPs (the third biggest number) and is one of the top 4 most powerful in the council, the UK Government often appears isolated, primarily as a result of its failure to build strategic alliances. It does not help the UK cause to achieve greater negotiating influence that in recent European Parliament elections voter turn-out has been significantly lower than the EU average; 34.7% compared to 43% in 2009. A number of UK elected MEPs regularly refuse to take part in debates and votes that would serve the UK interests. The UK should seek to exert its influence and display leadership.

What are the advantages and disadvantages of having unanimously-agreed long-term budget periods? How long should they be?
A five year window could be considered appropriate for budget periods, particularly to tie in with the European Parliament elections. There is an argument that a new European Parliament can find its activities and ambitions significantly constrained by a budget deal that has previously been agreed. It is also worth considering that the budget deal agreed in 2005 didn't foresee the events and challenges triggered by the financial crisis in 2008. A shorter time period may allow the EU to be more responsive to such challenges as they emerge.

However, the role of the EU should be to provide a degree of certainty and stability. A seven year period for the multiannual financial framework achieves that and facilitates planning. As an industry that is able to access schemes funded at the EU level, it is apparent that a period of time is needed to design, launch, and deliver schemes. For example, the Rural Development Programme for England is an element of the CAP. The various programme elements invariably have a rising expenditure profile and benefits from a longer term period. Similarly, having a direct payments structure under CAP for a seven year period allows farm businesses to plan beyond the short term. This ensures that CAP can fulfil a role where it maintains agricultural capacity and encourages industry investment.

What are your views on the current financial management system, in particular the Discharge process, in ensuring EU budget funds are properly spent and audited?
There is something of a paradox that exists in the EU auditing process. Member states are left to develop, implement and deliver EU funded programmes. It is only when they are operational that the EU will determine whether or not rules have been broken and disallowances incurred. Indeed, Defra's delivery of CAP incurred significant disallowance for the UK. In such instances, it would seem more appropriate that the EU and its institutions works with member states as EU programmes are developed to ensure that disallowance is minimised and that schemes are effective and legally compliant from the outset.

What are the advantages and disadvantages of having some expenditure, including to provide flexibility, held 'off-budget'?
Having money held 'off-budget' provides a contingency and having such reserves seems prudent, particularly if there is a need to deploy rapidly. However, the disadvantages include:

- such a budget is not open to scrutiny
- subsequently, funds may be allocated in an emotive rather than rational way
- funding may not be used and continually held in reserve

In drawing parallels with the schemes operated under the CAP, this final point is relevant. Under Rural Development Programme proposals, member states were given options to have a performance reserve which allocated funds later in the programme depending on performance/need. Yet the feedback from member states and industry stakeholders was that such an approach is a significant hurdle to planning a sensible budget and expenditure profile or for building the right level of resources for delivery. The proposal was ultimately dropped. Perhaps allowing flexibility between funding headings would facilitate a degree of contingency planning without the negatives attached to holding a proportion of funds off-budget. However, it is clear that this should not act as some type of savings account for the European funds.

In your view, is the EU budget focussed on areas of EU added value in expenditure?
It should be remembered that the EU budget should be considered in context. Whereas member states' budgets account for 44% of GDP across the EU-27, the EU budget represents only 1% of GDP. Yet as outlined previously, it is important that the budget is focused on areas where it can add value at the EU level and support the single market. The NFU believes that agriculture is one of those areas, where if left to member states, there would be diverging levels of support.

The NFU has consistently supported the direction of travel towards greater market orientation and decreased dependency on support payments. A focus on ensuring Europe's businesses contribute to market-led economic growth is critical. From an agricultural perspective, it is disappointing that the latest round of CAP reform, negotiated in 2011- 2013 appears to the NFU to contradict this need for market-led growth. Instead, we have policy measures that require farmers to grow a certain number of crops irrespective of market demand. In addition, there is a focus on incentivising small scale semi-subsistence farming and a general lack of meaningful efforts to develop functioning supply chains. A focus on a CAP with a primary objective of increasing agricultural productivity by promoting technical progress and rational development of agricultural production should be the aim for the next set of reforms.

For scientists, farm businesses, consultants, advisers and others working in the wider agriculture industries, EU action on R&D gives them the opportunity to work with their counterparts across Europe. For example, Horizon 2020's focus on involvement of SMEs including farming sector businesses is to be welcomed. This allows sharing of best practice and can lead to some valuable working relationships that persist beyond the life of the project. An example is the European Cattle Innovation Partnership established in June 2010 and using UK Technology Strategy Board and Biosciences Knowledge Transfer Network support. One can envisage such partnerships developing through the proposed Agri-Tech Centres for Innovation.

What modes of expenditure (e.g. bid-based expenditure, automated expenditure, loans, grants) in the budget represent the most effective use of EU funds?
Based on the experience of UK agriculture, a system of automated expenditure appears the most appropriate. It ensures that farmers in England and Wales have access to the funding and allows a planned approach to delivery. Shaping this view has been the reluctance of the UK to access EU funding schemes because of the UK abatement. This has meant there is effectively a financial deterrent that stops the UK taking up funding sources from the EU, whereas other member states are more active participants and beneficiaries of discretionary schemes.

Anecdotally, the audit trail with bid-based schemes can be challenging. As an applicant, there is an element of risk in applying for any bid-based funding. The application costs and efforts can be considerable, whereas there is no guarantee that an applicant will be successful. From a business perspective, the competitive element associated with bid-based awards can mean that some of the businesses that would benefit most from support actually lose out. Larger businesses are more adept at targeting and accessing funds, with resources dedicated to generate revenues from grant funds. These same characteristics might also apply to member states, where those most adept at accessing funding gain regardless of the potential outcomes that funding could achieve.

A loan system is intrinsically attractive, particularly given the ability to recycle funds and extend the reach of EU programmes. However, in practice, there appear to be relatively few examples of government or EU schemes that are based around loans. Defra are considering a loan element as they develop the next Rural Development Programme (for the period through to 2020), asking views on loan schemes as part of their recent CAP consultation. The NFU looks forward to helping Defra assess the potential effectiveness of a loan-based scheme for the agricultural sector.

What is the right level for the EU budget?
It has already been outlined that the EU budget must be considered in context against member state expenditure in other areas. Any assessment of the 'right level' for the EU budget arguably depends on the policy objectives that the EU is seeking to deliver. It also raises questions relating to the effectiveness of expenditure and the trade-off with wider regulation. For example, if the agriculture budget is to be cut in real terms, then it would be reasonable to expect a reduction in the regulations faced by European agriculture.

What are the arguments for and against increasing or decreasing the degree of national flexibility in spending money allocated to Member States under one part of the EU budget in other parts of the budget?
The EU budget is obviously a user of public funds. As such, the obligation is on member states to make best use of the funding available. Similarly, flexibility could allow member states to respond to emerging crises or spend it in areas where it is most needed. However, any plans to switch funds from one part of the budget to another also raises questions about why this is needed. If any such flexibility is allowed, it should be accompanied by a thorough analysis that considers the feasibility of achieving the original, objectives the effectiveness of delivery and demonstrates that better value for money will be achieved by allocating the money elsewhere. We must consider this against the policy outcomes that are to be achieved. Above all, the rationale for giving greater flexibility to policy measures that are designed to give commonality and facilitate a single market must be questioned.

What are your views on the current system whereby the EU budget is resourced on the basis that Member States contribute in relation to their income, with corrections where necessary?
As outlined previously, negotiations concerning the multiannual financial framework appear to be increasingly political with a focus on the net balance at risk of derailing budget decisions. Certainly, the abatement issue and the UK's correction can be a deterrent to accessing European funds. Such fiscal plans can dictate the policy negotiation process for the UK. For example, the UK position on agricultural support has been heavily influenced by fiscal concerns and perceptions around the value for money that CAP delivers. This has shaped the UK negotiating position in successive reforms and ultimately limited the ability for the UK to influence others in Council and achieve a more progressive reform.