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Department for Environment Food & Rural Affairs

Consultation on the implementation of CAP reform in England

Summary of responses and government response on remaining issues

February 2014

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http://www.gov.uk/defra

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1. Introduction

1.1 On 19 December 2013 the Government published its response to the consultation on implementation of the Common Agricultural Policy (CAP) in England which ran from 31 October to 28 November 2013. This response, which is available at http://www.gov.uk/defra summarised the responses to the consultation and set out decisions on:

- direct payments;
- greening;
- some aspects of the Rural Development Programme; and
- the inter-pillar transfer.

1.2 A few matters remain outstanding from the December response. In this document we have summarised the responses received and set out decisions made in respect of the Young Farmers Scheme and the CAP market management measures. We are also providing more information on the new Rural Development Programme (RDP). We said in December that this response would also cover decisions on the selection of Ecological Focus Areas (EFA) options which would be permitted in England to meet the greening requirement. We are discussing with stakeholders and carrying out further analysis to determine whether advice and voluntary actions will provide sufficient environmental benefits so that we could allow a wide range of EFA options. We will provide further information on this in the next few weeks.

1.3 The consultation document also included 3 questions on whether respondents agreed with the main conclusions of the analysis in the accompanying evidence paper and Rural Development Programme for England (RDPE) Impact Assessment, whether there were any important aspects of the CAP implementation package that had been overlooked and whether there were any key inputs or assumptions where better evidence is available. We received few direct responses to these questions, with respondents tending to comment on the evidence in their response to individual policy questions. All evidence considerations were therefore included in the relevant policy sections of the December response.

1.4 As we stated in the December response, we will implement the CAP in a way that supports a resilient and competitive English farming sector while also strengthening how it delivers outcomes for the public good, primarily through rural development funds targeted at improving the environment and rural economy.

1.5 We also stated that our policy choices need to consider the ease of implementation for farmers and other CAP customers, as well as Defra and its delivery network. For both the Young Farmers Scheme and market management measures we have decided to implement as simply as possible without introducing additional optional requirements which would impose burdens on farmers, rural enterprises and the food industry.

1.6 Throughout 2014 Defra and its delivery network will continue to work closely with stakeholders to ensure we implement the CAP in the most straightforward way possible to minimise burdens and reduce risks of disallowance.

2. Direct Payments: Young Farmers Scheme

2.1. The CAP Regulation requires us to develop a Young Farmers Scheme (YFS) in England. Those eligible to participate will receive an additional payment that is broadly equivalent to 25% of their payment under the basic payments scheme for each of the first five years of the operation of their holding. We have some flexibility as to how this scheme is implemented.

Number of entitlements

2.2. We must set a limit on the number of entitlements or hectares for which the claim for the additional payment can be made. This must be between 25 and 90. We also have the option to set criteria which would require the young farmers applying to demonstrate that they have particular skills or training requirements in order to qualify.

2.3. We asked:

We must set a limit on the number of entitlements that can be claimed under the Young Farmers Scheme which must be between 25 and 90. What do you think should be the ceiling that can be claimed by an applicant to this scheme?

- **A limit of 25 entitlements (the lowest limit possible)**
- **A limit of 54 entitlements (the average farm size in the UK)**
- **A limit of 90 entitlements (the highest limit possible)**
- **Another option**

Please comment further if you wish, or explain what other limit you prefer.

2.4. We received 570 responses. As shown in the table below. These were fairly evenly split between support for the options of 25, 54 or 90 entitlements with a small minority advocating another maximum entitlement.

	Maximum of 25	Maximum of 54	Maximum of 90	Other
Number of responses	193	181	173	23

2.5. Of those who supported a maximum entitlement of 25, some indicated that this level of support would do the least to distort the market. Some suggested that support should start with an entitlement of 25 and be increased over time, but this is not permitted under the scheme rules. Of those who proposed a maximum entitlement of 54 a few indicated that using the national average (54) seemed to be a fair approach and would enable new entrants to operate a holding of a reasonable size that would offer the opportunity to be profitable. The Tenant Farmers Association supported using a maximum entitlement of 54 as the limit given that this is the size of the average farm in England.

2.6. The National Farmers Union, National Federation of Young Farmers Clubs, Country Land and Business Association, Central Association of Agricultural Valuers and National Trust all supported using 90 as the limit on the maximum number of entitlements to be supported under the Young Farmers Scheme. This was largely on the grounds that this would allow the biggest number of new entrants into farming, that it would maximise the benefits of the scheme and would support new entrants in the early years of their business. The National Trust also indicated that there was a case for the upper limit of 90 to be even higher for “genuine” new entrants rather than for those who may be benefitting from simply bringing forward succession in family farms. Dairy UK felt that maximising the number of entitlements would possibly provide an artificial incentive for farm restructuring. They pointed out that this could result in fewer larger farms and thus reduce the opportunities for farm ownership.

2.7. A small number of respondents argued that we should not operate a Young Farmers Scheme as this is not the type of support that will attract and develop new entrant young farmers. Others pointed out that the size of the holding needed to be profitable would vary with the type of farm and so setting a maximum limit would not seem to be sensible.

2.8. **We have decided to set the limit at 90 entitlements.** We believe that using the maximum limit available will help attract the highest number of entrepreneurial new entrant young farmers into farming, will maximise the benefits of the scheme and will most effectively support new entrants in the early years of their business. While it is not possible to accurately estimate how many applications will be made in advance of the Young Farmer Scheme opening we estimate we could fund payments to around 10,000 new entrants within the 2% national ceiling that we are required to set for this Scheme. We believe that this is significantly higher than the numbers likely to apply.

Eligibility Criteria

2.9. We stated:

Our preferred option is not to require those seeking to participate in the Young Farmer Scheme to meet additional eligibility criteria. Do you agree?

- **We should not add additional criteria**
- **We should add additional criteria.**

Please comment further if you wish, or explain what additional criteria you prefer.

2.10. We received 587 responses. Of those that responded just over 80% agreed that we should **not** require additional eligibility criteria while the remainder considered that we should require additional eligibility criteria.

	No eligibility criteria	**Yes eligibility criteria**
Number of responses	491	96

2.11. We received 491 responses supporting our proposal that we should **not** require additional criteria for participation in the Young Farmers Scheme, including from the National Farmers Union, National Federation of Young Farmers Clubs, the Country Land and Business Association, Tenant Farmers Association, Dairy UK and National Trust. The majority felt that to require criteria would add unnecessary complexity to the scheme, make it difficult for the Rural Payments Agency to administer; and increase administrative costs. Most attendees at the regional stakeholder events also held this view.

2.12. The National Farmers Union added that a very careful assessment should be undertaken to determine the likely demand for the scheme given that up to 2% of the budget can be used for this purpose and that it would be regrettable if the resources allocated to the scheme were not taken up and thus lost from the farming sector. They also stressed that we would need to confirm and explain the relevant rules and eligibility criteria for cases where the young farmer operates as part of a legal entity.

2.13. The National Federation of Young Farmers Clubs indicated that there should not be a requirement for those eligible for support under this scheme to also own their own land. They also stressed that this scheme would be important because it will provide additional support to young people seeking to set up their own businesses in what is a very competitive land market. They also identified a lack of access to loans and higher interest rates as problems faced by new entrants. They considered that the additional funds provided via this scheme would help mitigate against these costs and keep the business competitive with those that are already well established.

2.14. The remaining 96 respondents who expressed a view disagreed with our proposed approach and felt that we should require additional criteria. The key reasons suggested were that it was reasonable to expect those in receipt of additional support from CAP to provide something in return and that the need to possess qualifications would help the industry to be perceived as being professional. Of these respondents

54 made suggestions about what the additional eligibility criteria should be. These were:

- possession of farming qualifications (9)
- environment qualifications (13)
- hands on qualifications (9)
- other educational qualifications (4)
- production of a business plan (19)

2.15. The RSPB commented that the range of environmental challenges facing farmland, and the need for improved understanding of the linkages between farming and the natural environment across the farming sector meant support should be explicitly linked to environmental advice and training.

2.16. A number of other views were also raised in response to this question, in most cases by only a few respondents, but are summarised below for completeness, Some respondents considered that the scheme should be extended to include all new entrants to the sector. Others considered that is should be restricted to first generation farmers. Some respondents considered there was a need to encourage better succession planning and for a retirement scheme to open up opportunities for new entrants. Some responses noted that the scheme rules needed to be clear about how partnerships would be dealt with under the scheme and that care would be needed to avoid artificial transfers.

2.17. In light of the strong support expressed for our preferred option **we will <u>not</u> require those seeking to participate in the Young Farmers Scheme to meet additional eligibility criteria.**

3. Rural Development Programme

Background

3.1 In December we announced that for England the Government will, in each year of the CAP period from 2014 to 2019, transfer 12% of the budget from Direct Payments to farmers (Pillar 1) to Rural Development (Pillar 2). A review will be held in 2016 into the demand for agri-environment schemes and the competitiveness of English agriculture with the intention of moving to a 15% transfer rate in 2018 and 2019, the final two years of the CAP period.

3.2 With this rate of transfer we will be spending over £3.5bn on the next Rural Development Programme (RDP). This would rise to around £3.65bn with an increased transfer rate of 15% from 2018. We will be spending nearly £3.1bn on the environment over the life of the new programme. This will rise to nearly £3.2bn, the amount we spend in the current programme, if the transfer rate rises to 15% in the last 2 years. With a 12% transfer, we plan to spend around 87% on the Environment, 5% or £177m through the Growth Programme, and around 4% or £140m on farming and forestry competitiveness and on LEADER respectively.

3.3 We provided an analysis of responses as part of the announcement in December, and said we would respond in more detail in a number of areas: lessons learned from the current programme, our proposals for implementing a targeted environment scheme and more detail on our proposed farming and forestry competitiveness offer.

Lessons learned from the current Rural Development Programme

3.4 The consultation asked what lessons could be learned from the current RDP and how we could build upon its successes. The views expressed included:

- the environmental land management and Catchment Sensitive Farming schemes were highlighted as particularly successful;
- there were mixed views on the success of newer socio-economic schemes (Farming and Forestry Improvement scheme and Rural Economy Grant);
- there was some criticism of the way the skills framework was delivered;
- there had been difficulties in implementing the Rural Community Broadband Fund;
- there were mixed views on the success of the LEADER approach;

3.5 A number of practical suggestions were also made for improving delivery of the programme. We have set out below how we will build on experience from the current programme.

Environment

Environmental Stewardship, English Woodland Grant Scheme, and Catchment Sensitive Farming

3.6 We are replacing Environmental Stewardship and the English Woodland Grant Scheme with a single scheme. This will target improvements and maintain landscapes that underpin rural tourism, help to provide resources for farmland birds and pollinators and tackle at source water pollution. We are also reducing the number of prescriptive requirements for multi-annual agreements and the number of options available. More detail on the new scheme is provided below. Alongside this, we are reviewing the current Catchment Sensitive Farming scheme to ensure any future provision is aligned to the new elements of the Rural Development Programme.

Energy Crops Scheme

3.7 Defra set up the Energy Crop Scheme (ECS) to support farmers with the initial costs of planting a crop that would not convert into income for several years. Notwithstanding this support the area planted under the ECS was only 942 ha in 2012. The Government was not convinced of the value added by the scheme and therefore closed the Energy Crops Scheme at the end of 2013. The Government are not persuaded to have another similar scheme at this time.

3.8 Crops can be a useful source of energy but we need to balance the need for new forms of energy with the need to grow crops for food and we are working with departments including the Department for Energy and Climate Change (DECC) to make sure we get this balance right. The Government believes that food production must remain the primary goal of agriculture and the production of biomass for bioenergy must not undermine food security, in the UK or internationally.

Farming and Forestry Competitiveness

Farming and Forestry Improvement scheme (FFIS)

3.9 Demand for the Farming and Forestry Improvement scheme was high and the scheme has proved popular. However it was clear that decisions on applications were not made as quickly as they could have been, in part due to the high demand. One of the clearest lessons is that short periods during which applications may be submitted followed by periods when we are not accepting applications creates backlogs. This can cause delays in processing applications, and encourages applicants to rush to meet a deadline when the applications are in fact incomplete or unfinished. We believe that rolling deadlines would be the obvious way to get around this. Applications could be submitted throughout the programme, but we would consider them in batches, depending on the period during which they were submitted.

3.10 Asking for applications to be sent to each area office was not as efficient as asking for them all to be sent to one central office, tasked with logging and distributing applications for appraisal. This lesson has been taken into account in the latest round of FFIS which has just been launched in February 2014. Restricting applicants to a set list of eligible items allowed us to significantly streamline processes on eligibility. The streamlined process was also sufficient to meet audit requirements for smaller grants.

Skills Framework

3.11 In response to concerns about bureaucracy associated with the delivery of regional RDPE funded skills activity, a National RDPE Skills Framework was procured in 2012, enabling delivery of 16 nationally consistent Skills specifications (contracts) running until March 2014. This secured better value for RDPE funds, and feedback from contractors and the industry has been positive. Plans are being put in place to enable further RDPE funded skills delivery under the Framework during 2014/15 (and into the start of the new Programme). Skills activity during the new Programme will support the delivery of the broader Programme including the farming and forestry productivity scheme, and will complement activity supported by Local Enterprise Partnerships (LEPs) under the Growth Programme. We will look at how we can ensure this is targeted and delivered to meet some concerns raised around local demands and needs.

Growth

Rural Economy Grant

3.12 Demand for the Rural Economy Grant (REG) has also been high and it was seen as popular despite concerns, similar to those raised in relation to FFIS, about the processing of applications and decisions process. The concept of this kind of grant based support will continue, addressing Local Enterprise Partnership (LEP) priorities as part of the Growth Programme, and through a focussed, national farming and forestry productivity scheme that will address different issues and sectors.

3.13 Future grants will be made on a rolling basis, rather than rounds, to improve the quality of applications and projects (as also identified for FFIS). The Rural Economy Grant had many benefits as a larger game-changing funding opportunity for businesses and we will build on lessons learned. Most projects funded through this route are still underway. Further lessons from the delivery and impacts of REG will be used to refine the delivery of local growth projects and to improve farming and forestry productivity.

Rural Communities Broadband Fund

3.14 The Rural Community Broadband Fund, jointly funded by Defra and Broadband Delivery UK, is targeted in the 10% hard-to-reach areas that would not otherwise receive superfast broadband through commercial deployment or under the Government's existing £530m rural programme. The Fund is now closed to new applications. Under three rounds of the Fund, over 110 expressions of interest were submitted. Following projects being combined and others withdrawn, a total of 35 individual Full Applications have been invited to go forward, although not all will necessarily develop into full projects. To date, five projects have been approved under the Fund. Additional projects totalling around £20m are being developed or are under consideration and we expect more projects to be contracted by 31 March 2014 and money allocated.

3.15 An independent evaluation of the Fund has been commissioned and a report on the process and lessons learnt is due to be published in 2014/15. Future European funds are expected to be targeted in the final 5% hard to reach areas and we are currently working with the European Commission to set out how broadband should be supported in the future.

Paths for Communities

3.16 We expect to have delivered around £2m of support under the Paths for Communities scheme, which was introduced in 2012. An independent evaluation of the Paths for Communities scheme is currently underway. This will assess the socio-economic outcomes for local communities gained through improvements to the access network through the scheme.

LEADER

3.17 In our response in December, we set out our view that LEADER in the next Rural Development Programme will have a much greater focus on supporting rural jobs and growth. In terms of the overall balance of expenditure for LEADER, we envisage that nationally 70% of all projects must directly support the rural economy. This could for example be through creating and developing small and medium sized rural businesses. The remaining 30% of projects must also demonstrate that they too are making a contribution to improving the local rural economy by, for example, projects which increase visitors to a particular area thereby increasing spend on local rural business and services. The main priorities for investment through LEADER will be:

- support for micro and small enterprises and farm diversification;
- support for increasing farm productivity;
- support for rural tourism;

- support for increasing forestry productivity;
- provision of rural services;
- support for cultural and heritage activity.

3.18 We will seek to achieve a more even distribution of the £140 million budget across LEADER groups in the next programme. We are currently working on a methodology which will provide prospective LEADER groups with an indicative funding allocation as early as possible and to inform the Local Development Strategy (LDS). All LEADER groups will be subject to an open and competitive process in order to secure new programme funding. We do expect some changes in geography to occur mainly at the local level, which may in turn lead to slight adjustments in the overall coverage. We are also undertaking some additional analysis of LEADER areas, in response to the 2011 census data and the revised maps for rural England.

3.19 Our expectation is that LEADER groups and Local Enterprise Partnerships (LEPs) will work together to develop and agree rural economic elements of an LDS and to ensure that they complement wider LEP economic activity. In response to our LEADER research project recommendations, we are also looking at increasing the amount of co-operation between LEADER groups, both nationally and across Europe. More details on this will be published shortly.

3.20 In order to deliver our policy objectives, meet spending targets and our commitment to reduce delivery costs, Defra will retain a direct relationship with LEADER groups in the new RDP. This will involve local Defra staff working closely with LEADER groups to support and guide all aspects of delivery, performance management, verification and control.

3.21 The new EU Common Provisions regulation allows for up to 25% of each LEADER group's allocation to be spent on management and administration costs. However, in the current programme this has averaged out at approximately 17%. We are looking for further reductions to this figure, where this will not impact on projects, verification and control requirements. This will enable a greater proportion of LEADER funds to reach projects.

Other lessons learned

3.22 A number of other lessons learned raised by the consultation related to how we delivered the programme and to ensuring continuity. We have set out below the main lessons identified, recommendations put to us and our response to them:

Programme Continuity

Ensure continuity between programmes so that expertise and good practice developed under the current programme is not lost

3.23 To ensure a smooth transition in 2014 from the current Rural Development Programme for England (RDPE) to a new programme (2014 to 2020) we will deliver a package of measures that will continue to provide benefits. The package reflects the move to a more targeted funding approach in the new programme and avoids building up excessive commitments into the new programme. The package for 2014 includes:

- new Higher Level Stewardship costing about £26m a year. That includes offering Higher Level Stewardship agreements to those with eligible expiring 'classic' agreements and new agreements for Sites of Special Scientific Interest, other high priority cases and to meet Water Framework objectives including those related to Natura 2000 sites;
- new Uplands and organic Entry Level Stewardship. We will also offer Entry Level Stewardship for land coming out of 'classic' schemes in 2014 that does not qualify for HLS. This will cost about £4m per year. This will ensure a smooth transition for areas that have been under environmental management for a long time;
- catchment sensitive farming capital projects and advice of up to £14m, including for Water Framework Directive-related action on Natura 2000 sites;
- up to £0.5m to fund essential one-off capital investments for forestry grants and £6 million on new woodland planting;
- making available around £1m to continue some existing strategic projects; and
- making available up to £3 million of RDP funding to help maintain LEADER local delivery capacity and expertise from the current programme.

Stakeholder and Applicant Involvement

Engage closely with stakeholders and potential applicants on the design of new schemes or grants

3.24 We will continue to involve stakeholders and where possible beneficiaries both locally and nationally to ensure that the design of the new Rural Development Programme schemes is targeted appropriately and is easy for customers to access. We will want to test schemes with stakeholders and potential beneficiaries to ensure we get them right and will continue to test our new CAP IT system to ensure it is easy to access and use.

Communicating what is available

Provide a clear view of what is available across the programme

3.25 We will work across delivery bodies to keep the messaging as simple as possible and provide a greater awareness of potential funding opportunities. In the run up to implementation of the CAP in England we are developing a clear communications strategy to help ensure existing and potential beneficiaries are aware of the changes to CAP and know what is available to them.

3.26 The new CAP Delivery system will also play a part in making customers aware of the range of schemes and the varying eligibility criteria for each. This will mean better engagement and partnership with stakeholders to ensure successful delivery via open and regular dialogue and provision of consistent information.

3.27 We will also build on our existing relationships and networks with key interested parties for Rural Development particularly, including through our Programme Monitoring Committee members and our main external stakeholder groups for the programme and respective schemes. We are required to put in place an England National Rural Network to help ensure we promote and publicise the programme, and this will build on the existing network.

RDPE Network

Strengthen the dissemination of good practice, including links with other networks and better engagement by delivery bodies with the RDPE Network

3.28 Discussion and consultation with stakeholders and emerging findings from an independent evaluation of the current England National Rural Network have highlighted a number of important learning points from the current programme. Current awareness of England’s network is lower than might be expected. Its objectives, role and relationship with Defra are not widely understood. The network will have a clearer coordination role and we will ensure stakeholders have more involvement in its governance. We will broaden our communications to include all aspects of the programme and use it to build on some of the good practice sharing it has undertaken under the current programme.

3.29 We are also looking to put in place better engagement and communications across the CAP, and across European Structural and Investment Funds (ESIF).

Application Process

Simpler application process and guidance: Provide a simpler (or common) application process, with information provided in Plain English and guidelines that are simple and easy to follow. Provide clear templates for those applying for funding and clearer details and definitions of the evidence required for claims.

Provide decisions on applications more quickly: Improve the application process, both in terms of the time taken to apply for and consider applications, and the simplicity of processes and guidance

3.30 The current regulations state that applications may only be approved after proportionate checks have been carried out. We will continue to ensure checks provide assurance that funding is well spent and appropriate checks are carried out. However, Defra is committed to making the application process as straightforward as possible within the constraints of the regulations. Planned improvements include a common registration system across all schemes thus avoiding duplication and double data entry, a staged application process where the information supplied by the applicant is proportionate to the stage in the process and to the size of the grant requested and all literature in Plain English with clear explanations and instructions. This will also lead to the reducing the processing time for applications and feeding back decisions.

Put in place a good quality IT system for applicants to use.

3.31 Under the current programme we have used a variety of different IT systems and databases to manage and run schemes. This has sometimes meant a lack of clarity about what is available under the programme and a lack of join up with wider CAP schemes. We are putting in place a new IT system which is designed specifically for applicants to use to identify funding opportunities, view their applications, manage their payments and communicate with Defra on progress. Applicant information will be common across Delivery Bodies and the Rural Payments Agency. This should mean applicants will not duplicate information. The system will include a new land register and will enable customers to confirm and update changes in their land and claims for agreements, grants or subsidies available to them.

3.32 An assisted digital offer will be available to ensure that those who do not have access to broadband or IT can be supported to apply. A digital by default strategy is being developed with its design ensuring that the applicant is in control of their information. This should help streamline the application process and make payment of claims simpler. All Rural Development Programme scheme information will be a single place, on line, allowing potential beneficiaries to view the full offer available across schemes

Advice

Good quality advice: Retain trusted advice and expertise to support the programme within Defra and its delivery bodies, and balance this when deciding on the level of administrative resources required to deliver schemes. In particular, recognise the importance of good quality advice in supporting environmental land management schemes to help ensure environmental outcomes are understood and land managed effectively

3.33 We will be working to develop advice for the new CAP in line with commitments made in the Advice, Incentives and Partnership Approaches (AIPA) review, including how we will implement a Farming Advisory System across the two Pillars. We will also consider the role of industry-led partnerships, including in the Campaign for the Farmed Environment, in delivering the complementary messages alongside more formal advice for both Pillar 1 and Pillar 2 schemes.

3.34 We set out below, under our response to the new environment scheme, our approach to retention of good quality advice within Defra and its delivery bodies. Advice will be available to support applications for our Productivity and Growth Programme schemes, although we will look increasingly to provide this advice online via guidance to applicants and beneficiaries and detailed Q&A including administrative and technical information. Our LEADER scheme will continue to include support and advice from dedicated Local Action Group officers.

Coordination between national, sub-regional and local approaches

Build on local and sub-regional approaches that have worked well, in particular the Rural Growth Network approach

3.35 The Government announced separate funding for the pilot Rural Growth Networks (RGNs) in the Autumn Statement in November 2011. Five pilots were subsequently established and funded through section 31 of the Local Government Act 2003, giving them the flexibility to test different models and mechanisms for stimulating sustainable rural economic growth they considered appropriate for the circumstances in different types of rural area.

3.36 The five pilot RGNs selected, Cumbria, Warwickshire, Heart of the South West, North East and Swindon and Wiltshire are now starting to provide sound and practical examples of what does and does not work. A key aim of the initiative was to share the lessons learned from the pilot RGNs. To support this we have established a continuous programme of monitoring and evaluation so we can adequately capture the lessons learned as they emerge. We have already begun to refer to these in our ongoing discussions with Local Enterprise Partnerships. Through disseminating these lessons we hope to support other LEPs and other local partners across the country in taking action to stimulate sustainable economic growth in their rural areas, particularly so that they can take them into account as they develop and implement their ESIF strategies and Strategic Economic Plans.

Ensure that there is a clear balance between national consistency and local delivery through the new Local Enterprise Partnership approach, building on the lessons learned from regional delivery via the RDAs and national delivery via schemes like REG and FFIS.

3.37 We will work closely with national and local stakeholders to design schemes that provide a balance between national and local priorities and needs. We will involve LEPs in the development of the new programme and the decision making process for our Productivity scheme, providing local advice at the scheme development stage and advising on local conditions, needs and opportunities.

Scheme monitoring and information

Be proportionate in monitoring schemes

3.38 Applying a set of key controls is important to ensure that grant funding is used for projects that would not have otherwise started, and to ensure that those that are offered funding, are successful and achieve the terms and conditions of their offer letter. Good contract management is necessary to ensure funding is well spent and achieves outcomes for both individuals and business and the wider economy or environment. Our processes will be designed to achieve this. They must also be able to stand up to EU audit scrutiny to ensure we obtain full EU funding. If we suffer disallowance for inadequate controls in our processes, that cost has to be met by Government, and ultimately the taxpayer.

3.39 We will take the opportunity to simplify processes where EU legislation allows. For example, as well as continuing the reimbursement based on actual costs incurred, we will look to apply. payments based on standard scales of unit costs, lump sums, and flat rates in appropriate circumstances such as in the provision of skills training. This should mean applicants need to submit less supporting paperwork with claims. We will also look to apply proportionality to the selection process for grants i.e. applying a simplified set of selection criteria for small value grants.

Remove checks and counter checks before LEADER grants are approved

3.40 A key lesson will be to continue to ensure checks provide assurance that funding is well spent and appropriate checks are carried out. We will set out new guidance for LEADER to support the new scheme approach over the next nine months.

Ensure monitoring systems are consistent across all delivery agencies and are captured in a single system. Targets for projects should be able to report on a live basis, not just when projects complete.

3.41 The new CAP IT system will be the data management system for the Programme. We expect that it will be able to provide reports on individual schemes as well as provide a clear view of the benefits across the programme. In addition to providing monitoring and evaluation on completed projects, it should have the capacity to produce a range of reports on an on-going basis.

Agree a standardised set of reporting requirements to enable better monitoring and evaluation of the programme

3.42 A standardised set of detailed reporting requirements has been agreed between the European Commission and member states. The new CAP-Delivery IT system should help provide better reporting of progress across the programme.

The new environmental land management scheme

3.43 On 19 December, Ministers announced the new Rural Development Programme would have an environmental focus, that the new environmental land management scheme will be a more targeted scheme and that Entry Level Stewardship (ELS) would end. The consultation asked a range of questions concerning the scheme design. It explained that we would continue to develop our proposals on implementation of the new scheme in discussion and continuing partnership with stakeholders which took account of the views expressed and that we would set out firm proposals for implementing a targeted scheme in early 2014.

3.44 Although the environment will be the main focus of the new programme, resources will be constrained. The budget for new environmental scheme amounts to about £3.1bn over the six years of the next programme. However, £2.2bn of that (71%) is already accounted for by current agreements which do not expire until part way through, or in some cases beyond, the next programme. Nonetheless we have concluded that the new scheme should be broad in scope as now contributing to the delivery of outcomes on biodiversity, soil and water issues, the historic environment, landscape, genetic conservation and educational access. It would also retain the general aim of helping the natural environment to adapt to climate change by, for example, reducing greenhouse gas emissions as well as providing and protecting carbon storage. Overall, biodiversity should be the priority for the scheme and we will seek to maximise opportunities to deliver biodiversity, water quality and flooding benefits together (synergies).

Scheme structure

3.45 The new scheme will bring together, as a single scheme, Environmental Stewardship (ES) and the England Woodland Grant Scheme (EWGS). It will include all the elements necessary for an applicant to put together an agreement whether they are a farmer, forester or other land manager; conventional or organic. There will be no underpinning by other agreements, such as with the current Higher Level Stewardship (HLS) agreements which have to be underpinned by an ELS agreement, and no separate strands for Uplands or Organics. There will be only one multi-annual agreement per holding. A core principle of the new scheme is that agreement contracts are between the individual and the competent authority. It is that individual contract which determines obligations, responsibilities, payments and penalties under the inspection regime.

3.46 There will be a single menu of multi-annual and capital items, although some will not be available to certain land managers due to eligibility e.g. options available only for organic farmers. Forestry also has special requirements. An approved Woodland Management plan will be required for most woodland managers.

3.47 We are reviewing the Catchment Sensitive Farming (CSF) scheme, which currently offers advice to farmers alongside capital grants funded under different components of the current Rural Development Programme. As we review CSF we will be looking to ensure any future scheme dovetails with the capital grants and multi-annual agreements offered under the new Programme.

Why are we making these changes

3.48 Agri-environment schemes in England have received a great deal of independent scientific scrutiny over recent years. This included Professor John Lawton's review of wildlife sites and ecological networks in England. For ELS these reviews highlighted the following issues:

- 'deadweight' (paying for things that would have happened anyway);
- the need for improved spatial targeting;
- the need to deliver a more effective ecological network;
- the removal of the free choice of options given to ELS applicants to ensure the uptake of the right combination of options;
- need to enhance this by getting farmers to collaborate to coordinate their plans;
- need to improve targeting of woodland creation to deliver greater benefits for water and soil quality.

3.49 In addition there is a need for agreements which operate across the wider countryside and are not site specific like HLS. Agreements which cover the broader countryside are necessary to ensure buffer sites and establish stepping stones between habitats and ecological corridors. Landscape scale agreements are also necessary to generate the critical mass of habitat or features necessary for objectives such as farmland bird numbers, dealing with diffuse water pollution in a catchment or providing widespread resources for pollinators.

3.50 The design of the new environmental land management scheme will therefore:

- end ELS;
- integrate agri-environment and woodland schemes;
- target the scheme to focus spending on areas of particular environment priority;
- within these areas it will direct the choice of environmental management options to deal directly with those priorities;
- create incentives to promote clusters of farmers to work jointly to further optimise those benefits;
- focus on specific areas of land particularly suited to deliver the environmental benefits.

Priority sites offer

3.51 There is widespread recognition of the value of HLS. We would propose to continue with similar arrangement in the new scheme through a priority sites offer (the so-called "upper tier"). It would be largely analogous to HLS and retain similar processes. Because of the bespoke and complex nature of these types of agreements it would effectively be by invitation following assessment of expiring HLS and new candidate sites. Given the focus on designated and priority sites we might expect to see a high level of renewals from HLS. However, there would be no presumption that all current agreement holders would get agreements. Selection would reflect past performance and new policy priorities for the new scheme.

Priority areas offer

3.52 The new scheme approach seeks to deliver an improvement in environmental effectiveness from the current ELS while retaining its affordability by minimising the involvement of specialist advisers from the delivery body. This is the priority areas offer (the so-called "mid-tier"). The aim is to get agreements in the right places with the right options in the right combination. To do this we will identify areas which present the best opportunities to deliver the scheme's objectives and then scoring applications to secure the best quality "offers". Coordination would not be obligatory. Rather, high quality individual applications addressing local priorities will characterise these agreements. However, we are giving further consideration to how best any group applications could be positively recognised in the selection criteria for applications.

Capital works

3.53 The EU rules allow for investment in physical assets for non-productive investments which contribute to agri-environment climate objectives. These are commonly termed as capital items. All agreements whether priority sites or priority areas will be able to include a 2 year capital works plan alongside multi-annual scheme options. It must be essential to the achievement of environmental outcomes of the overall agreement. The environmental benefit of including the capital works would be recognised in the scoring system. The measures which can support capital grant items for water objectives have been included in the programme design and are going through the established process on verification and payment rates.

3.54 Under the current Catchment Sensitive Farming scheme, capital grants are offered with advice to some farmers. We are reviewing this scheme and will take into account how capital grants for water quality objectives will be available and targeted from 2015, under the Rural Development Programme.

Universal small scale grants

3.55 This proposal received widespread support as long as spending was properly controlled. This would offer a limited range from the list of capital options available under the new scheme, restricted to those items that a reasonably competent and professional land manager, with supporting digital guidance, can deliver to the required standard. This implies a list composed of hedgerow laying, coppicing and gapping up, hedgerow trees, stone wall restoration and repair, earth bank restoration and casting up, bat boxes and Woodland Management plans (WMPs). This list will be finalised as part of the implementation phase, taking account of the need to balance budgetary spend. This offer should be simple, efficient and rapid in terms of the application, the funding decision and the payment process. The principle should be to maximise the environmental value of spend by quickly approving the grant and incentivising delivery on the ground. It would operate with a floor and ceiling. A floor is justified by the need for a proportionate administrative cost. It would operate within the funding limits determined by EU rules on using a 'simplified scoring approach'. We currently envisage the ceiling being set at a maximum of £5,000.

Agreement duration

3.56 EU rules state that agreements should generally be undertaken for a period of five to seven years. However, where necessary in order to achieve or maintain the environmental benefits sought, Member States may however determine a longer period for particular types of agreements and extend them annually or renew as shorter length agreements. We consulted on the principle that five year agreements should be the norm. Although the majority of respondents did not disagree with the principle there was general acknowledgement on the need for exceptions and flexibility in favour of longer agreements if necessary to secure particular environmental outcomes. The new scheme should therefore offer 5 year agreements, with the option of annual extensions for a further two years. This maximises flexibility, reduces the scope for significant budgetary commitment into the next programme and may reduce land manager uncertainty and administrative burdens during that transition.

3.57 Additionally, we should continue to offer 10 year agreements (and very exceptionally longer for where effectively permanent land use change is sought) in cases where such exception is clearly justified in recognition that different environmental benefits can be expected to be realised at different rates.. As now**,** where 10 year agreements are offered they will include a 5 year break clause, which can be implemented by either party without financial penalty.

Identifying areas of opportunity

3.58 The response announced the replacement of Entry Level Stewardship with a scheme which will target improvements. It made clear that the new environment land management scheme will be a significant contributor to meeting the Government's environmental objectives. It must also deliver greater value for money for the taxpayer. This will mean having a more targeted and focused scheme. A targeting framework is currently being developed, built up from a large number of datasets drawn from a range of sources and covering the scheme objectives (for example the single Priority Habitat Inventory and a range of section 41 species distribution data for biodiversity, value and risk assessment of National Character Areas, National Parks, Areas of Outstanding Natural Beauty on landscape, the SHINE database for scheduled monuments and a priority order ranking of Water Framework Directive target areas for the new scheme measures). This data can be weighted to reflect particular priorities enabling the framework to produce a targeting map which clearly illustrates the areas where there is the best opportunity for delivery of multiple objectives and synergies. It also identifies areas where there may be only single objective priorities. These datasets and the resulting maps of priority areas will be used to produce targeting "statements" which can describe to applicants more precisely the priorities in their area.

3.59 Stakeholder engagement at the national and local level is a critical part of the targeting process. Work is progressing to incorporate further data and refine framework weightings and reflect decisions on prioritisation. This includes involving stakeholders and partners nationally and developing a process to engage with local interests (such as Local Nature Partnerships) in finalising the detail of the targeting methodology and its application. Stakeholders and partners will be increasingly involved in refining scheme targeting, firstly at a national level in early 2014 and then at a more local level in the spring. This engagement will help to refine the framework and ensure that targeting information/statements reflect the right balance between national priorities and local delivery.

Selection criteria

3.60 To ensure the choice of the right options are incentivised in the right areas, selection criteria will need to be put in place alongside the targeting framework. The priority site offer will be by invitation, but the process will also include auditable assessment and scoring as required under the regulations. The delivery body will define and agree these criteria with stakeholders. The intention is to use a system analogous to the current HLS selection system. In practical terms this will mean that expiring ES and EWGS agreements will be reviewed nationally against the agreed criteria to generate a pipeline and prioritised list. The prioritised list will be generated each year from a 'pool' which would include both agreements under HLS and EWGS that are expiring in the year preceding the January start date and any other candidate sites which have been identified by stakeholders, delivery body advisers or other suitably qualified individuals.

3.61 Sites on this list would be invited to apply and, subject to their applications meeting the agreed criteria and passing quality control checks, they would be offered agreements. There would be no assumption that any existing HLS agreement would be offered a new agreement automatically. Existing agreement holders who are not invited to apply under the priority site offer will be advised in sufficient time to submit an application under the priority areas scheme.

3.62 Under the current ELS, applicants can choose any option irrespective of their area, as long as they meet the qualifying points threshold to secure an agreement. Priority area agreements would instead be expected to respond to the opportunities identified in their area through a national targeting framework. All individual applications would be scored on objective criteria. Those applications with the highest scores would be offered agreements. The implementation phase will need to establish a minimum threshold, define the criteria used and the weightings to be applied. These will need to provide the ability to discriminate between applications, be simple, transparent and robust enough to manage the anticipated application volume within the timeframes defined for the scheme and meet customer service expectations.

3.63 We will work closely with partners and stakeholders to develop a process which is as straightforward and effective as possible with selection criteria which are fair and which ensures we can deliver the right outcomes.

Coordination

3.64 The EU rules explicitly recognise the scope for collaboration through a new cooperation measure. It is a flexible measure with a focus on among other things environmental projects, environmental and forestry plans and pilots. It could support feasibility studies, preparation of management plans and facilitation and implementation of projects over the life of a commitment.

3.65 In the consultation we proposed the possibility of supporting clusters or groups of coordinated agreements across the landscape. We did not prescribe the kinds of groupings that would be involved in such a landscape scale approach. Rather we would want to create a framework which would enable existing or newly formed groupings to propose where and how such an approach could be particularly beneficial. However, there were concerns over the challenge of getting farmers and other land managers to act in concert at the landscape scale and that this might militate against the attempts to make the new scheme simpler and more effective. It was suggested that targeting and more directed option choices might achieve similar outcomes in a more straightforward way.

3.66 Given these views, we have concluded against making pre-application funding for the new scheme applicant groups universally available. The new scheme will rely primarily on a more targeted regime and directing option choice as the primary means to ensure the right options are selected in the right areas. However, we believe there is still merit in supporting co-ordination. We will therefore also offer competitive access to a facilitation fund for a number of specific projects which encourage co-operation for groups or clusters of farmers, land managers and other local partners in areas that are consistent with the targeting maps being drawn up. We will continue discussion with stakeholders and other partners to develop this cooperation concept based on the principles of Nature Improvement Areas (NIAs) which have already been operating domestically for some time. However, particular objectives of this funding will be to ensure there is co-ordinated delivery across land holdings and at sufficient scale to deliver our environmental outcomes and supporting and empowering farmer led approaches.

Advice

3.67 The new Rural Development Regulation requires Member States to ensure that agreement holders are provided with the appropriate knowledge and information required to implement funded operations, including relevant expert advice. In the new scheme face to face advisory support for priority site agreements will be similar to the current HLS. The required actions and management on these sites are often complex, potentially costly and therefore justify the specialist support and advice which can be provided by the delivery body.

3.68 Ending Entry Level Stewardship and instead introducing a competitive element for funding within a more targeted approach, both spatially and in terms of policy priorities, with more directed choice of management options, means that it will no longer be necessary to have a publically contracted advice stream to promote the choice of the most appropriate options. However, in principle applicants who form groups at application stage should be able to draw down further funding for on-going advice from trusted third party support as a scheme option.

3.69 There is already significant private sector advisory activity supporting development of high quality applications. In forestry this advice is privately funded. It will be important that publically funded advisory support in RDP does not subvert this development. There will be continuing provision of contracted advice as part of the new scheme delivery of CSF and all applicants will benefit from on-line guidance.

Entry requirements

3.70 In the consultation many respondents made a clear link between the level at which the baseline was set and the degree to which farmers would be able to access the scheme. The scheme cannot pay for activities to meet regulatory requirements such as on pesticides or fertilisers (the legal baseline) or cross compliance. There is merit in setting a clear and common environmental baseline for scheme entry, providing this does not act as a significant disincentive to applicants by requiring them to undertake works for which they are not compensated. We will be working with stakeholders to determine the appropriate elements which should be included in this environmental baseline prior to submission of the Rural Development Programme document for EU Commission approval.

3.71 It should be noted that although these proposals take into account the current cross compliance requirements (which are part of the legal baseline) they may require some adjustment in the light of the outcome of decisions on cross compliance.

Options and prescriptions

3.72 The revenue and capital options to be available have been the subject of a detailed process which began in late autumn 2012. Twelve Option groups involving delivery bodies and stakeholders were formed to review the evidence and experiences under previous schemes. The review led to a significant rationalisation of the options. It is proposed that certain options should be dropped, others amalgamated and some new ones introduced. The net result is a 67% reduction in the number of multi-annual options from 414 to 138 and a 19% reduction of capital items from 168 to 137.

Payment rates

3.73 EU rules require that the payment rate for each revenue option must be determined using the income foregone approach. The process for determining this rate is well established in England and was followed for ES and the previous 'Classic' schemes. Cost data has been provided via an external supplier and this has been used to calculate income foregone, using a partial budgeting approach. Having derived the payment rate for the option, within the context of the relevant agricultural system, all the outputs are then externally verified. The cost of capital items is also determined against an agreed specification.

3.74 All outputs are reviewed by the external verifier, who then comments on their validity, with his statement forming part of the Programme Document submission. Proposed and verified payment rates based on current assumptions will be available at the end of February. We will need to take a final view about the intervention rate (i.e. whether to pay 100% of the cost or whether in certain circumstances this rate should be lower). It is difficult to compare current and future rates as most options have changed or are new, but as they are based on income forgone, they reflect the underpinning performance of the sector. Payment rates for arable/soil and water options will typically be around 20% higher than current rates. Grassland/upland options will be at around the same rate. Capital items will increase significantly.

Delivery

3.75 It is our intention to continue to work closely with stakeholders and partners to ensure the scheme design outlined in this response is implemented effectively and practicably to deliver our environmental objectives. We must also, as discussed above, ensure that the scheme is affordable in the current financial climate. Defra and its delivery bodies are actively considering how to take forward the implementation phase to ensure the scheme is delivered as efficiently as possible and is ready for applications in 2015. For instance, we have simplified scheme requirements and obligations to the benefit of agreement holders and to minimise impact, and where additional record keeping may be required as part of the new controls, we will take this into account in the payment review. Work is underway assessing the detail of delivery, including the CAP Delivery IT programme which will be critical to the new scheme delivery.

3.76 A new requirement is that both the Managing Authority and the Paying Agency (the Rural Payments Agency) sign off the Programme as verifiable and controllable. The European Commission highlight a number of areas where the current Programmes give cause for concern, including emphasising the importance of IT checks and some of the challenges where things have to be controlled in the field. Minimising visual inspections would additionally benefit cost reductions. The value of this process is to ensure we minimise any potential disallowance risks from the outset. However, it is a challenging process which may have a material impact on the final list of options which form part of the scheme.

Productivity – increasing the competitiveness and efficiency of our farming, forestry and other land-based sectors

3.77 Ministers announced in December 2013 that the next Rural Development Programme would include a budget of £141 million, or 4% of the total RDP budget, to support productivity and competitiveness in farming and forestry. However, we said we would provide more detail on the focus of our proposed farming and forestry competitiveness productivity offer.

3.78 Consultation respondents stressed the need to improve the value for money delivered through the Rural Development Programme compared with its predecessors. Based on these views, our evidence of impact and the views expressed in the consultation, we will design productivity schemes to:

- support **innovation**: creating the right conditions for the development and translation of new technologies and practices within the farming and forestry sectors is one of the strongest drivers of long-term productivity. We will consider how to support the improved translation of research into the field, the cascading and exchange of knowledge and development of skills to facilitate take-up of innovative practices. We will use productivity funding to support the aims of the Agri-Tech Strategy and will consider how to link funding to the Agri-Tech Centres of Innovation. We will support the new European Innovation Partnership for agricultural productivity and sustainability, building links between researchers, advisers, and producers, by making funding available for the establishment and running of Operational Groups;

- increase our focus on **skills and training**: we will continue development of specific technical agricultural or forestry skills and consider how to support general business management training alongside the Growth Programme delivered through Local Enterprise Partnerships. We will consider new and more flexible mechanisms for delivering training that will provide the most substantial impact on industry performance;

- increase emphasis on informal **co-operative activities**: our evidence suggests that public funds will go further when supporting activities with multiple participants. Not only will this include funding for activities which such a group might undertake, but also costs associated with their running;

- increase support for projects delivering **multiple benefits**: for example, projects which tackle environmental problems or animal health issues alongside improving agricultural or forestry output or efficiency.

3.79 We will also continue to discuss with stakeholders how we can improve the delivery of the productivity scheme, building on the lessons learned from the Rural Economy Grant (REG) and Farming and Forestry Improvement Scheme (FFIS) in particular. This includes:

- **targeting** of support to make the impact of public funds go further. Depending on the issue tackled this may limit expenditure to certain locations, sectors, or by the performance of the applicant's business;
- **improved scheme communications** to make sure that people understand our schemes, the supporting information they will need to provide, and when funding is available, to enable forward planning;
- **improved processes**, such as the speed with which we deal with applications and ensuring the complexity of the application process is proportionate to the level of funding requested.

3.80 We are continuing to look at the suitability of offering loans rather than grants in some cases. Support will be provided by a combination of capital grants, training, and advisory services. We will continue to work with interested parties throughout 2014 on the schemes that will take this forward.

Implementing a European Innovation Partnership for agricultural productivity and sustainability

3.81 In December, we said that we will use Rural Development Programme funding for innovation to bolster investment already made in the UK to accelerate application of research, and expect to fund European Innovation Partnership (EIP) Operational Groups to do this. This will form part of our farming and forestry competitiveness

Productivity offer. We will work with interested parties to further develop this approach over the next nine months.

4. Market Management

Introduction

4.1 The Single Common Market Organisation (sCMO) regulation lays down rules for the common organisation of agricultural markets. It is directly applicable in all EU Member States.

4.2 There are two key provisions in the regulation where Member States can decide what approach they wish to take. First, Member States may decide whether or not to make it compulsory for farmers to have written contracts with processors or distributors. Secondly, Member States may decide whether to formally recognise "Producer Organisations" or "Inter-Branch Organisations" in additional agricultural sectors.

4.3 As part of the CAP consultation exercise we explained that the Government did not propose to implement these provisions, which are unlikely to add significant value in England. However, we undertook to revisit the case for introducing these options in the future if there is evidence that domestic businesses are at risk of being placed at a commercial disadvantage compared to their EU counterparts.

4.4 We asked:

Do you agree that we should not introduce a requirement for written contracts between producers and processors/distributors at this stage?

Do you agree that we should not make it possible for producer organisations and inter-branch organisations to be formally recognised in additional sectors of agriculture?

Do you have any comments on this approach or any of these assumptions?

Written Contracts

4.5 269 people or organisations responded to this issue. A large majority (81%) felt that compulsory written contracts should not be introduced in England. A large majority (81%) felt that compulsory written contracts should not be introduced in England. Most farmers already have a written contract with the processing company or distributor that buys their produce. The National Farmers Union noted that it is preferable for industry to work on a collaborative basis to ensure that there are fair contractual arrangements in place between producers and their customers. The Country Land and Business Association, the Food and Drink Federation and

Dairy UK stated that contracts are a commercial matter for determination between the relevant parties.

4.6 Several respondents, including the National Farmers Union, commented that the need for legislation on contracts should be kept under review. Those who were opposed to the Government's position felt that extra safeguards were needed to protect the interests of small farmers.

4.7 On the basis of these responses, **we have concluded that we should not bring in a compulsory requirement for written contracts at this stage**.

Producer Organisations

4.8 We received 214 responses on this issue. The majority (72%) agreed with our proposal that we should not extend the scope for recognising Producer Organisations (POs) or Inter-Branch Organisations (IBOs) to additional sectors of agriculture. The National Farmers Union, the Food and Drink Federation and the Agricultural Industries Confederation felt that this facility would add only limited value at the present time. Other forms of co-operation are already available under EU and UK competition law, such as agricultural co-operatives. Other respondents thought that POs and IBOs involved unnecessary complexity and structures that would not naturally suit domestic farmers. In most sectors, well-established trade associations or representative bodies already provide high quality market information and best practice guidance, hence the facilitation of IBOs would add little value.

4.9 Some respondents feel there is an imbalance in bargaining power within the food supply chain and collaboration between farmers is therefore important. The possibility of recognising POs and IBOs should therefore be kept under review; in particular, if this model is further developed as a tool of EU agricultural policy over the coming years.

4.10 In the light of the majority of responses, and particularly those of major stakeholders, **we have concluded that we should not make it possible for POs and IBOs to be formally recognised in additional sectors**. However, this could be re-examined at any stage, especially if there is evidence that domestic businesses are at risk of being placed at a commercial disadvantage compared with their EU counterparts.

4.11 For the avoidance of doubt, groups of producers that meet key criteria set out in the sCMO regulation will continue to be entitled to be formally recognised as a Producer Organisation in the following sectors: fruit and vegetables, dairy, olive oil and table olives, silkworm, and hops. Inter-branch organisations in the olive oil and table olives sector and the tobacco sector will also continue to have this right of recognition.