Intra-UK Allocations Review

September 2019

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Foreword

We were asked specifically by the Secretary of State to focus on fairness across the four regions of the UK. It is clear that a desire to reinforce the stability of the UK was part of the underlying rationale for the review. Fairness in this context, we were to learn, is a notoriously subjective concept. We made every effort to ensure that our research was evidence-based. In particular we opened a dialogue with the European Commission and the Cabinet Office, as well as the devolved administrations. We are grateful for the support of devolved administration officials in assisting us with our enquiries. Our objective was to find out as much as we could about the controversial decision in 2013 with respect to convergence funding. We are publishing this report after 7 months of investigation; consultation with over 50 industry, academic, NGO and devolved administration representatives; and deliberations over our conclusions. While we did not receive all the material we asked for, we did receive a very substantial amount of documentation. We have also backed this up with a new layer of statistical evidence.

We have been able to agree on factors by which the allocation of the notional 'convergence' pot for 2020-22 should be determined, in a way that recognises the historical concern of Scottish farmers and the Scottish Government, based on the EU's own approach to external convergence. But we are not going to be able fulfil the instruction to recommend a fair solution *and* to remain within the condition in our terms of reference for our recommendations to be fiscally neutral, because we cannot tolerate a reduction of funding to farmers in any part of the UK.

Our recommendation addresses the long-standing concern of those in Scotland that an injustice had been done and, according to the analysis we commissioned, would see a modest increase for Welsh farmers, recognising that they also have not been major beneficiaries from the convergence windfall since 2014. Assuming our request is met, farmers in England and Northern Ireland would see no change.

We considered carefully the option of maintaining current allocations, which would have avoided a request for some additional funding. But we are conscious of the need to find a solution that creates a foundation for a sustainable post-2022 funding settlement, without a continuing perceived injustice undermining that long-term solution. We are aware that the current allocations may well be the logical starting point for a new settlement. In the worst case therefore, the current and persistent disagreement over the 2013 allocation decision had the risk of being built into that future funding settlement if not resolved at this point, thereby creating an inherent unfairness, as it would be perceived in Scotland. We therefore needed to acknowledge the Scottish perspective and to address it, by recommending a time-limited per-hectare measure on which basis to allocate the convergence 'pot' only.

We explicitly state that this would not be a suitable measure for a wider or longer-term agricultural funding settlement.

At the same time, it is not credible – given the acute uncertainty currently affecting the sector as a result of the delay to the UK's exit from the EU – to announce this summer that any farmer should experience a reduction in their income. This is particularly true for Northern Ireland (for whom a per-hectare measure would lead to a modest reduction from the status quo) given the particular issues facing agriculture in the part of the UK sharing a land border with the EU. But the formula would most affect English farmers.

We are therefore calling on Ministers to contribute a modest sum from the Exchequer to offset the reductions that would otherwise be experienced by Defra and the Northern Ireland Department for Agriculture, Environment and Rural Affairs (DAERA) under the per-hectare convergence allocation formula we recommend. Without wishing to prejudge the UK government's response to our recommendation, we hope such a suggestion would be considered positively.

To recall – we were asked to bring about fairness across the four regions of the UK. We do not think fairness can be achieved in the absence of stability for the agricultural sector. We have always, throughout the work of the Review, paid great attention not just to the views expressed by the various stakeholders from different parts of the UK but also to the effects on the possible interaction of the four nations. Hence our conclusion, which we believe has a serious basis. The implementation of our recommendation will however continue to require a sensitivity to the legitimate concerns of all sections of the UK farming community.

Executive summary

Introduction

We begin this report by looking at the context for our recommendations: what farming is like in England, Scotland, Wales and Northern Ireland, and the similarities and differences in farming practices across the UK. We considered what representatives of industry, environmental organisations and the devolved administrations told us, including the uncertainty farmers felt due to the UK's impending exit from the EU, and the wider questions of fairness that informed our recommendations.

We were asked to make recommendations on factors to inform the allocation of farm support 'convergence' funding between the different parts of the UK for the financial years 2020/21 and 2021/22. External convergence was a concept introduced by the EU in 2013, and for the EU's 2014-20 budget cycle the UK was allocated some extra Common Agricultural Policy (CAP) 'Pillar 1' funding as a result of the 'convergence' methodology used by the EU. Since the UK will not be bound by the CAP rules after 2020 (and the continuation of EU policy will be funded by the UK Exchequer) the concept of convergence will technically disappear. But the UK government will retain a 'notional' convergence element within the farm support budget, which will be maintained until 2022. The reason for retaining this conceptual convergence funding after it would logically disappear is so that this review can seek to address a disagreement about the original distribution in 2013 of this additional convergence funding between the four parts of the UK.

The 2013 decision

Ministers in the Welsh Government and the Northern Ireland Executive – and in Defra, representing English interests – argued in 2013 that the additional money should be allocated between them on the same basis as the overall budget had been divided prior to 2013 – the historical basis. They argued that the additional funding allocated to the UK was a windfall: an accident because of the methodology the EU happened to use to achieve their objective of rebalancing the CAP budget across the whole EU in favour of newly acceded Member States. There was no pre-existing problem in the UK that this funding was designed to address, they said, and the existing allocation had been agreed following a fair and evidence-based process back in 2005. The Scottish Government argued that the UK only received this additional funding because land in Scotland qualified the UK for an uplift under the EU's formula: one that sought to increase funding to those hectares receiving less than the EU average. The other devolved administrations had also argued that – because the overall Pillar 1 budget was being reduced at the time – their farmers would see an unacceptable reduction in their support payments if Scotland received the full amount. Ultimately the Defra Secretary of State decided to allocate the convergence budget equally, so that every part of the UK saw a 1.6% reduction in its overall Pillar 1 budget.

Recommendation

However, we have been persuaded that if the EU had intended only to increase the support to Eastern European new Member States, rather than to reduce the disparity between hectares across the whole EU, it could have chosen a different formula, which did not benefit Member States with more developed agricultural sectors. We therefore understand why Scottish farmers feel that they should have had more money, and why Scottish stakeholders have argued in their evidence to us that they should receive a greater allocation over the two-year period in the scope of our review. We are sympathetic particularly because, for the preceding six years over which external convergence funding will have been paid, *all* administrations benefited from this windfall, despite the vast majority of their land receiving payments per hectare above the EU's average. Most importantly, all stakeholders argued that the long-term funding settlement after 2022 should be fair to all parts of the UK. That is outside our remit, but we do want to try to create a stable foundation for that future settlement to be sustainable for many decades to come. We therefore concluded that addressing this disagreement – this perceived injustice – was something we had to do, to allow everyone to move on and focus on an agreed and hopefully objective basis for long-term agriculture funding. We also noted that the convergence element is a relatively small proportion of the total Pillar 1 budget, so the vast majority of funds would continue to be distributed on the historical basis, regardless of any changes we recommended.

We are therefore recommending that the convergence element of the 2020-22 farm support budget be allocated according to the proportion of land in each part of the UK that in 2013 received less CAP funding per hectare than the EU average. Whilst technically beyond the scope of this review, we also want to make clear that we believe that **this would be an inappropriate basis on which to allocate total agriculture funding beyond this period over the long term**. Our recommendation is a one-off solution to address a perceived historical injustice, in order to allow a fair future settlement to be developed without a previous inter-administration disagreement hanging over it.

Without an additional contribution from the Exchequer, a change in the allocation on this new basis would lead to a modest reduction in the funding received by the UK's Department for Environment, Food and Rural Affairs (for England) and the Northern Ireland Department of Agriculture, Environment and Rural Affairs (DAERA). At this time of acute uncertainty, we cannot however make a recommendation that would see a reduction in funding to farmers in any part of the UK. **So we are calling on the UK government to offset the budgetary reductions that would otherwise be felt by those in England and Northern Ireland, so that we can fulfil our objective of recommending a fair allocation** (recognising Scottish concerns over the original 2013 decision) whilst not disadvantaging any other part of the UK. In the current climate, we hope this suggestion will be considered positively.

Avoiding reductions in support for farmers is particularly important to us because of the impact they are feeling now due to the uncertainties created by the delay to the

UK’s departure from the EU. When we embarked upon this review, we expected – along with many others – that the UK would have left the EU by the time we had completed our review: we hoped to complete our work in about three months. We planned to report not long after the appointed exit date of 29 March, having consulted interested organisations and the devolved administrations. Over the course of the review, farming and environmental bodies and the devolved administrations became more and more involved in preparations for a ‘no-deal’ EU exit; our consultation exercise was delayed; and the proposed exit date slipped: first to 12 April and then to 31 October. During this period farmers continued to face increasing uncertainty, had to defer business decisions, and saw prices for their produce fall.

We therefore want to take the opportunity, at this time especially, to underline the value of farming: to local communities, to the countryside, and to the UK economy as a whole. **We encourage governments in all parts of the UK to recognise this value by protecting, if not enhancing, funding for agriculture in future.** We also suggest that the UK government agrees with the devolved administrations principles for the allocation of that funding after 2022. They should recognise the social value of upland farming in particular and the challenges facing those practising it, as well as the potential for delivering environmental public goods alongside sustainable food production, wherever in the UK that potential exists.

1. Introduction

1.1 About the review

1. The independent review of the intra-UK allocation of ‘convergence’ funding was announced in October 2018 by the Secretary of State for Environment, Food and Rural Affairs.
2. The review’s terms of reference required the panel to look at what factors should be taken into account to ensure an equitable intra-UK allocation of domestic farm support convergence funding to the end of this parliament. The review’s conclusions were to be advisory.
3. The terms of reference said that the review would:
    - inform domestic intra-UK agricultural funding allocations under the farm support manifesto commitment [to continue to commit the same cash total in funds for farm support] to the end of the current parliament, limited to the quantum of convergence funding;
    - consider a wide range of factors, reflecting the environmental, agricultural and socio-economic circumstances of each of the four parts of the UK; and
    - be fiscally neutral within the envelope set by the manifesto commitment.
4. The review panel’s overarching requirement was to ensure fairness across the four countries: this has shaped this final report.
5. This final report concludes the review.

1.2 How the review was carried out

6. The panel initially took time to consider the background and current context of convergence funding, why it became a controversial issue and how they might recommend an ‘equitable’ allocation for the future ‘convergence’ element of the agricultural budget across the UK for the specified 2020-22 period.
7. The panel has met with agricultural economists from across the UK and has also engaged with various political and industry stakeholders, as well as Ministers from the Scottish and Welsh Governments and senior officials from the Northern Ireland Department of Agriculture, Environment and Rural Affairs (DAERA). Liaising with a wide range of stakeholders afforded the panel a greater level of understanding of the issues at stake. We are therefore very grateful to all of the organisations and individuals that took their time to provide the panel with information and to participate in consultation meetings.
8. This report details the findings from this engagement.

1.3 Governance of the review

9. The independent review was chaired by Lord Paul Bew of Donegore, supported by a team of advisory panel members appointed by the Prime Minister after consultation with the devolved administrations.

10. Lord Curry of Kirkharle, Jim Walker CBE, Rebecca Williams and Leo O’Reilly CB were nominated to serve on the panel by the relevant administrations in England, Scotland, Wales and Northern Ireland respectively.

11. The Department for Environment, Food and Rural Affairs (Defra) and HM Treasury (HMT) provided the secretariat to the review.

2. Farming in the UK today

1. Farming plays an important role in the shaping of the landscapes and communities across the UK. In 2018, 71% of the land in the UK (17.4 million hectares) was utilised agricultural area (UAA),[1] and in 2017 there were approximately 217,000 farm holdings.
2. Farming is a complex industry, with farm structures and outputs across the UK diverging to make the most of the natural assets available.
3. Factors such as soil fertility, terrain, climate and water availability all influence the structure of the farming industry and contribute to the diversity of the sector. There are variable factors over which farmers have little or no control, such as the weather and market conditions, which can make farm incomes volatile from year to year and mean that farming enterprises are uniquely exposed to risk.
4. The value of goods produced by farming is high (nearly £27 billion in 2018) but it can cost a lot to produce these goods (£17 billion in intermediate consumption in 2018).[2] As a result, small changes in output or input can result in large percentage changes in farm incomes.
5. It is important to consider farm support in the context of longer-term trends, the prevailing conditions that affect the industry, and the factors that influence variations in production and costs across different industry sectors.
6. This review considered the future allocation of convergence funding to the devolved administrations. While there is no direct correlation between farm income and the allocation of convergence funding, this chapter provides some context for the nature of farming in England, Scotland, Wales and Northern Ireland. It also discusses some of the similarities and differences in farming practices across the four regions.

2.1 The Common Agricultural Policy

7. Since the UK joined the EU in 1973, its policy framework for agriculture has been shaped by the Common Agricultural Policy (CAP). The CAP covers policy areas including farm funding support, market intervention measures and trade, and has allowed the development of a framework for funding between Member States.
8. Following reform in 2005, the CAP has had two key types of funding: the first is for direct income support (Pillar 1) and the second is for rural development (Pillar

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[1]UAA is land used for arable and horticulture crops, uncropped arable land, common rough grazing, temporary and permanent grassland and land used for outdoor pigs
[2]https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/802006/evidence_compendium_16may19.pdf

2). The UK currently receives around €4 billion in CAP funds each year – 80% allocated to Pillar 1 and 20% allocated to Pillar 2.[3]

9. Pillar 1 funding is currently the main mechanism for providing funding to farmers in the UK. In the UK, these payments are allocated to farm businesses based on the amount of agricultural land they maintain. In order to receive these payments, farmers must adhere to minimum standards relating to the environment, animal and plant health and animal welfare, collectively known as 'cross compliance'.

10. Pillar 2 funding is designed to deliver environmental benefits and to support rural areas and communities. The funding is comprised of socio-economic schemes and grants for rural communities and businesses, farmers and other land managers.

11. Pillar 2 is co-financed by regional, national or local funds and gives authorities at each level the flexibility to create their own rural programs. It is designed to help farmers contribute to overarching priorities in the CAP, including agricultural competitiveness, sustainable management of natural resources and climate action, and the development of rural economies and communities.

2.2 Leaving the CAP

12. At the time of publication of this report, the UK is due to leave the EU on 31 October 2019. When the UK leaves the EU, it will also leave the CAP. This will mark a change in the way in which agriculture policy is implemented in each of the four parts of the UK: each government in the UK has published their own proposals for the future direction of agriculture policy. For farmers, this could signify a fundamental shift in the way in which the farm support measures and funding are administered.

2.3 Farming across the UK

Agriculture in the UK: the economy, communities and people

13. In 2018, agriculture contributed £9.6 billion to the UK economy. The agricultural industry is a key contributor to the food and drink sector and provides wider benefits to other industries including engineering, manufacturing, transport and haulage. Agriculture also plays a vital role in contributing to rural economies, with the agricultural supply industry worth £17 billion per year.[4]

14. In 2018, the UK's total income from farming was £4.7 billion. England accounted for the majority of this total (71%), followed by Scotland (14%), Northern Ireland (8%) and Wales (7%).

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[3] Table 10.7 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/815303/AUK_2018_09jul19.pdf

[4] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/815301/agricaccounts-tiffstatsnotice-09jul19.pdf

15. However, the impact of agriculture goes far beyond its contribution to the British economy alone. Agriculture in England, Scotland, Northern Ireland and Wales accounts for nearly half of the food consumed in the UK[5] and brings extensive benefits to rural communities, wider society and the natural environment. Land management practices deliver environmental outcomes, including flood alleviation and water management, carbon storage and sequestration and protection and management of biodiversity, while also contributing wider value to society through beauty, rural heritage and supporting public engagement with the natural environment.

16. The agricultural sector employs nearly half a million people, representing 1.5% of the total UK workforce. Most of these people are predominately involved in business ownership or management.

Land use

17. Utilised agricultural area (UAA) represents roughly 71% of the land in the UK and makes up 217,000 farm holdings. Of the 17.4 million hectares of UAA, just over a third is under arable and horticulture crops, with cereals comprising the greatest proportion of this farmed land.

Figure 1: Types of land on agriculture holdings in the UK

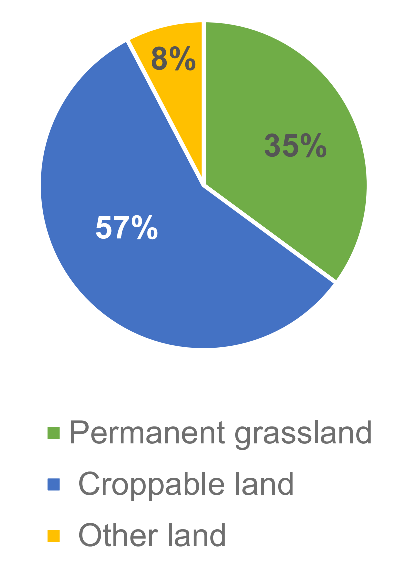
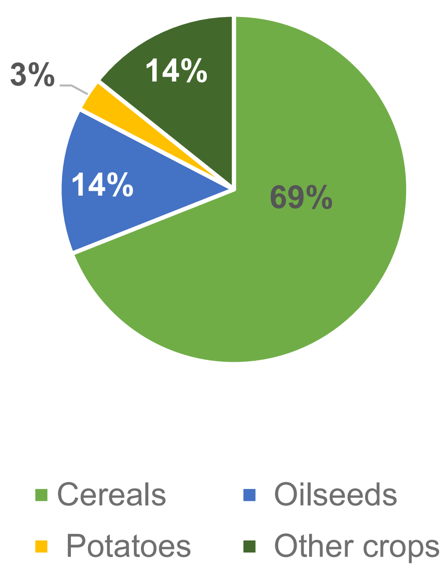


Figure 2: Arable crops grown in the UK



[5] Based on farmgate value, 'Food statistics pocketbook 2017': https://www.gov.uk/government/statistics/food-statistics-pocketbook-2017

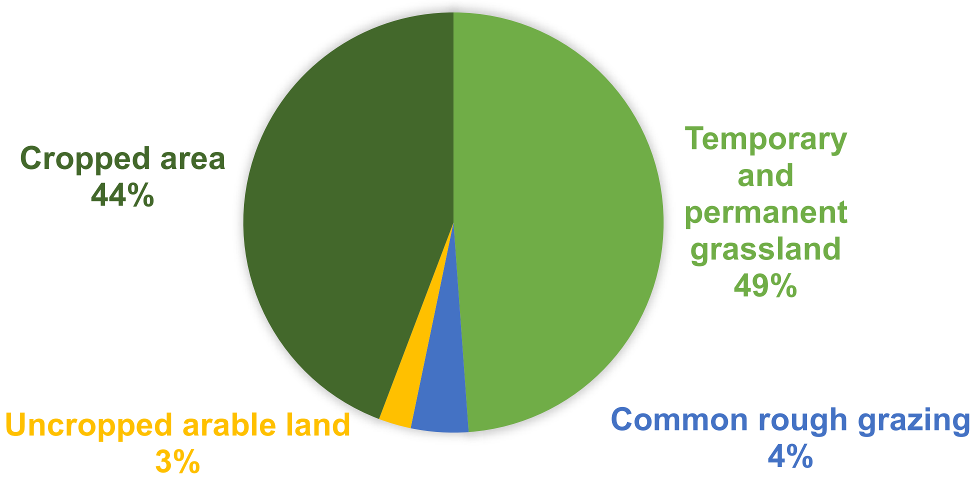
Farming in England[6]

Land use

18. In England, 69% of the total land area is farmed. Of this land, 44% is cropped, with arable crops making up the largest proportion of cropped land.

19. Nearly half of UAA in England is permanent grassland.

Figure 3: Agricultural land use in England in 2018



20. There are almost 4 million hectares of arable crops in England, of which 2.7 million hectares are used for cereals and 0.6 million hectares are used for oilseeds.

Farm structures

21. There are around 106,000 commercial farm holdings in England.[7] Just over half of the holdings in England are wholly owned; 21% are mixed tenure, mainly owned; 13% are mixed tenure, mainly tenanted; and 14% of farms are solely tenanted. Grazing livestock (lowland) is the most prevalent farm type, followed by cereals, general cropping and grazing livestock (less favoured areas or LFA). In England, 42% of farms are used for grazing livestock (including LFA and lowland).

22. There are significant variations in the size and scale of farms throughout England. The average (mean) farm size in England is around 87 hectares.

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[6] Unless otherwise stated, data in this section is from the 2018 June Agricultural Survey: https://www.gov.uk/government/statistical-data-sets/structure-of-the-agricultural-industry-in-england-and-the-uk-at-june

[7] Commercial farm holdings are defined according to the EU Farm Structure Survey Regulation (EC 1166/2008) and include all holdings with more than 5 hectares of agricultural land, 1 hectare of orchards, 0.5 hectares of vegetables or 0.1 hectares of protected crops; or more than 10 cattle, 50 pigs, 20 sheep, 20 goats or 1,000 poultry

Although fewer in number, cereal farm holdings tend to have a greater amount of utilised land: 71% of cereal farm holdings are at least 50 hectares, whereas 77% of grazing livestock (lowland) holdings are smaller than 50 hectares.[8]

23. In England there are also large regional environmental differences, which have a significant influence on production across the land. The National Character Area Profiles[9] initiative, published by Natural England in 2014, divides England into 159 distinct natural areas, each defined by its combination of landscape, biodiversity, geodiversity, history, and cultural and economic activity.

Farm incomes[10]

24. Over the period 2015/16 to 2017/18, 14% of farms in England made a profit of more than £75,000, while 16% of farms in England made a loss. If direct payments were not included, this figure would rise to 42%.

25. The average farm income in England for this period was £43,000, with poultry farms recording the highest average farm business income, followed by general cropping and dairy farms. Grazing livestock and mixed farms were the least profitable on average.

26. Direct payments represented 58% of farm business income when averaged across all farm types over this period, although the dependency on direct payments varied significantly between sectors. For mixed farms, the amount received from direct payments was greater than that received from farm business income over this period. For lowland grazing livestock, LFA grazing livestock and cereal farms, direct payments were equivalent to almost *all* the farm business income (86%, 88% and 73% respectively). In 2017/18, 66% of farmers supplemented farm income with diversification activities that used farm resources. Around a quarter of farmers had more income from these activities than from agricultural production.

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[8] Defra June Survey of Agriculture: https://www.gov.uk/government/statistical-data-sets/structure-of-the-agricultural-industry-in-england-and-the-uk-at-june

[9] https://www.gov.uk/government/publications/national-character-area-profiles-data-for-local-decision-making/national-character-area-profiles

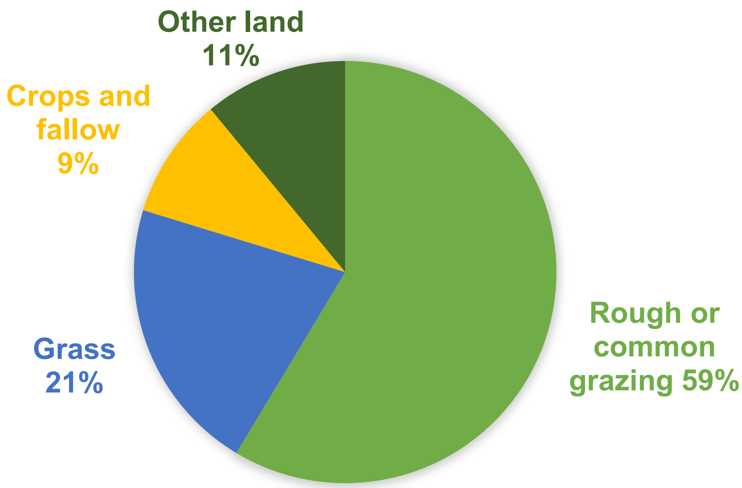
[10] Source: Farm Business Survey, 3-year average 2015/16 to 2017/18

Farming in Scotland[11]

Land use

27. In Scotland, 80% of land is utilised for agriculture. The majority of agricultural land in Scotland is permanent grassland, and most of this is used for the grazing of livestock.

Figure 4: Agricultural land use in Scotland in 2018



28. Over 3.6 million hectares of Scotland's land is rough or common grazing, and a further 1.3 million hectares is grass. 574,000 hectares of Scotland's land is used for crops or fallow. Of this cropped area, the majority is used to grow cereals and oilseeds (predominately barley and wheat).

Farm structures

29. There are around 51,000 farm holdings in Scotland. Approximately 66,600 people are employed in agriculture, over half (56%) of whom are farm occupiers.

30. In terms of the distribution of land area between agricultural holdings, data from June 2016 shows that a relatively small number of very large holdings account for a high proportion of land area, with 9% of holdings accounting for 76% of the land. The most prevalent farm types are those growing forage (21,000), followed by sheep and cattle farms (15,000). These two farms types also account for the greatest share of land use (1.29 million hectares and 3.37 million hectares respectively).

[11] Unless otherwise specified, data on agriculture in Scotland in this section is drawn from the 'Scottish Agricultural Census 2018': https://www.gov.scot/publications/results-june-2018-scottish-agricultural-census/

Farm incomes

31. In the years 2015/16 and 2016/17, subsidy payments were higher on average than farm business income across all farm types, with the exception of general cropping. Estimates for 2017/18 indicate that farm incomes have risen on the previous year, and the average farm income based on the latest available data was £35,400. However, subsidy payments remain important to farm incomes, with 60% of farms businesses making a loss without subsidies. Without subsidies, this loss would be £7,400 on average.

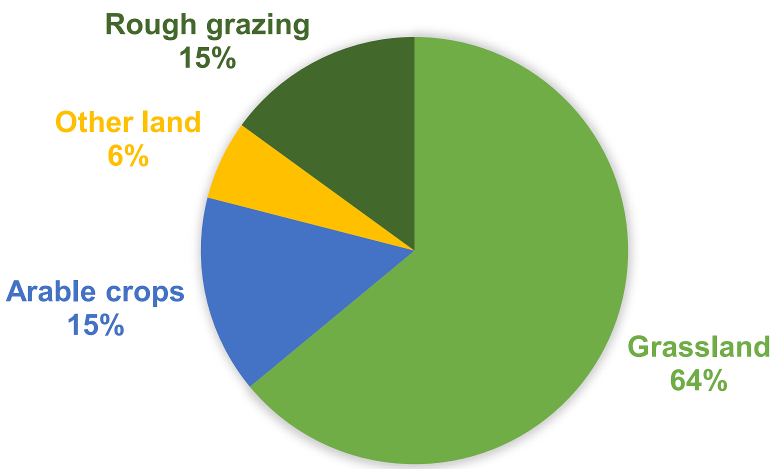
32. Direct payments account for £36,600 of farm income on average. LFA sheep and beef farms have the lowest farm incomes and are the most dependent on subsidies, making a loss of £27,400 on average without subsidy.[12]

Farming in Wales[13]

Land use

33. The total land area on agricultural holdings in Wales is around 1.72 million hectares, and there are over 180,000 hectares of common rough grazing. Agricultural holding and common rough grazing combined accounts for 90% of the total land area of Wales. Significant parts of land in Wales is hilly or mountainous and around 80% of Welsh agricultural land is designated LFA.

Figure 5: Agricultural land use in Wales 2018



34. Permanent grassland (64%) and rough grazing (15%, excluding common grazing) account for the largest proportion of land on agricultural holdings.

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[12] https://www.gov.scot/binaries/content/documents/govscot/publications/statistics/2019/03/scottish-farm-business-income-estimates-2017-18/documents/scottish-farm-business-income-estimates-2017-18/scottish-farm-business-income-estimates-2017-18/govscot%3Adocument/scottish-farm-business-income-estimates-2017-18.pdf

[13] Unless otherwise specified, data on agriculture in Wales in this section is drawn from the 'June Census of Agriculture and Horticulture': https://gov.wales/survey-agriculture-and-horticulture-june-2018

Combined, they represent nearly 1.4 million hectares of UAA. The area of crops grown stands at around 94,000 hectares, with barley and wheat accounting for nearly 50% of the cropped area. Arable land accounts for approximately 15% of the farmed area.

Farm structures

35. There are approximately 35,000 farm holdings in Wales, and the average farm size is 48 hectares. There are around 40,000 principle farmers in Wales and 13,000 farm employees[14] accounting for 15 staff members per 10 farms. Given the nature of agricultural land in Wales, grazing cattle and sheep on LFA is the most prevalent farm type, accounting for approximately 30% of farm holdings. In contrast, cereals, general cropping and horticulture farms account for a combined total of around 3% of the total number of holdings.

Farm incomes[15]

36. Average farm business income across all farm types in Wales was £34,600 for the year 2017/18. This represented a 39% rise on the previous year in real terms. This rise was due to a significant increase in income on dairy farms, rising substantially from £31,300 in 2016/17 to £82,400 in 2017/18. This demonstrates the significant variations in income each year and the difficulty in drawing conclusions based on a year in isolation.

37. Average farm business incomes in 2017/18 for cattle and sheep farms were £26,900 (LFA) and £24,000 (lowland).

38. There is wide variation in the proportion of income to farms from subsidy payments. However, with the exception of dairy farms, on average, basic payments make up the largest proportion of farm business income. Over half of all farms were either operating at a loss or would be operating at a loss if subsidy and diversification activities were discounted. LFA cattle and sheep farms are the most reliant on subsidy payments, with more than 60% making a loss without subsidy payments.

Farming in Northern Ireland[16]

Land use

39. Roughly 78% of the total land area of Northern Ireland is used for agriculture, with over 1.02 million hectares of agricultural land and 35,000 hectares of

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[14] This includes regular and casual workers but not self-employed people or contractors who may also work on the farm. For further explanation on methodology see: https://gweddill.gov.wales/docs/statistics/2018/181127-survey-agriculture-horticulture-june-2018-en.pdf

[15] Unless otherwise specified, data on farm incomes in Wales is drawn from ‘Farm Incomes in Wales, 2017-2018’ annual report: https://gweddill.gov.wales/statistics-and-research/farm-incomes/?lang=en

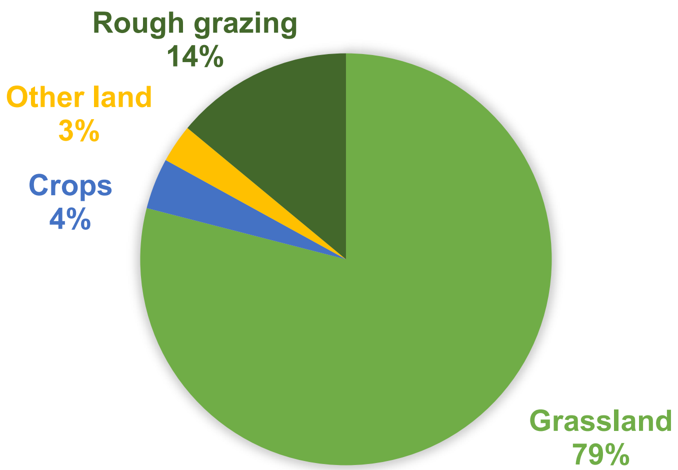
[16] Unless otherwise specified, data on agriculture in Northern Ireland in this section is drawn from the ‘Statistical Review of Northern Ireland Agriculture 2018’

common grazing. The majority of agricultural land is grass, and 70% of farmed area in Northern Ireland is LFA.

40. Livestock farming is predominant in Northern Ireland: 94% of all of the farms keep either cattle or sheep.

41. The total cropped area occupies approximately 45,000 hectares, representing 4.4% of the total area farmed. Only 12% of farms produce arable or horticultural crops. The total area of cereals grown in 2018 was 29,700 hectares, with barley the main crop grown, followed by wheat. In 2018, 3,600 hectares of the cropped

Figure 6: Agricultural land use in Northern Ireland in 2018



area was used for potatoes and 2,800 hectares for horticultural crops (mainly apple orchards and vegetables).

Farm structures

42. There are nearly 25,000 active farm businesses[17] in Northern Ireland. The majority of holdings (77%) are classified as very small[18]. Most of these farms are classified as LFA and are unlikely to provide any full-time employment. There are also around 2,800 small farms, which cover 20% of the agricultural area and contribute to sectors such as poultry and sheep. Medium and large farms account for the remaining 12% of all farms, covering 32% of agricultural land area and are concentrated in the dairy, pig and poultry layers sectors.

43. Of all farm businesses in Northern Ireland, 60% are cattle and sheep (LFA) and 20% cattle and sheep (lowland), while just 1.1% depend predominantly on cropping. Most farms contain owned land and around half include some land that

[17] Farm businesses having one hectare or more of farmed land and those with under one hectare having any cattle, sheep or pigs or with significant poultry or horticultural activity
[18] Farm business sizes are determined by a measurement of farms' Standard Labour Requirement

is rented. Just over half of all farms are owner-occupied, 44% are mixed tenure and 5% are wholly rented or leased.

Farm incomes[19]

44. Average farm business incomes for Northern Ireland for 2018/19 are estimated at £26,030, representing a decrease of 23% per farm from £33,870 in 2017/18 – which was an increase from the 2016/17 average of £20,206.

45. In 2017/18, direct payments accounted for an average of 80% of farm business income across all farm types, with an average farm business income of £6,745. However, there is significant variation across farm types. Pig, dairy and mixed farms returned a positive farm business income when subsidy receipts were excluded, while cattle and sheep (LFA) and cereals farms returned the highest losses per farm on average when direct payments were discounted.

Summary

46. Land types have an influence on the agricultural sector in each part of the UK. In Scotland, Wales and Northern Ireland, agricultural land is largely grassland and grazing land, whereas more land in England is suitable for growing crops. Reflecting this, in Scotland, Wales and Northern Ireland livestock production is prevalent, while in England there is a broadly similar share of land utilised for both crop and livestock production.

47. Scottish farms are on average the largest in the UK; conversely, the average farm size in Wales and Northern Ireland is roughly half that of the UK average. The average farm size in England is just over half of the UK average.

48. Average farm business income across all farm types was the highest in England for 2017/18. Average farm business incomes were next highest in Scotland, followed by Wales and Northern Ireland. However in each of these administrations the total average farm business incomes were similar.

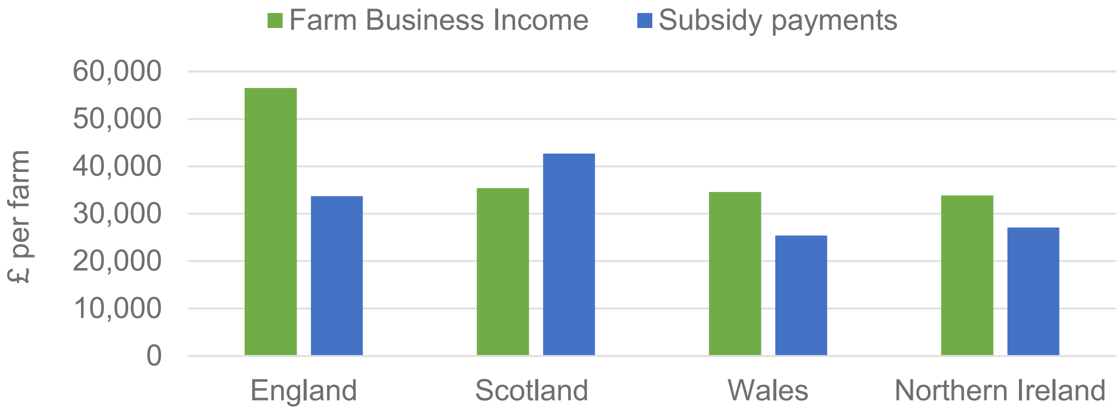
49. There is also variation in the extent to which subsidy payments contribute to farm business income across the UK. In 2017/18, on average farms in England had a farm business income of £22,800 across all farm types when basic payments and agri-environment schemes were not included. Over the same period, farms in Wales and Northern Ireland recorded farm business incomes of £9,100 and £6,800 respectively, when subsidy payments were not included. In Scotland, the

[19] Farm Incomes in Northern Ireland 2017/18: https://www.daera-ni.gov.uk/publications/ni-agricultural-incomes-2018

average farm business would have made a loss of £7,300 in 2017/18 without Pillar 1 and Pillar 2 support.

Source: Farm Business Survey

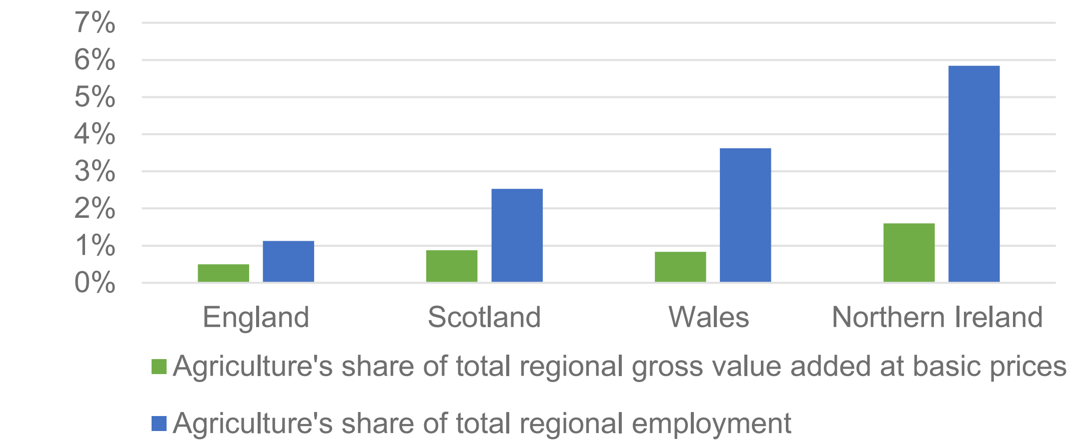
Figure 7: Farm Business Income compared to subsidies 2017/2018



50. The relative contribution made by farming to the economies in each part of the UK is varied. It is greatest in Northern Ireland, followed by Wales. The relative share of total regional employment in agriculture is also higher in Northern Ireland than in any other part of the UK. In contrast, the relative share of total contribution to the economy and to regional employment in England is smaller than any other part of the UK.

Source: Table 3.2, Agriculture in the United Kingdom 2018

Figure 8: Employment in the agriculture section compared to gross value added to the economy 2017



2.4 Future support for farming

51. Beyond its role in food production, agriculture brings a wide range of benefits to our society – to the economy, to the landscape and to the natural environment. However, these benefits are often not rewarded fully by the market: farming is not always a profitable business. The information on farm incomes included in this chapter gives a snapshot of the current importance of government funding to some parts of the agricultural sector.

52. Government funding is particularly important in light of the uncertainty surrounding the UK's future relationship with the EU. While not unique to the agricultural sector, this uncertainty could have a particular impact in Northern Ireland, given its land border with an EU Member State, and the volume of agricultural produce that passes through Dublin to markets in the south of England and the rest of Europe.

53. Under the devolution settlements of Scotland, Wales and Northern Ireland, agriculture is a devolved policy area. The CAP is the regulatory framework for the whole of the UK, with some specific permissible variation resulting in divergence in agricultural policy between each administration.

54. Leaving the EU means that the UK will leave the CAP, and all parts of the UK will require legislation to bring forward new agricultural policies to determine how their respective administrations will support their farmers in a way that reflects their unique circumstances, including their respective farming and food sectors, wider economies and natural environments.

55. In preparation for these changes, each administration has undertaken consultations and engagement activities with a view to informing their respective policies for supporting farmers once the UK has left the EU.

England

56. The UK government consulted on its proposals for agriculture policy and future support for farmers through the 'Health and Harmony: the future for food, farming and the environment' consultation in 2018. Views were invited on plans for a new agricultural policy in England, underpinned by the principle of paying 'public money for public goods'[20] – an idea introduced in the UK government's 25-Year Environment Plan.

57. Central to the UK government's plans in England is the intention to reduce and phase out direct payments over an 'agricultural transition' and to introduce a new

[20] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/684003/future-farming-environment-consult-document.pdf

environmental land management scheme, through which farmers and land managers will receive payment for the environmental benefits they deliver.[21]

58. In addition to these plans on future support for farmers, the UK government outlined proposals to simplify the Countryside Stewardship scheme during the agricultural transition; to improve farming productivity; and to strengthen transparency and fairness in the supply chain.

59. In September 2018 the UK government introduced the Agriculture Bill. The Bill legislates mostly for England, giving power to the Secretary of State to implement these policies. Schedule 3 of the Agriculture Bill extends many of these powers to Wales, and in Schedule 4 some of these powers apply to Northern Ireland. The Bill also includes some UK-wide clauses in areas reserved to the UK government, covering international obligations and competition.

Scotland

60. The Scottish Government set out its proposals for future agriculture funding in its June 2018 consultation 'Stability and Simplicity: Proposals for a rural funding transition period',[22] with an approach that follows the four principles of stability, simplicity, sustainability and security.

61. The document explained the Scottish Government's approach for future rural policy until 2024. The proposals allow for a five-year transition period. During this time, the Scottish Government intends to broadly retain current CAP support mechanisms, including direct payments, while also identifying where changes could be made to improve efficiency and effectiveness. It also proposed piloting potential new schemes for longer-term policy.

62. On 10 January 2019, the Scottish Government announced its intention to introduce a rural support bill to the Scottish Parliament during this parliamentary session. It did not take any powers in Defra's Agriculture Bill.

63. The Farming and Food Production Future Policy Group will focus on the period beyond 2024. They will support the Scottish Government in developing long-term policy and delivery options for rural Scotland, based on principles including sustainability, simplicity, innovation, inclusion, productivity and profitability, which were agreed in Parliament.

Wales

64. The Welsh Government previously set out high level proposals for a new land management programme to replace the CAP in its consultation 'Brexit and our Land'. These proposals included a multi-year transition and a land management

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[21] https://www.gov.uk/government/publications/the-future-for-food-farming-and-the-environment-policy-statement-2018/health-and-harmony-the-future-for-food-farming-and-the-environment-in-a-green-brexit-policy-statement
[22] https://www.gov.scot/publications/stability-simplicity-proposals-rural-funding-transition-period/

programme comprised of two support schemes - economic resilience and public goods.

65. Following considerable response and debate a more detailed consultation was published on 9 July 2019.[23] 'Sustainable Farming and our Land' proposes a new approach called a 'Sustainable Farming Scheme' which will be closely aligned to the principles of sustainability.

66. The Welsh Government elected to take powers in the Agriculture Bill to ensure that it could continue to make payments to farmers in the short term, announcing that it intended to introduce bespoke Welsh legislation in the next Assembly term.

Northern Ireland

67. In 2018 DAERA published its 'Northern Ireland Future Agricultural Policy Framework: Stakeholder Engagement' report, setting out a long-term vision for the farming sector in Northern Ireland.[24] Key outcomes identified included increased productivity, improved resilience, environmental sustainability, and an efficient, competitive and responsive supply chain.

68. Through its stakeholder engagement process, DAERA sought views on a 'Transitional Support Regime, 2019-2021', with direct payments continuing until 2021 (within limited changes in 2020-21 scheme years) and a new agricultural support framework post-2022.

69. In the absence of a Northern Ireland Assembly, the Agriculture Bill legislates for Northern Ireland, until an Executive is restored and can introduce its own primary legislation to the Northern Ireland Assembly.

[23] https://gov.wales/revised-proposals-supporting-welsh-farmers-after-brexit

[24] https://www.daera-ni.gov.uk/sites/default/files/consultations/daera/NI%20Future%20Agricultural%20Policy%20Framework%20-%20Stakeholder%20Engagement%20-%20FINAL.pdf

3. Why do we have convergence funding?

1. Introduced as part of the 2013 reform of the CAP, ‘convergence’ was intended to bring direct payment levels within Member States towards a more uniform level. This chapter briefly describes how these reforms were administered in the UK and explains how the CAP budget is divided within the UK. It provides background on previous CAP reform measures, and the context that led to the establishment of this review.

3.1 The CAP budget

2. Intra-UK allocation is a term used to describe how the UK’s CAP budget is divided between England, Scotland, Wales and Northern Ireland.

3. The budget for Pillar 1 direct payments has been distributed across the UK in a way that reflects historical levels of agricultural production, whereby regions with higher levels of production received higher levels of support under the CAP.

4. CAP allocations for Pillar 1 direct payments for the 2013-19 direct payment scheme years, covering the 2014-20 Multiannual Financial Framework, were also allocated on this basis. The €25.1 billion budget for Pillar 1 direct payments was divided up between each part of the UK as follows:

    - England 65.526%[25]
    - Scotland 16.345%
    - Wales 8.956%
    - Northern Ireland 9.173%

5. The total EU budget for the CAP is determined each year by the Council of the EU and the European Parliament, with overall expenditure and annual maximum amounts – known as ‘ceilings’ – set by the seven-year multiannual financial framework (MFF).

6. The amount available to the UK and each Member State for direct payments is limited by its annual allocation, known as its ‘financial envelope’, from the EU budget. Allocations for each Member State for spending under Pillar 1 and Pillar 2 are made at the beginning of the MFF, with distribution based on amounts received in the final year of the previous MFF. Originally, subsidies under the CAP were deployed to offer price support – to support prices to levels that would not be reached purely through the market – as a means to increase productivity

[25] REGULATION (EU) No 1307/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 17 December 2013 establishing rules for direct payments to farmers under support schemes within the framework of the common agricultural policy and repealing Council Regulation (EC) No 637/2008 and Council Regulation (EC) No 73/2009

and secure food supplies. This resulted in a correlation between the productivity of Member States and the levels of support received, with those Member States producing the greatest quantities of crops being most supported and benefiting to a greater extent.[26] However, through the application of reforms in 1992 and subsequent years, the move away from price support and the introduction of direct payments linked to production (paid per hectare of crops and per head of livestock) resulted increasingly in the allocations diverging from that principle.

7. The allocation of direct payments within the UK and across the EU Member States (or regions) on the basis of past production, as well as the choices within their remit made by each devolved administration for their respective payment regions, has resulted in the proportional split between each part of the UK, and consequently, the differences shown in average support per hectare in each part of the UK.

3.2 2003 CAP reform

8. Measures agreed in 2003 saw a change to the way in which subsidies were allocated to farmers across the EU. Through these reforms, payments were 'decoupled' and Member States required to introduce a Single Payments Scheme (SPS). This decoupling meant that payments to farmers were no longer linked to production levels – whereby payments were made on the basis of the area of specific crop grown or the number of livestock kept – although limited coupled elements did remain permitted (and continued to be so in the subsequent 2013 reform).

9. All parts of the UK implemented the SPS in 2005, according to the guidelines set by the Commission. However, owing to the flexibility offered by EU legislation, this was carried out differently across the UK. Under the EU guidance, SPS payments to farmers could be allocated on either a historical basis or an area basis. Where payment entitlements were calculated on a historical basis, the reference amount used was payments received during the previous subsidy system for the period from 2000 to 2002.

10. Member States and regions could also apply a hybrid variation of these, through either a fixed proportion of historical to area-based payments, or a gradual introduction of area payments with the proportion of historical payments being reduced accordingly over the period.

11. In England, payments were gradually moved from a largely historical basis to a 100% area payment by 2012. Scotland and Wales both applied the historical basis. In Northern Ireland a hybrid was adopted whereby payments had both a historical and an area-based component.

12. Following the 2003 reforms, EU Member States' allocations of CAP receipts were rolled over, thus reflecting historical allocations based on past production levels.

[26] https://www.nature.scot/sites/default/files/2017-06/A931061.pdf

This approach was mirrored in allocating the UK's entitlement between England, Scotland, Wales and Northern Ireland. These shares were calculated on the basis of a three-year average, using figures notified to the Commission for the individual payment schemes from 2000 to 2002 in each administration, and were subsequently assimilated into the SPS.

3.3 2013 European Commission review

13. As part of the 2013 CAP reform, the European Commission introduced 'convergence' to bring direct payment levels to more uniform levels, both across and within Member States. Convergence comprises two elements: internal convergence and external convergence.

14. The text of the European Parliament and Council regulation on direct payments from 17 December 2013 states that:

    "…direct income support should be more equitably distributed between Member States, by reducing the link to historical references and having regard to the overall context of the Union budget. To ensure a more equal distribution of direct support, while taking account of the differences that still exist in wage levels and input costs, the levels of direct support per hectare should be progressively adjusted. Member States that have direct payments below the level of 90% of the Union average should close one third of the gap between their current level and this level, with all Member States arriving at a minimum level by financial year 2020. This convergence should be financed proportionally by all Member States that have direct payment levels above the Union average level."[27]

Internal convergence

15. Internal convergence was introduced to bring the value of per-hectare entitlements to a more uniform level *within* Member States, while enabling Member States to differentiate the levels of support provided per hectare across different payment regions within their national territory. The European Commission found it increasingly challenging to justify the differing levels of direct payments per hectare within regions in each Member State: the objective of internal convergence was to create a more equitable distribution of direct payments between farmers in regions within Member States.

16. To achieve this, Member States could choose from three options, which were applicable at national or regional level:

    a) apply a national or regional flat rate from 2015, so all payment entitlements have the same unit value from 2015;

    b) achieve a national or regional flat rate by 2019, so all payment entitlements have the same unit value by 2019; or

[27] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013R1307

c) apply partial convergence. This would occur when a Member State decides a longer transition period is needed. Partial convergence ensures that farms who receive less than 90% of the 2019 national or regional average see a gradual increase in their payments in the future.

17. In the UK, England applied a flat rate in 2015, Scotland and Wales decided to move to flat rates by 2019, and Northern Ireland decided to move 71.4% of the way to a flat rate by 2019.

18. These models were applicable at both a national or regional level and permitted Member States to apply them regionally and set different payment rates for different land types "based on agronomic or socio-economic characteristics, the agricultural potential or the institutional or administrative structure", with the aim of equalising payment rates within these regions. This was carried out differently across the UK. England[28] and Scotland[29] each applied three separate payment regions. There were plans in Wales to introduce payment regions, however, following judicial review, Wales reverted to a single region. Northern Ireland also applied a single region model.

External convergence

19. External convergence was designed to make direct payment policy fairer *between* Member States. The goal of external convergence was to adjust progressively the national envelopes for each Member State in order to bring the average direct payments per hectare received by each Member State closer to the EU average.

20. Following the growth of EU membership since 2004, there was a general disparity between the direct payment allocations between older Member States, whose 2005 direct payment ceilings were based on previous coupled support payments under the CAP, and the new Member States whose payment ceilings were set as part of accession agreements using a reference period prior to membership of the EU. New Member States argued that their average lower payments per hectare was a result of having lower production prior to application of the CAP in their country and this put their farmers at a disadvantage in the EU single market.

21. In 2013 it was agreed that direct support funding would be "more equitably distributed between Member States… taking account of the differences that still exist in wage levels, purchasing power, output of the agricultural industry and input costs".[30]

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[28] Lowland, Severely Disadvantaged Areas (non-moorland) and Severely Disadvantaged Areas (moorland)

[29] Payment Region 1 (better quality agricultural land used for arable cropping, temporary and permanent grassland), Payment Region 2 (better quality LFA or non-LFA rough grazing) and Payment Region 3 (poorest quality rough grazing)

[30] http://data.consilium.europa.eu/doc/document/ST-37-2013-INIT/en/pdf

22. External convergence would be financed by all Member States with direct payments above the EU average, proportional to their distance from the EU average. The process of external convergence would be implemented progressively from financial year 2015 to financial year 2020.

23. External convergence had two key aims:

   a) all Member States should receive at least €196 per hectare for direct payments by 2020; and

   b) all Member States with per-hectare direct payments below 90% of the EU average would have their payments increased, to close one-third of the gap between their current direct payments level and 90% of the EU average.

Terminology

24. As the review is about the 2020-22 allocation of external convergence funding rolled forward from the 2014-20 MFF, from this point onwards the use of the word 'convergence' refers specifically to 'external convergence'.

3.4 2013 Intra-UK allocation of convergence funding

25. In February 2013, the European Council negotiated a cut to the EU budget. The CAP budget for the UK for the period 2014 to 2020 was €27.6 billion, with €25.1 billion budgeted for Pillar 1 direct payments.

26. After the Prime Minister successfully fought to cut the EU budget, the UK received a 1.6% cut to its CAP budget – this was slightly less than for many other Member States, as the UK was allocated €223 million through external convergence on the basis that its average for direct payments per hectare was less than 90% of the EU average. This €223 million was included within the overall UK CAP budget; it was not a ring-fenced amount for delivering convergence.

27. Officials from the UK government and each of the devolved administrations developed a range of options for the allocation of direct payments within the UK as a result of this change in the budget. These options were sent by the UK government in an analytical paper to Ministers in the devolved administrations, requesting their views on the allocation of the CAP budget for 2014-20.

28. The devolved administrations in Wales and Northern Ireland both expressed a preference for allocations to be based upon the status quo, using 2012/13 financial ceilings. The Scottish Government's demand was for the entire allocation received by the UK under convergence to be allocated to Scotland and to bring the average payment in Scotland up to €196 per hectare.

29. After this consultation, the UK government decided to maintain the historical intra-UK split of direct payments for the period from 2014 to 2020. The UK government maintained that, considering the overall cut to the UK's budget for

direct payments, each administration should see the same percentage reduction to its allocation (1.6%) so as not to see a disproportionate reduction for any one part of the UK. The UK government also maintained that there should be a link between the level of payments and productivity, and also took into account the range in farm structures across the UK; average per-hectare and per-farmer payment allocations in each administration; financial ceilings for direct payments; the distribution of structural funds; and land types.

30. The Scottish Government disputed this decision, pointing to Scotland's low average per-hectare payment rate. Since the allocation decision was announced in 2013, both the Scottish Government and Scottish industry representatives have pressed for a reallocation of this €223 million convergence uplift to Scotland, on the basis that the UK received the uplift due to low per-hectare payment rates predominantly in Scotland.

31. An agreement was reached that the allocation to each part of the UK would be maintained using the 2012/13 intra-UK spilt; that Scotland could explore going beyond the 8% limit for allocations to voluntary coupled support; and that there would be a review in 2016 of the allocations at the same time as the Commission reviewed the MFF, which would help inform the intra-UK allocation of CAP funds post 2020.[31] On 8 November 2013 a decision on allocations for the period was announced.

32. When Scotland's allocation is divided by its total agricultural land area, its average direct payment per hectare is less than the UK average, because of the high proportion of relatively unproductive marginal farming land in Scotland. While there was land in each part of the UK falling below the EU's external convergence methodology threshold, all parts of the UK other than Scotland were in receipt of average payments above this threshold. All parts of the UK paid the SPS payments at different rates above and below the threshold as a result of the UK receiving a convergence uplift.

33. The Scottish Government has argued that the basis for allocating convergence funding within the UK should have been on the same basis used by the EU for allocating external convergence to each Member State across the EU. Stakeholders in Scotland have characterised the 2013 funding allocation as an injustice, with some maintaining that the full sum of convergence funding should be 'paid back' to Scottish farmers. Had it not been for the Scottish Government's discontent with the 2013 decision, a review may not have been suggested. Further information on the Scottish perspective can be found in Annex 4.

3.5 Convergence funding beyond 2020

34. The European Commission has proposed that convergence funding will continue in the 2021-27 MFF. The goals of external convergence funding will change over

[31] The review did not take place following the result of the 2016 referendum on the UK's membership of the EU

this period: all Member States with direct payment rates below 90% of the EU average will have to close 50% of the gap between their current payment rate and 90% of the EU average by 2027.

35. When the UK leaves the EU, the UK will not receive any additional convergence funding from the EU from 2020 onwards. But the Treasury has guaranteed that the level of farm support funding will remain the same until the end of the current Parliament. There will therefore be a notional proportion of the budget that will be distributed as ‘convergence’ funding from 2020 to 2022. However, the UK government has not made any commitments to the allocation of convergence funding specifically beyond this two-year period.

36. There are different ways that the UK government could calculate the notional quantum of convergence funding for the period covered by the review. This is because the reduction to the UK’s previous budget for 2014-20 was spread across the seven years. The total ‘convergence budget’ for 2020-22 could therefore be calculated on the annual average for the 2014-20 period (€63.8 million), or by using the figure for 2020 (€127.6 million). Further detail is provided in Annex 2.

37. The first of these calculations is the method that the UK government will use to determine the overall farm support budget for this period. It would be possible for the same approach to be used for the notional convergence component, thereby keeping the relationship between the two parts of the budget the same. The alternative would result in some inconsistency in approach and would increase the notional convergence component as a proportion of the overall farm support budget. Depending on whether, or how, the UK government implements our recommendations, this could have a bigger impact on individual administrations’ overall budget.

38. However, the second method makes most sense if the UK government is to maintain the same sum of money to be labelled ‘convergence’ for the post-EU exit period as was available as EU convergence funding prior to EU exit. Furthermore, the aim of the convergence policy was to reach a level of consistency across the EU, which will be attained by 2020. Therefore, a credible argument exists for the continuation of convergence funding on an annual basis at the 2020 level. This method also mirrors the approach taken by the EU in terms of increasing convergence payments annually.

Conclusion

39. Agriculture is a devolved policy area, and the administrations of the UK have taken independent decisions on how to meet the demands of the sector in their countries. This has led to variation in effective rates of payment per hectare between nations, and between regions within England and Scotland. The decision was taken to allocate Pillar 1 funding between England, Scotland, Wales and Northern Ireland based on historical levels of production. Convergence

funding was allocated within the UK on the same basis, however disagreement between administrations on this allocation has persisted.

40. It was the task of the review panel to determine to what extent these different considerations can be accommodated in order to recommend a fair allocation for the period 2020 to 2022, once the UK leaves the EU. The review will also question whether convergence should be considered to be a relevant component of agricultural funding in this period.

4. Overarching considerations

1. In considering whether we would recommend changes to the convergence funding allocations, and if so what they should be, we were mindful of various wider concerns:

    a) how to take account of – and balance – fairness, reasonableness and sustainability;

    b) what relevance the concept of convergence has for the UK post-EU exit;

    c) whether our conclusions led to a simple factor to determine allocations or a complex formula;

    d) to what extent our recommendations are constrained by the UK government's commitment to the whole of the UK and to each of the devolved administrations; and

    e) how we can avoid adding to the problems facing farmers as a result of current business uncertainty.

4.1 Fairness, reasonableness and sustainability

2. The terms of reference of the review state that it should 'look at what factors should be taken into account to ensure an equitable intra-UK allocation of domestic farm support funding to the end of this Parliament'. Ministers have made it clear in announcing the review that fairness should be central to a consideration of what would be equitable. The difficulty with fairness is that it is subjective and cannot be determined by any objective standards. It is not the same as reasonableness, where any solution has to be equitable to farmers across the UK while simultaneously minimising negative consequences on individual farmers or countries, taking account of the trade-offs governments must make.

3. Perceptions of fairness inevitably vary across the four countries of the UK. For example, some stakeholders have been critical of past intra-UK allocations of CAP funding, while others already consider the distribution of funding across the UK to be fair. The differing agricultural, environmental and socio-economic circumstances of England, Scotland, Wales and Northern Ireland also make it challenging to find factors or principles that will lead to a 'fair' intra-UK funding allocation.

4. The fiscally neutral constraints of the review create an additional challenge, as any recommendation that advises a change from the current levels of funding would change the relative share of financial support each country receives. This would inevitably be met with both political and stakeholder opposition in any countries that were adversely affected, and it could be portrayed as inequitable.

5. Convergence funding was allocated to Member States whose average direct payments per hectare were less than 90% of the EU average, and the onus was on the recipient State to decide how to distribute this funding regionally: there was no legislative requirement for convergence funding to be allocated according to how much funding land had received per hectare within a Member State. Therefore, the UK was not *bound* to provide additional funding to areas that received low funding per hectare (which were predominantly in Scotland).

6. The argument for the original allocations, made to us by various representatives with a strong interest in the issue, is summarised below and in the 'What did we find?' chapter. Other measures that many advocate as fairer carry their own subjectivity: public funding per farm business reflects the size of individual holdings and the nature of regional agriculture; income or profitability per farm reflects individual productivity tempered by the costs and barriers specific to each local area; land classification may reward land owners undertaking little agricultural activity. There are always reasons why a particular measure may not seem fair in the abstract, or in light of past decisions, or why it might reward or create incentives for counter-productive behaviour.

7. Whilst accepting that Scottish stakeholders are unhappy about the 2013 allocation decision – a major reason why the review had been initiated – it would be challenging within our terms of reference, even impossible, to address fully this perceived inequity in this review.

8. It is important to consider Scottish stakeholder concerns, but it is also important to be mindful of stakeholders in England, Wales and Northern Ireland, who would see a reduction in their direct payments budget if there is a change from the status quo within the current budget. In addition, a small relative change could have a dramatic impact on smaller regions of the UK.

9. Finally, it would be unfair to reallocate money that has already been committed to farmers in England, Wales and Northern Ireland.

4.2 The concept of convergence

10. When the UK leaves the EU, the relationship between the farm support budget and CAP 'external convergence' will no longer exist. As such, there is no obligation for the UK government to continue to aspire to meet the EU's aim for convergence funding – for the UK to converge to the average EU payment rate – when the UK is no longer a part of the EU. However, the *concept* of convergence could still apply, but on an intra-UK level. For example, the UK could aim to equalise payment rates between its four parts, on a regional level, or on some other basis. Such convergence could be pursued on a per-hectare basis, or according to one or more other factors.

11. One could decide that the EU's measure for equalising payment rates (on a per-hectare basis) was not fair in the first place, or no longer suits UK agriculture. If that is found to be the case, the UK should aim to find a new method of

equalising payment rates. This could be done by allocating convergence funding on a new set of principles or factors.

12. Either way, as the UK leaves the EU, the UK government should be explicit about what it understands by 'convergence funding' in this 2020-22 context, hopefully drawing on this report.

4.3 A convergence funding formula

13. Another critical component of this review is investigating whether it is possible to develop a formula for the allocation of convergence funding, given the complexities of the differing agricultural, environmental and socio-economic constitutions of each of the four parts of the UK.

14. This formula could be created by using factors specific to the convergence funding component of the overall agriculture budget. These factors could be given equal weighting, or alternatively could be weighted according to their importance to this portion of the pot (or agriculture more generally).

15. While this is an option, a more simplistic approach also has its merits. A simple funding formula could improve perceptions of transparency and would be easier to explain to those industry stakeholders with an interest in how this money is allocated.

16. However, the complexity of the agricultural, environmental and socio-economic considerations in the four parts of the UK make this challenging. A more complex funding solution could reflect this complexity and provide more nuance. However, this approach could also risk giving spurious scientific basis to what is ultimately a policy judgement, whilst also being harder to understand.

4.4 The UK government's funding commitments

17. The main 2017 Conservative Party manifesto for the UK stated that "we will continue to commit the same cash total in funds for farm support until the end of the Parliament". This was repeated in each of the manifestos for Scotland, Wales and Northern Ireland. Defra Ministers have also committed to their devolved administration counterparts that there will be no reduction to their agriculture budgets as a direct result of EU exit, referring them to the Manifesto commitment.

18. We therefore understand that the overall budget for CAP farm support spending – which will be defined as part of the spending review process run by HM Treasury with each of the devolved administrations and Defra – will be maintained in cash terms, based on the 2014-20 average paid by the EU, for the whole of the UK. The farm support budget will also be maintained on the same basis for the Scottish Government, Welsh Government and Northern Ireland Executive.

19. Given that the recommendations of this review must remain fiscally neutral, any changes we recommend to the allocation which lead to a reduction in devolved administration budgets would require the UK government to reconsider its commitments.

4.5 Uncertainty

20. We are acutely conscious of the impact on the industry of the current uncertainty created by the extended process of leaving the EU and the various planned policy changes in different parts of the UK. Our engagement with industry representatives has only heightened this awareness. We have been given a difficult task, but as far as possible we wanted to avoid adding to this uncertainty in any way, or to make it harder to cope with. We hope to help to lay the foundations for a sustainable funding settlement in the future.

5. What did we find?

Introduction

1. In order to form its recommendations in line with the terms of reference, we engaged with industry and political stakeholders from across the UK. A questionnaire and paper on the background to the review (included in Annex 12) was sent to stakeholders, requesting written submissions and also offering the opportunity to meet with the panel.

2. Stakeholders were identified and agreed by panel members, with the aim of achieving equal representation across each part of the UK. Some stakeholders represented the interests of multiple countries and these views have been captured in the section for each country. For example, the views of the Country Land and Business Association are captured in both the English and Welsh sections, and those of the RSPB (an organisation which represents the whole of the UK) are captured in the sections for England, Scotland, Wales and Northern Ireland. The views of these key stakeholders represent the interests of farmers and crofters, the food industry, environmental groups and political parties. A full list of stakeholders is included in Annex 13.

3. The views in this chapter represent those of industry and political representatives in their written submissions and in their meetings with the panel. The panel also sought the views of Ministers from England, Scotland and Wales, the DAERA Permanent Secretary and political parties from Northern Ireland. Summaries of these written responses and meetings are provided in the 'Engagement with the devolved administrations' section of this chapter.

5.1 Responses by consultation question

QUESTION 1

Should the existing proportion of support for each country of the UK be maintained at present levels until 2022? If not, what changes do you think should be made and why?

English stakeholders

4. Stakeholders representing the views of England responded that existing allocations of support should be maintained for the period covered by the review. In general, the respondents were of the view that it was important to maintain current allocations to avoid disruption and uncertainty to the industry. The point was also made that other parts of the UK should not be worse off as a result of the review's recommendations and that it would be impractical to change the financial allocations in the current Parliament.

5. Continuity of funding was noted as a way to provide a degree of stability to farmers and allow them to plan for the future. This was seen as particularly important in the farming industry as the long production cycles require a lot of

investment to achieve viability through all seasons. Respondents argued that each part of the UK had planned its future expenditure based on the current level of funding they receive from the UK government. They also highlighted that there was a great deal of uncertainty for farmers at the moment – from market and trading arrangements to policy change and future funding support – as a result of the UK's impending exit from the EU and a recommendation to change funding allocations would add to that uncertainty.

6. The importance was stressed of direct payments as a means of providing income stability to the farming sector and supporting business viability and security. Stakeholders highlighted that decoupled, flat payment rates were the most effective means of achieving these outcomes whilst preserving the integrity of the internal market.

7. Stakeholders also emphasised the importance of continuity of funding to achieve outputs including food production, the provision of public goods and the maintenance of animal welfare and environmental standards. However, the allocation of funding to less productive land areas was cautioned against.

Scottish stakeholders

8. Stakeholders representing the views of Scotland responded that the existing proportion of support for each country should be changed for the period 2020 to 2022. Most of these respondents felt that the existing proportion of support was unfair and argued that Scotland's current convergence funding allocation is disproportionate to their share of the land that qualified the UK for a convergence funding uplift in 2013.

9. Respondents shared the view that Scotland's geographical situation renders support in relation to productivity per hectare unfair and disadvantageous. With a large proportion of less-favoured areas, they argued that productivity is limited by poorer land quality and low-productivity croft farming. Additionally, stakeholders felt that basing funding on productivity was directing funding towards the most profitable farmers and away from those that need it the most.

10. Stakeholders also emphasised the importance of Scottish farming as a driver of public goods (such as local services and infrastructure), tourism, and food production, as well as the role it plays in delivering natural capital – these areas which could all decline if current funding for agriculture in Scotland were to decrease.

11. The point was also made that without Scotland, the UK would not have received any convergence funding in 2013. This was because the UK's average direct payment per hectare was lower than the EU average as a result of Scotland's high proportion of LFA and marginal land.

12. In answer to how convergence funding should be distributed, some stakeholders argued that Scotland's share of convergence funds should at the least be maintained, while a few stakeholders called for the whole convergence

budget to be redistributed to Scotland. However, the overarching view was that funding should be distributed by a fairer allocation after 2022, which recognises production disadvantages and provides additional funding for Scotland.

Welsh stakeholders

13. Stakeholders representing the views of Wales were in favour of maintaining the existing proportion of convergence funding for each part of the UK, with many asserting that the current allocation gives the fairest representation of farming activity across each part of the UK. Stakeholders also highlighted the importance of the agricultural sector to the Welsh economy, to communities, and in the management of land.

14. Respondents stressed the importance of agriculture to the rural economy and to areas such as employment, sustainability of land management, defence against climate change and food production.

15. Respondents emphasised how funding and agricultural policy are pivotal in achieving these wider benefits, by increasing the resilience of farm businesses through the provision of decoupled support to active farmers and food producers.

16. Respondents also noted the role of direct payments in mitigating uncertainties around future policy and farm support funding in Wales. Attention was drawn to the current climate of uncertainty as a result of disruption to the sector, and the importance of continuity in providing both economic and political stability and in helping farm businesses to plan for the future. One respondent also raised concerns about the emerging effects of uncertainty on the mental health of farmers, stressing that there should be no further uncertainty for farmers at this time.

Stakeholders in Northern Ireland

17. Respondents representing Northern Ireland shared the belief that the existing proportion of convergence funding for each part of the UK should be maintained until 2022. They asserted that the current allocation was fair, because the allocation based upon historical factors was an accurate reflection of the agricultural activity in each part of the UK. When discussing fairness, it was pointed out that the EU's original allocation of convergence funding was designed to support new Member States, so the UK – which happened to be below the agreed level – was given an uplift as an unexpected consequence. One stakeholder suggested that there may be a case for additional funding to be allocated to Northern Ireland.

18. A number of respondents in Northern Ireland refuted the suggestion that more productive land receives a higher rate of payment than less favoured (LFA) land, noting that the current formula for the distribution of Pillar 1 of the CAP between each part of the UK is based upon historical agricultural activity and

output. They asserted that this allocation was the fairest option, roughly reflecting each country's contribution to the UK's total agricultural output.

19. Stakeholders also drew attention to the current levels of uncertainty faced by farmers, and to the importance of ensuring stability and preventing disruption by maintaining current levels of support payments. These responses often pointed out the role that direct payments can play in providing stability and certainty to farmers, particularly in the current political context.

20. The UK's exit from the EU was mentioned by most respondents as a central contributor to this sense of uncertainty. Many stakeholders from Northern Ireland drew attention to the potential negative impacts of the UK exiting the EU – whether in a deal or no-deal scenario – on the Northern Irish economy and farming sectors, with some arguing that of all parts of the UK, Northern Ireland was the most vulnerable to these potential impacts. Respondents noted that as well as hindering trade between the north and south, any additional bureaucracy required at the border could prevent access to markets in the south of England in sufficient time, since the route through Dublin was the quickest for businesses in Northern Ireland trading west to east. In making this point, respondents emphasised the importance of the agri-food sector to the Northern Irish economy. Further, some respondents specifically pointed to the potential for a reduction in agricultural productivity, and associated knock-on effects to the wider processing sectors, as a result of any reduction in allocation. Attention was also drawn to the importance of targeting direct support payments towards active farmers and food producers. Respondents also explained that if there was a temporary, tariff-free trade in a 'no-deal' EU exit scenario, this would hugely affect the incomes of farmers in Northern Ireland.

21. One respondent noted that even now, uncertainty around the UK's exit from the EU is affecting the red meat industry in Northern Ireland: customers in Europe, unsure if suppliers in Northern Ireland can continue trading with them in the future, are looking at alternative, more sustainable options.

22. A further cause for concern for industry respondents was the lack of Ministers in Northern Ireland, meaning those in the agriculture sector do not benefit from the same level of advocacy for their position as competitors in other parts of the UK.

QUESTION 2

Should the panel take into account any issues specific to one part of the UK in the allocation of convergence funding across the UK?

If so, how could any impact on the other parts of the UK be addressed?

English stakeholders

23. Stakeholders representing the views of England responded 'No' – the panel should not take into account any issues specific to one part of the UK in the 2020 to 2022 allocation of convergence funding. Stakeholders did not support

funding moving away from productive farming businesses to areas of the UK where minimal agricultural activity is being undertaken. In support of their argument, stakeholders highlighted that the convergence funding had been transferred from Pillar 1 to Pillar 2 to boost both productivity and socio-economic programmes.

24. Stakeholders felt that if one country alone (namely Scotland) benefitted from a reallocation of funding, they would be placed at an increased advantage within the UK marketplace, which would negatively impact the resilience of farming businesses in the rest of the UK.

25. Respondents also drew the panel's attention to the aim of convergence funding: to help standardise payment rates across the EU. Respondents highlighted that the UK qualified for this funding due to the quantity of land across the whole of the UK which received a low level of funding per hectare. They stressed that this land was not solely concentrated in Scotland.

26. One respondent, concerned primarily with the environment, underlined the importance of taking into account what each of the devolved administrations does with its funding to secure public goods, as this aligns best with the UK government's future goals for agriculture.

Scottish stakeholders

27. In contrast to the rest of the UK, a large majority of stakeholders representing the views of Scotland believed that the panel should take into account issues specific to Scotland when considering how to allocate convergence funding across the UK. Scottish stakeholders felt that the current allocation fails to acknowledge Scotland's role in the 2013 allocation of convergence funding to the UK – this additional funding was largely due to the low average payment rate per hectare in Scotland.

28. Stakeholders stressed the importance of recognising the limitations experienced within the devolved regions, noting that, although the farmed landscape across the UK is naturally different, Scotland has a much larger percentage of LFA in comparison to the rest of the UK. Stakeholders highlighted that these were the areas that the EU payments originally aimed to benefit. Stakeholders also called for the panel to take into account the impacts of the historical allocation of the convergence uplift on each of the four administrations.

29. Respondents focused their arguments on the difficulties Scottish farmers face with their high percentage of LFA land. A few noted that this has resulted in a many farmers being forced to focus their farming business on livestock-rearing and hill farming, which are remote and disadvantaged. They felt that these areas need additional funding to enable them to stay in business.

30. A respondent considering the environmental arguments in allocating more funding to Scotland suggested that LFA has huge potential for carbon capturing

through improved grazing for livestock, appropriate tree planning and peat restoration – but this can only be achieved through fair funding.

31. A few stakeholders stressed they did not want to take away funding that has already been allocated to farmers in England, Wales and Northern Ireland but suggested that they would like to see HM Treasury recognise their responsibility to rectify the issue.

32. A few Scottish respondents (in contrast to the majority) believed that redistribution should be based on “equity and commonality of assessment criteria” across the whole of the UK. However, one stakeholder stressed that issues that affect different countries in disproportionate ways (such as LFA) should also be considered.

Welsh stakeholders

33. Stakeholders representing Wales responded that the panel should not take into account any issues specific to one part of the UK in forming recommendations on the 2020 to 2022 allocation of convergence funding across the UK.

34. The majority of respondents held the view that funding should continue to be used to support the industry in Wales, rather than areas of the UK where minimal agricultural activity is being undertaken. Stakeholders stressed that they did not want to see more funding allocated to these areas.

35. Whilst acknowledging the basis of the argument by Scottish stakeholders, most Welsh industry respondents held the view that farmers in Scotland received lower-than-average payments per hectare as their land is unproductive with little agricultural activity being undertaken there.

36. Additionally, stakeholders noted that funding to farming businesses in Scotland is much higher than it is to the rest of the UK, arguing that further funding allocations to Scotland would put farming businesses in the rest of the UK at a disadvantage within the marketplace, damaging their resilience.

Stakeholders in Northern Ireland

37. Respondents representing Northern Ireland had different views on whether the panel should take into account any issues specific to one part of the UK, with half of those who responded arguing in favour, and half against.

38. Respondents discussed the importance of funding to the agriculture industry, and the role of the sector as a vital source of employment. Most respondents also raised concerns regarding the uncertainty around the UK’s exit from the EU – chiefly that the sector in Northern Ireland could be disproportionately affected by this – and pushed for a funding commitment from the UK government in order to promote stability.

39. Of those who responded that they would like to see the panel take into account the issue of EU exit specifically, some suggested that as this issue would be

likely to disproportionately affect farmers in Northern Ireland, they should be allocated an increased payment. Arguments centred on their unique vulnerability to potential risks due to their shared border with a Member State, with respondents expressing concern over potential risks to farmers' incomes in both a 'deal' and a 'no deal' scenario. A 'no-deal' scenario would result in the implementation of a temporary tariff-free trade, while uncertainty about how 'backstop' scenarios may change over time means that even if there were to be a deal, there are still risks that apply only to Northern Ireland.

40. Stakeholders also cited environmental challenges as a reason to have specific issues taken into account by the panel, arguing that issues such as water quality, ammonia, biodiversity loss and climate resilience needed to be addressed.

41. In contrast, some respondents suggested that the panel should not take into account any issues specific to one part of the UK as funding should not be moved away from productive, food-producing farming businesses to areas of the UK where minimal agriculture activity is being undertaken – largely echoing the arguments made by respondents representing England and Wales.

42. Stakeholders in Northern Ireland also suggested that, at present, Scotland benefits more than other countries when their share of the CAP Pillar 1 budget is compared to output from the supported sectors. Additionally, they argued that as Scotland alone did not qualify the UK for the convergence funding uplift in 2013, it should not receive special treatment.

QUESTION 3

Which factors or principles do you consider to be important for the allocation of convergence funding?

English stakeholders

43. Respondents representing the views of England pointed to the importance of using agricultural policy to maintain stability and certainty for farming businesses, and they supported maintaining the status quo for funding allocations. A few respondents urged the panel to focus on the fair allocation for the short term only within this review, arguing that a more robust framework should be developed for the post-2022 period.

44. Many respondents wanted reassurance that direct payments would be used to ensure that UK farm businesses remain competitive, providing income stability to those businesses that take risks, and acting as a safety net to help businesses maintain productive capacity through unfavourable agricultural market and climatic events.

45. Respondents called for the panel to recognise that agricultural policy is devolved, cautioning against the introduction of new factors that could undermine the flexibility of each administration within the UK to spend its

allocation as it sees fit. They argued that the existing intra-UK allocation should be maintained.

46. However, the majority of respondents representing England felt that no country should seek to improve the competitiveness of its farming industry through manipulation of the direct payments regime. In addition to the higher payments per Scottish farm business, respondents pointed out that some of these businesses also receive coupled support payments. They argued that if they receive additional funding at the expense of farming businesses in other parts of the UK, this would further distort the internal market, since farm businesses, rather than the land or its owners, are the actors in that market.

47. One respondent noted that farm business structure, followed by geographical location, is the best way of assessing vulnerability, reasoning that it will be the farmers who are most reliant on basic payments that will be the most affected by changes in financial allocations, and therefore most vulnerable.

Scottish stakeholders

48. Respondents representing Scotland largely noted that the current level of CAP funding that each devolved administration in the UK receives is allocated on the basis of historical values. They suggested that these values do not reflect the different agricultural conditions and practices in the different parts of the UK today, therefore future allocations should be based on objective needs.

49. Many Scottish stakeholders focused on the stated aim of the European Commission when redistributing funding in 2013, and its characterisation of the rationale behind convergence funding. Respondents emphasised that this should be the primary consideration for allocation within the UK. Many also outlined the aims of the CAP, highlighting the requirement that it should be ‘objective and non-discriminatory’.

50. A number of stakeholders pointed to the recognition by the EU that the most remote areas are those which need the most support, but that it is these areas that have the lowest rates of payment per hectare. They also argued that the allocation of convergence funding should be based on objective needs – supporting those areas that are most economically vulnerable and environmentally important.

51. One respondent suggested that using LFA designation as the allocation criteria would provide a clear rationale and would address the key goals of both agriculture and rural policy. This approach – which defines areas based on the presence of poor land or poor productivity – would recognise Scotland’s natural disadvantage and associated costs of production (which are largely down to the distance from the market and supplies). The respondent argued that, as the primary purpose of agriculture funding is to provide financial support, and as LFA provides an abundance of public goods, this would align well with government objectives.

52. Some stakeholders suggested that Scotland has more to offer than the rest of the UK, for example by contributing 34% of the UK's total natural capital and ecosystem services, and by providing benefits such as upland carbon sequestration. It was also proposed that areas described as LFA can provide intangible benefits by providing positive impacts to the population.

53. One key stakeholder suggested that 'Actual Land Use' information, captured as part of the Basic Payment Scheme via the Single Application Form (SAF), could enable each country to provide consistent definitions of agricultural land use and land quality across the UK, which could in turn provide a basis for farm support. The stakeholder argued that distributing budgets for each country based on areas of equitable land use "would allow support to be delivered on a more equitable basis throughout the UK."

54. There were a few respondents representing Scotland who, in recognition of the position of those in England, Northern Ireland and Wales that additional funding should not be granted to unproductive areas, argued that these areas are fundamentally important to supporting rural communities, pointing to their contribution to the economy, health and wellbeing of the rural population. A few respondents representing Scotland also noted that productive areas already see greater economic benefits and so do not require additional funding.

55. Respondents pointed to the devolved responsibility for agriculture, emphasising that the funding allocation should not undermine each administrations' ability to decide how to spend that money – especially given the various policy approaches being pursued post-EU exit.

56. A few respondents representing Scotland also noted that the review highlights the importance of the UK government moving to an annual framework for the long-term activities of agriculture, and of securing a ring-fenced and multi-annual budget, especially now that the UK is moving from an EU multi-annual framework.

Welsh stakeholders

57. Respondents representing Wales were keen to stress the devolved nature of agriculture policy, and that any recommendations made by the review on the allocation of funding should be made in this context. Additionally, Welsh respondents called for the panel to recognise the possible effect that any changes in funding policy may have upon the Welsh agriculture industry.

58. Stakeholders highlighted the need for a representative forum to agree the future allocation of agricultural funding based on clear terms of reference, a clear scope and a clear set of principles. It was suggested that an intergovernmental agreement model should be established, with devolved administrations included in the decision-making process, and that Wales should have a strong voice in this. Respondents argued that this model "should result in agricultural payments being excluded from the Budget and Comprehensive Spending Review

process…allow[ing] for longer multiannual funding cycles to be taken into account, so that Welsh farmers are given financial security post-2022.”

59. The importance of agriculture policy in maintaining stability and certainty for farming businesses across the UK was discussed by respondents, as an argument in favour of maintaining the current financial allocations.

60. It was also emphasised that if Scottish farm businesses were to receive additional funding on top of their existing higher basic payment rate (in comparison to the rest of the UK), it could distort the markets and give Scottish farmers an unfair advantage.

61. A few responses suggested using factors that reflect the importance of the industry to Wales, such as employment, the number of farms and the number of active farmers. Stakeholders stressed that Wales has an abundance of natural resources which need to be recognised, especially in the longer term, and that funding would help in meeting their ambitious environmental goals.

Stakeholders in Northern Ireland

62. Respondents representing Northern Ireland had many similar opinions to those representing Wales and England.

63. One response acknowledged the role of agriculture support as a safety net, helping to stabilise farm businesses, ensuring productivity in a volatile agricultural market and helping to dampen the impacts of climatic events. Stakeholders in Northern Ireland stressed the importance of maintaining stability and certainty for farming businesses across the UK, particularly during the current period of uncertainty around the UK’s exit from the EU, and certainly until 2022.

64. Productivity was seen as a key metric for allocating funding, particularly in relation to supported sectors. There was an overarching view that low output regions should not receive a high proportion of the budget. It was argued that agricultural output is an indicator of the importance of agriculture within each country and relative to other parts of the UK.

65. Respondents from Northern Ireland argued that the funding allocation should not create any distortion of the internal UK market, through providing countries with an unfair opportunity to improve their competitive position.

66. Many responses from Northern Ireland called for the panel to acknowledge the unique circumstance of Northern Ireland in terms of its increased vulnerability to all potential outcomes of the UK’s exit from the EU.

67. The importance of using funding to support rural communities was also emphasised, with responses noting that these communities are reliant on agricultural subsidies, thus any reduction in funding could have a severe impact on rural life in Northern Ireland.

QUESTION 4

Are there any factors or principles in relation to future allocation of funding that should be definitely ruled out by the Review Panel?

English stakeholders

68. While respondents representing England suggested a few factors or principles which should definitely be ruled out, they largely emphasised the importance of certainty and maintaining the current allocation mechanism for convergence funding until 2022.

69. It was suggested that the review panel should rule out any sector-based allocation, on the basis that convergence funding should be available to the whole of the industry in order to achieve best value for money.

Scottish stakeholders

70. Stakeholders representing Scotland did not want the review panel to use the historical allocation of CAP funding as a factor, arguing that this approach has led to the current allocation, which they deem to be unfair.

71. The Barnett Formula was also frequently rejected as a means of allocating future funding, although many respondents understood that this has already been ruled out by the UK government. Respondents argued that population size and distribution across the UK should not have any influence over the allocation of funding, pointing out that agri-food products are often processed and consumed in different parts of the UK.

72. There was acknowledgment that the complexity of the issue means that nothing should be ruled in or out without full consideration of the impact that this could cause.

Welsh stakeholders

73. Respondents representing Wales reiterated their point that they would like to maintain the same allocation mechanism for convergence funding until 2022, in order to provide certainty and stability to farming businesses. They added that a reallocation resulting in any part of the UK receiving less support would go against the Conservative Manifesto commitment to maintain the farm support budget.

74. It was stressed that the panel should rule out "any prospect of reducing farm support funding for Welsh farmers, be this in the short, medium, or long-term," with respondents arguing that not enough research has been conducted into the possible economic effects on Welsh farmers of any reductions.

75. There was a request that any sector-based allocation was ruled out by the panel, on the basis that convergence funding should be for the whole farming industry to "achieve best value for money."

Stakeholders in Northern Ireland

76. Only one respondent from Northern Ireland chose to answer Question 4, arguing that the allocation should remain the same, in order to provide “certainty and stability to farming businesses across the UK.”

77. One stakeholder commented that any changes made to funding would result in different parts of the UK receiving an amended funding settlement, which would “undermine the commitment made within the (Conservative Party) manifesto” and would also result in a knock-on effect to farming businesses in that country.

5.2 Engagement with the UK government and devolved administrations

Introduction

1. The review panel wrote to and met with Ministers in the Scottish and Welsh Governments and the DAERA Permanent Secretary, requesting their views to inform the intra-UK allocations review. The panel asked if there were any specific issues or historical concerns that should be taken into account when allocating convergence funding across the UK in the future, and whether the existing distributions for convergence funding across the UK should be maintained at present levels for the period from 2020 to 2022. A summary of each response is below.

Secretary of State for the Department for Environment, Food and Rural Affairs – Michael Gove

2. Given his dual role as UK Secretary of State and sponsor of the review, and as the Minister with overall responsibility for agriculture in England, Michael Gove responded to say that he would not offer a formal response to the panel's questions, as he did not want to undermine the independence of their work, or to suggest a solution which could prejudge the UK government's decision on the allocation of the 2020-2022 convergence funds.

3. Michael Gove outlined that he hoped that Lord Curry (the panel representative for England) and English stakeholders would provide the panel with a substantive outline of the English perspective.

Cabinet Secretary for the Rural Economy – Fergus Ewing

4. The panel received a written response from Fergus Ewing and met him in person, with Scottish government officials.

5. Fergus Ewing outlined the background to the review, arguing that the UK only qualified for an uplift in its CAP Pillar 1 ceiling from the EU because of Scotland's extremely low average payment rate per hectare, which reduced the average per-hectare rate for the UK to below the EU's 90% threshold, resulting in the UK receiving €223 million from the EU over a six-year period.

6. Fergus Ewing argued that the 2014-2020 allocation approach was not in line with the European Commission's rationale for the uplift, noting that Scotland had consistently requested for the 2013 decision-making process to be made transparent by the UK government, in particular how the UK government made the decision to allocate convergence funding in the way it did.

7. The Scottish Government argued that the terms of reference to the review were unacceptable and did not reflect the requirements that the Scottish Government originally set out. Fergus Ewing said it was vital that the £160 million in convergence funding that had been withheld from Scottish farmers and crofters over the last six years was returned to Scotland.

8. Fergus Ewing included data in his response illustrating that Scotland has a lower area payment rate than any Member State within the EU (in two different scenarios. Fergus Ewing argued that future allocation of funds should be made with a view to closing the gap between those receiving the lowest payments per hectare and those receiving the highest rates within the UK.

9. Fergus Ewing outlined the Scottish Government's position of continuing to request that access to the advice given to former Ministers ahead of the 2014-2020 allocation of CAP funding be granted to the panel, in order for a full and fair review to be conducted. The Scottish Government also argued that the full convergence funding budget should be given to Scotland and that there should be a ring-fenced agriculture budge in the future.

10. The Scottish Government made it clear that they did not want to take previously allocated funding away from farmers in Wales, Northern Ireland and England, but are seeking redress from the UK government and the Treasury to remedy the unfair decisions of the past, along with fairer allocations in future.

11. Fergus Ewing also shared a letter, written in 2017 by Scotland's farming and crofting stakeholders, calling for the UK's CAP budget convergence dividend issue to be fairly resolved.

Minister for Environment, Energy and Rural Affairs – Lesley Griffiths

12. The panel received a written response from Lesley Griffiths and met her in person.

13. Lesley Griffiths outlined Wales' underlying principles for future agriculture funding once the UK leaves the EU: that Wales should receive no less than it currently receives; that it retains at least as much flexibility as it has now (on both powers and funding); and that funding should be based on need, scale of industry and capacity to deliver wider public benefits.

14. Lesley Griffiths acknowledged the Scottish Government's concerns about the previous allocation of convergence funding, however expressed the view that, considering that the decision was taken over five years ago, it was a matter that should be settled between Scotland and HM Treasury.

15. In meeting with the panel, Lesley Griffiths sought clarity on the size of the 'convergence' funding pot for the period covered by the review. The Minister also sought clarity on the panel's request for access to the advice given to UK government Ministers on the allocation in 2013, writing a follow-up letter to Michael Gove on this issue.

16. Lesley Griffiths emphasised the requirement for cross-government decision-making and stakeholder engagement on the wider issue of UK agricultural funding, and the importance of the future involvement of HM Treasury in this process. The Minister recognised that this issue was beyond the remit of the

review and therefore it was “not appropriate for the review report to make recommendations on wider agriculture spending.”

Permanent Secretary for the Department of Agriculture, Environment and Rural Affairs – Dr Denis McMahon

17. In the absence of Ministers in a Northern Ireland Executive for the duration of the review, Dr Denis McMahon wrote to the panel setting out that “DAERA is currently without a Minister and as a consequence, there has been no political input into the content of this response”. The panel also met the DAERA Head of Food and Farming Group, Norman Fulton, along with a DAERA economist, and subsequently engaged in further correspondence with Mr Fulton.

18. DAERA argued that current convergence funding allocations should be maintained, because the historical basis for those allocations remained valid and there had been no unfairness in UK CAP allocations that the external convergence ‘windfall’ had been designed to address.

19. DAERA disagreed that Pillar 1 direct payments had historically been allocated on the basis of land productivity (with more productive land receiving a higher rate of payment and less-favoured land receiving a lower rate of payment). The Permanent Secretary argued that, as the purpose of CAP Pillar 1 funds is to support agriculture sector incomes, the best way to measure fairness is by comparing existing regional allocations of CAP Pillar 1 funds to the regional share of UK agricultural output.

20. In his letter, Dr Denis McMahon identified land quality, economic factors and climatic conditions as factors that influence agricultural output, and that it could be argued that farm support should give greater assistance to those farm businesses at a greater disadvantage – a proposal that would see England receive less than the other UK countries.

21. Dr Denis McMahon went on to consider what it would look like for Northern Ireland if the EU funding formula were applied to intra-UK allocations, arguing that applying the EU funding formula at a UK level over the specified period would be unfair and unfeasible.

22. Dr Denis McMahon stressed the importance of confining the review to the allocation of convergence funding in 2020/21 – as set out in the terms of reference – arguing that if debate opens up into how the entire agriculture pot is allocated, it is more likely to widen the disagreement rather than resolve it.

23. Additionally, Dr Denis McMahon argued that departing from the historical allocation of convergence funding may lead to disputes if there was to be future changes in the overall UK funding levels, or if funding was concentrated in a particular country, which he argued could be deeply divisive.

24. Dr Denis McMahon requested that the impact of EU exit on Northern Ireland’s agriculture sector was taken into account by the panel. McMahon noted that the

deep integration of the supply chain with the Republic of Ireland means that the agriculture industry in Northern Ireland is more exposed than any other UK region to the challenges posed by the UK's exit from the EU. Therefore, McMahon warned that any suggested reduction in the allocation of agriculture support to Northern Ireland would cause widespread concern amongst stakeholders in Northern Ireland.

Meetings and written responses from political parties in Northern Ireland

25. The panel invited contributions from political representatives not in government in all parts of the UK, to ensure all political perspectives were taken into account. Given the lack of executive in Northern Ireland, requests to meet in person were received from Sinn Fein, the Democratic Unionist Party (DUP), Ulster Unionist Party (UUP) and the Alliance Party of Northern Ireland.

26. A majority of political respondents emphasised that the current level of support should be maintained until 2022, on the basis that as the current allocation is in line with each country's percentage of agricultural output, it is a fair principle on which to base funding. Responses largely outlined concerns that changes to the current formula could have a severe impact on the local economy, particularly in Northern Ireland where the agri-food sector is very important due to its high employment rates. Further, responses considered that changes in funding would be unfair and would create further uncertainty to farmers.

27. Most responses suggested that, in addition to protecting the agri-food sector, maintenance of the current allocation would help protect the industry from any potentially detrimental effects of the UK's exit from the EU. Respondents argued that Northern Ireland's unique circumstance of sharing a border with a Member State makes it particularly vulnerable once the UK leaves the EU.

28. In line with industry responses, a few political respondents said that an allocation based primarily on hectares of agricultural land should be ruled out by the panel. They believed that this allocation would be unreasonable, with one claiming that funding per hectare could "distort the results with high amounts of funding being sent towards areas in which little land is used for agricultural purposes." They argued that this would have severe impacts on Northern Ireland's agriculture sector, noting that as the only UK region above the EU average, an allocation based on hectares would likely result in a reduction of their own funding level.

29. Most political respondents said that allocations should be based on agriculture output or value, with some also suggesting that funding should be used to support rural communities.

30. The human impact of a reduction of payments was also discussed by political parties in Northern Ireland. One respondent claimed that the human impact would be profound, with 37% of the population in Northern Ireland living in the countryside – a much higher proportion than England and Scotland – thus any

reduction in agriculture funding would have a wider impact in Northern Ireland than other parts of the UK.

31. Another respondent noted the scale of challenges that have been presented even before the UK has left the EU. This respondent pointed out how little the UK government was giving to British agriculture in comparison to other Member States, who were being supported financially by the EU. They were particularly concerned with how farmers in Northern Ireland were competing on the same island as a very inter-connected agri-food market, and the specific challenges presented by an imbalanced playing field. They also noted that exchange rate fluctuations are another problem for farmers with markets predominantly in the south.

32. One respondent pointed out that agriculture is one of the key areas under the north-south co-operation outlined in the Good Friday Agreement, underlining the difficulties Northern Ireland could face due to sharing a border with Ireland.

33. Finally, one respondent pointed out that although the terms of reference of the review are confined to 2020-22, any resulting decisions are expected to influence those made subsequently. They therefore urged the panel to be careful when forming recommendations and called for them to look at all aspects of convergence funding payments.

5.3 Engagement with agricultural economists

1. As well as engaging with agricultural economists through the consultation process, the review panel invited a selection of agricultural economists from across the UK to take part in a roundtable discussion. Nine economists from leading UK universities and the devolved administrations attended this event.
2. The structure of this meeting followed that of the consultation questionnaire, and covered:
    a) whether the existing levels of financial support given to England, Scotland, Wales and Northern Ireland should be maintained;
    b) whether specific issues relating to one part of the UK should be taken into account in the panel's recommendations; and
    c) which factors the panel should include and exclude in their recommendations.
3. The key themes of conversation are captured below.

5.4 Key themes

Clear objectives

4. Several economists sought clarification of the aims of the review, including whether the panel's primary aim was to achieve fairness. The economists questioned the relationship between the terms of reference of the review (which were limited to the allocation of convergence funding from 2020 to 2022) and the development of a wider funding methodology for agriculture in the future.

Forward-looking recommendations

5. Most of the economists commented that the review should be forward-looking and that the panel should not consider previous allocations when making recommendations for the future. One economist argued that, while the convergence funding budget was small, the panel's way of allocating this funding could send a message to farmers. For example, allocating funding on environmental factors could encourage farmers to become more environmentally friendly to acquire more funding in the future.

Respecting the devolution settlement

6. One economist highlighted the fact that agriculture is devolved, and so each devolved administration can choose how to distribute its funding for agriculture.
7. The group recognised that the panel could *hypothetically* recommend that funding should be allocated to the devolved administrations on a set list of factors, but the devolved administrations could then choose to allocate funding to their farmers on a completely different basis.

A funding methodology

8. A couple of economists stated that *if* the panel decided to aim to equalise per-hectare payment rates across the UK, then this could be achieved by looking at the payment rates in the four parts of the UK, and creating a UK convergence model.

9. However, one argued that this method would not work, as Northern Ireland was the only part of the UK that was significantly over this average, so the majority of the convergence funding budget would have to come from Northern Ireland. They added that no devolved administration would agree to a reduction in their levels of funding.

10. Another economist noted that it was not just land in Scotland that received less than 90% of the EU average direct payments per hectare.

Discussion on a simple versus a complex situation

11. Many economists argued that it would be difficult to find a simple way to allocate this money, given the different environmental, agricultural and socio-economic constitutions of each of the four parts of the UK.

5.5 Factors

Farm types

12. Several economists suggested that different types of farms (for example arable, pastoral, mixed) could be a factor in determining future convergence funding allocations.

Productivity

13. Others suggested that the panel could select factors that would encourage productivity – something that CAP Pillar 1 direct payments, which are primarily designed to support farm incomes, do not currently achieve. One respondent suggested that funding could be given to farmers to help them use their existing resources more effectively, to increase productivity.

Natural capital

14. One economist suggested that the panel should consider natural capital, looking at what the market does and does not deliver, then recommend where the UK government could and should step in to help.

Unit labour costs per farm

15. Some economists argued that using unit labour costs per farm as a factor would be a challenge as data on the number of labourers per farm is not always recorded in the agriculture sector. Some economists added that looking at unit labour costs could result in more money for horticulture and could also be unfair to areas with lower employment rates.

Farmer income

16. One economist suggested that the panel consider the number of farmers on low incomes. They explained that convergence funding could be an income support fund for famers and could help farmers with retirement or encourage farmers to be more productive.

Land classification, including less favoured areas (LFA)

17. One economist argued that funding could be allocated on the basis of land classification. However, another economist added that the unreliability of the accuracy of land classification data poses a risk.
18. They added that it was important for the panel to look at common denominators in agriculture across the UK, arguing that land and production were key.
19. One economist questioned what the incentive would be for farmers to make a profit if low-production land was awarded increased funding. Another added that LFA and historical allocations should be used to inform future recommendations.

Capital expenditure per head

20. The group agreed that capital expenditure per head should be excluded as a factor.

Other

21. The group reminded the panel to be careful in making their recommendations, as financial allocations can often have unintended consequences for the market. The group encouraged the panel to think about what funding is needed for agriculture on a UK-wide level. One economist argued for the necessity of a UK-wide framework for agriculture. There was consensus that convergence funding is part of Pillar 1 support, and thus the principles around Pillar 1 funding should help to inform the recommendations made by the panel. One economist suggested that the panel should distinguish between market and non-market goods in forming their recommendations. Another economist suggested that convergence funding could be used to help farmers adapt to the transition that EU exit would bring.

5.6 Summary of stakeholder engagement

1. The majority of all stakeholders from across England, Wales and Northern Ireland, both in their written responses and in meetings with the panel, asserted that existing allocations of convergence support should be maintained for the period covered by the review. Justification for this view centred largely on stakeholders seeking minimal disruption and uncertainty to the agriculture industry. Many stakeholders also made the point that providing certainty was particularly important in the current period due to the UK's upcoming exit from the EU.

2. Most stakeholders representing England, Wales and Northern Ireland pointed out that the current funding allocation is fair, as CAP Pillar 1 payments are intended for the working farmer. These stakeholders often cautioned against the allocation of funding to less productive land areas, and they were careful to point out that if one country received additional funding at the expense of farming businesses from other parts of the UK, it could distort the internal market.

3. In contrast, throughout all written and verbal responses, Scottish stakeholders were largely of the view that the previous allocation of convergence funding was not fair, and that the proportion of support for each country should be changed for the period from 2020 to 2022. Scottish stakeholders argued the UK government had not allocated convergence funding according to the criteria by which it had been provided by the EU, and that because most of the land that brought the UK average payments below 90% of the EU average was in Scotland, the 2013 convergence funding uplift should have been allocated solely to Scotland.

4. Scottish stakeholders mostly believed that Scotland's geographical situation resulted in its farmers being disadvantaged, so funding should be appropriately directed in order to sustain those farming enterprises already subject to environmental and economic disadvantage. Most responses called for the allocation of convergence funding to be based on objective needs of these areas.

5. Some Scottish stakeholders called for the UK government and HM Treasury to find a solution to remedy the perceived unfairness of the previous allocation, often stressing that they would not want this to be funded through any reallocation from farmers in England, Wales and Northern Ireland.

6. Scottish stakeholders saw LFA designation as the allocation criteria that would provide a clear rationale and address the key goals of agricultural and rural policy. It was believed that this approach would mean that the natural disadvantage of those farming in such areas would be recognised. It was noted by others that LFA status could be used alongside other factors to inform future recommendations.

7. It was also noted by stakeholders from across the UK that agricultural policy is devolved, therefore while the panel could recommend that funding should be

allocated according to certain factors, the UK government had no authority on how this funding was spent within Scotland, Wales and Northern Ireland.

8. Many stakeholders in Northern Ireland pointed to the particular vulnerability of Northern Ireland due to its shared border with an EU Member State, and the resulting difficulties caused by uncertainty in the industry. This argument was used to stress that farmers in Northern Ireland are deserving of funding and that the current allocation they receive should at the very least be maintained.

9. Respondents from England and Wales also drew attention to high levels of uncertainty, pointing to the need for cross-government and stakeholder engagement to find a resolution to the issue of future allocation of funding.

6. What did we consider?

6.1 What are the options?

1. It became apparent through our deliberations that there are three broad approaches for tackling this review:

    a) to maintain the allocations as they are now based on the original 2005 CAP Pillar 1 principles;

    b) as far as possible to use the EU's external convergence methodology within the UK, by dividing the full notional convergence sum for 2020-22 equally between those areas with per-hectare payments below 90% of the EU's average; or

    c) to change the allocations for all administrations based on new factors.

2. Each of these approaches has its own justifications, advantages and disadvantages.

Use the existing allocations

3. The original 2005 CAP Pillar 1 allocations – when the CAP budget was decoupled from production itself – were based on the principle, agreed between all administrations, that the budget should be divided according to the level of productive farming in each part of the UK. This was because the objective of the vast majority of the Pillar 1 budget was to support the incomes of those working in agriculture and taking risks in the market. The argument is that the UK convergence uplift was a side effect of the methodology the EU happened to choose to fulfil its policy intention of increasing the CAP budget of newly acceded member states in Eastern Europe relative to existing members. Those existing members had had the benefit of CAP funding in the preceding years to improve the productivity per hectare of their land. There was therefore no problem to solve in the UK, since this CAP funding had been available to all administrations, who had spent it within their territories as they saw fit (including, had they wanted, to improve the productivity of any hectares subsequently receiving a lower rate of subsidy). As such, proponents of this approach argue that the benefit to the UK was a windfall gain that should be shared according to the original objectives for Pillar 1 funding as agreed in 2005.

4. One advantage of this option is that it reflects the preference expressed by a majority of stakeholder responses, to avoid funding changes adding to the existing acute uncertainty for farmers. It would also not change administrations' budgets and therefore does not require Ministers to reconsider their Manifesto commitment. Any change to budgets is strongly opposed by at least the Welsh Government and DAERA.

5. However, this option does not address the perceived injustice felt by Scottish stakeholders.

Use the EU's external convergence methodology

6. Using the same methodology within the UK as is used by the EU for external convergence can be justified, because the EU chose a particular formula for external convergence based on a sub-Member State measure – hectares receiving less than a certain level of funding – and it was the presence within the UK of areas falling within that definition that caused the UK to benefit from the CAP allocation change. Advocates for this option could argue that had the EU intended external convergence only to benefit recently acceded states, they could have qualified the per-hectare approach or used a Member State-level formula. These areas (predominantly in Scotland) would have been the main beneficiaries had that principle been used to determine the allocation of the 'convergence uplift' in 2013, and so – as far as the review's terms of reference allow – these areas should benefit as a result of this review of convergence funding.
7. This might satisfy Scottish stakeholders that the original 'injustice' – as they see it – had been recognised and addressed, as far as the panel is able within its terms of reference.
8. However, given the fiscally neutral terms of reference, its adoption would lead to an inevitable reduction in some devolved administrations' budgets, which would be a breach of the Conservative Manifesto commitment.
9. It would involve changing administrations' funding allocations for the years 2020 to 2022, creating winners and losers and uncertainty for individual farmers until it is known how much they would gain or lose.
10. It might suggest the panel is attempting to restrict how and in which areas administrations spend the money they are allocated – though we make clear throughout this report that any recommendation could determine only the allocation, not where within a devolved territory it is spent, given the devolved responsibility for agriculture spending. It would be up to each administration to justify where and how any budget uplift was spent.
11. There have been a number of variations in the implementation of the Basic Payment Scheme across the UK. Some administrations have moved towards a single rate per hectare, whilst others have moved towards a model with multiple 'regions', each with a different rate. The time period of the transition has also varied, and some administrations have chosen options such as transferring money from Pillar 1 to Pillar 2 or using some of their Pillar 1 budget for coupled payments, while others have not. This makes it impossible to compare precisely the funding allocated to each hectare across administrations, though some reasonable proxies can be used.

Change the allocations based on new factors

12. Finally, entirely new factors could be used to change the allocations. Since the UK is leaving the EU, Ministers will not be bound either by the basis for CAP Pillar 1 funding or by the basis for external convergence, whichever of these

might have been an appropriate basis to apply to the convergence element of the UK's Pillar 1 budget during this period. Even in an implementation period under the draft Withdrawal Agreement as currently agreed (as of September 2019) between the UK government and the EU, the UK will be outside the CAP from a policy perspective: it would no longer be logical to apply to the UK the principle of convergence between members of a union of which the UK is not a part.

13. Even though the UK would be outside the EU during the 2020-22 period, the UK government funding commitment means that the overall agriculture budget and allocation – aside, potentially, from the notional convergence element – will continue the EU's approach. Such a recommendation would move away from this principle.

14. Whilst this approach would also suffer from the same first three disadvantages of a per-hectare based change to the allocations (option b), we wanted to investigate alternative factors in order to explore this option fully.

6.2 Funding methodologies

15. Tasked as we were to conduct a review limited to 'convergence' funding within three to six months – including some consultation with interested government and industry representatives – we did not set out to conduct a comprehensive analysis of all possible factors for the allocation of agriculture funding. The allocation of the entire agriculture budget for the long term, hopefully based on a long-standing methodology, will require a thorough appraisal of factors suitable for a budget of the likely magnitude required to sustain and enhance such an important part of the economy, society and landscape. In addition, we hope that whatever decision UK government Ministers reach on the allocation of the small convergence component over the two-year period within our remit will be subject to an appropriate impact assessment as part of the usual Spending Review process.

16. We were asked to focus on the notional convergence component of the farm support budget under the UK government's funding commitment to the end of the parliament. This reflects the continuation of a CAP-based approach – albeit funded domestically – with the rest of the budget allocated between England, Scotland, Wales and Northern Ireland according to the principles for the division of Pillar 1 agreed in 2005. As can be seen from the foregoing chapters and the discussion of our conclusions, we have therefore mainly confined ourselves to an exploration of the debate surrounding external convergence, and the pros and cons of applying the various methodologies arising from CAP reforms since the introduction of Pillar 1.

17. Nonetheless, we did consider the factors suggested in our terms of reference and surveyed a range of other factors to explore alternatives to the status quo and a per-hectare basis reflecting the EU's external convergence methodology. We also wanted to ensure that we could properly consider the option – discussed above – of recommending the allocation of the notional convergence element of

the budget based on entirely new factors. As well as a necessary process for our recommendations, we hope that this overview may also provide a useful starting point for informing a long-term funding settlement for agriculture within the UK.

18. Having reviewed the evidence on the nature of farming across the UK and heard the views of stakeholders in England, Scotland, Wales and Northern Ireland, it became apparent that a number of factors *could* be used to determine future funding allocations.

19. The rest of this chapter addresses the advantages and disadvantages of each of these factors and the challenges presented by using a factors-based methodology to allocate convergence funding. It finishes with the conclusion we reached for how the 'new factor' option might in theory be taken forward, consistent with the feedback we received from stakeholders.

6.3 Factors

20. We considered two types of factors: general considerations to take into account when deciding on a funding methodology, and factors on which that methodology should be based. We discuss them here in that order.

The need to use public funds cost effectively

21. Using public funds cost effectively is not a factor in its own right, but it is a principle that should be applied when considering any future funding allocations. Agriculture is a devolved policy area and it is ultimately for the devolved administrations to decide how they want to spend this money. This is in line with the UK government (and devolved administration) policy on managing public money.

Respecting the devolution settlement

22. As outlined above a critical consideration for the review has been that any future allocation of convergence funding must respect the fact that agriculture is a devolved policy area.

23. The UK government has historically allocated England, Northern Ireland, Wales and Scotland a specific proportion of the CAP budget. Once the UK has left the EU, the UK government may allocate funding for agriculture to the devolved administrations on a new basis, which has not yet been determined. Regardless of *how* wider agriculture funding is allocated, it will be for the administrations of England, Scotland, Wales and Northern Ireland to decide how to distribute this money in their respective countries.

24. This raises practical questions in the context of the review. The UK government could allocate funding to devolved administrations on one basis, in line with our recommendations, and then the devolved administrations could distribute this funding on a completely different basis.

25. While there might appear to be some dissonance in having different bases for the allocation of funding and the spending of that allocation within each part of the UK, it is imperative that the devolution settlement is respected. With this in mind, we want again to emphasise that it is our role to recommend how convergence funding should be allocated from 2020 to 2022, and it is for the devolved administrations to decide on which basis they wish to spend this pot of money.

Maintaining stability (and current allocations)

26. A recurring theme in stakeholder responses was the need to minimise uncertainty during a time of huge change for the agriculture sector. The best way to do this would be to maintain the current allocations.

27. Maintaining the current allocations would be consistent with the UK government's funding commitment to remain the same cash total for farm support until the end of this Parliament. This was also the predominant approach advocated by stakeholders in England, Wales and Northern Ireland. The UK's exit from the EU, and subsequently from the CAP, has created a huge amount of uncertainty for the agriculture sector. There is a legitimate argument that maintaining the status quo should be a priority, to minimise further uncertainty for farmers.

28. However, maintaining the status quo would not address the concerns of Scottish stakeholders.

The impact of historical allocations

29. Another consideration is the impact that previous convergence funding allocations have had on each part of the UK. This factor is particularly relevant to Scottish stakeholders, who have argued that Scotland did not receive a sufficient proportion of the 2014 to 2020 convergence funding budget. The challenge of using this factor is that it is hard to quantify what the impact of historical allocations – or the absence of increased funding – were on each administration.

Financial impact of allocations on each on each part of the UK

30. Another factor that the UK government used to determine the 2014 to 2020 allocation of convergence funding was the financial impact of allocations on each part of the UK. The convergence funding budget is a part of the CAP Pillar 1 budget and the UK government has committed to maintain the same cash total for farm support to the end of this Parliament. Therefore, any change from the current convergence funding allocations would create winners and losers within the UK, without additional funding.

31. Some stakeholders advocated that the review should consider the impacts of funding allocations on markets and farming businesses in England, Scotland, Wales and Northern Ireland. English and Welsh stakeholders also advocated that convergence funding should not be used to improve the competitiveness of the farming industry in different regions or disadvantage farming businesses in other regions.

32. Taking this factor into account would ensure that no administrations, farming businesses or farmers are put at a disadvantage within the UK marketplace as a result of future convergence funding allocations.

Distribution of structural funds

33. The UK receives structural funds from the EU to 'support rural businesses to grow and expand, improve knowledge and get started' – one of which is the European Agricultural Fund for Rural Development (more commonly known as Pillar 2). This was another factor which the UK government used to determine the allocation of convergence funding from 2014 to 2020. Over this period, England received 59% of the structural funds budget, Scotland received 19%, Wales received 14% and Northern Ireland received 9%.

34. When the UK leaves the EU, it will no longer continue to receive structural funds from the EU, so this factor is no longer relevant for the future allocation of convergence funding. However, the distribution of agriculture funding other than through Pillar 1, or indeed non-agriculture funding such as the planned UK Shared Prosperity Fund, may well be a valid consideration when determining budgets in the round.

Wider political considerations

35. Another factor to consider is the effect that the UK's exit from the EU is likely to have on the agriculture sector – especially in the event that the UK leaves without a deal. In addition to this, due to a delayed Spending Review process, there is also a lack of clarity about the amount of agriculture funding that the devolved administrations will receive from the UK government beyond the end of the Parliament, creating further uncertainty in the sector. A 'no-deal' exit from the EU would present all farmers with unique challenges, particularly those in Northern Ireland since they share a border with an EU member state. Taking this factor into account would ensure that any recommendations are mindful of the current political climate, and the effect this has had on the agriculture sector.

Value of agriculture output

36. In determining a funding allocation methodology, a factor that could be taken into account is the proportion of the total value of UK agriculture output that is produced in England, Scotland, Wales and Northern Ireland respectively. In 2017, 74% of the UK's agriculture output was produced in England, 12% in Scotland, 8% in Northern Ireland and 6% in Wales.[32] England would be the largest beneficiary if convergence funding were to be allocated on this basis.

37. Using agricultural output to determine funding allocations would mean that the farm areas of the UK that have the biggest financial impact on the UK economy

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[32] Table 3.2, Agriculture in the United Kingdom 2018: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/815303/AUK_2018_09jul19.pdf

are awarded with increased funding. This would create a tangible relationship between output and funding levels, potentially incentivising farmers to produce more output. This approach was popular with stakeholders in Northern Ireland, including the Permanent Secretary of DAERA, because it reflects the decision in 2005 to allocate Pillar 1 funding based on the presence of CAP-supported industry in each part of the UK, and would also be popular with English stakeholders. This would effectively be a post-CAP version of the current allocations but reflecting the full range of agriculture practised in the UK.

38. However, there is an argument that the areas which already contribute the most economically do not need further funding; that this funding should instead be used to boost and incentivise productivity in areas which are struggling. It may well be difficult to determine whether businesses are profitable because they are efficient, or profitable because they face fewer challenges and lower costs; an in-depth business-by-business analysis would be required within each sector, comparing those in similar environments. Additionally, allocating funding solely based on output neglects to take into account the wider benefits of the agriculture sector to the UK – benefits beyond its economic contribution, to rural communities, people and the environment. Just as is the case under the CAP, decision-makers may decide with such a model that if some sectors are consistently profitable without support, it should not lead to additional funding for the relevant administration.

Environmental land conditions or agricultural land classification

39. Our terms of reference encouraged us to consider environmental land conditions. Land across the UK is graded according to its quality from the best, most versatile land to very poor quality agricultural land. To allocate funding based on agricultural land classification, a decision would have to be made on what grade land should be given more funding, and what each weighting should be. These decisions give this factor a multi-dimensional element, absent in other options.

40. One could argue that poorly graded (LFA) land should be allocated more funding, as the farmers in those areas are the most disadvantaged. LFA farmers work on remote land and also have increased production costs due to their distance from suppliers and markets. LFA land also has unique value, and has the capacity to develop environmental public goods, particularly through carbon capture. Scottish stakeholders have argued that LFA land should be awarded with more funding, to help deliver these environmental public goods. There is also an argument that convergence funding was designed to support those farming disadvantaged land – something which Scottish stakeholders are adamant about. This approach would therefore be popular with Scottish stakeholders.

41. Alternatively, one could argue that farmers in highly graded land should be allocated more funding, as those farmers are likely to produce the most output, and agriculture funding should ensure those farmers producing food for the nation should be kept in business in the face of adverse weather or market

conditions to maintain productive capacity and reduce reliance on imports (which may potentially be cheaper but produced to lower standards). This debate can be seen in relation to the UK government Agriculture Bill, before Parliament at the time of this report, by which, in England, a public money for public goods approach is being phased in as direct payments are phased out. Stakeholders in England, Wales and Northern Ireland have also been adamant that funding should be directed towards productive and active farmers and food producers, and not to areas where little agricultural activity is being undertaken.

42. Agricultural land is classified differently across England, Scotland, Wales and Northern Ireland, making it challenging to make direct comparisons between the different types of land across the UK. In England and Wales, land is graded from grade 1 to 5, where grade 1 is the ‘best and most versatile land’ and grade 5 is described as ‘very poor quality agricultural land’. Scotland has 7 grades of land and Northern Ireland has 15. It would therefore be difficult to compare the different types of land across the UK.

Agricultural Land Area (Utilised Agricultural Area)

43. UAA is land that is used for arable and horticulture crops, uncropped arable land, common rough grazing, temporary and permanent grassland and land used for outdoor pigs. This would be simplest way to allocate agricultural funding and would be comparable to the land-holding approach of direct payments under the CAP.

Unit labour costs per farm

44. Unit labour costs are defined as ‘the average cost of labour per unit of output’ and are calculated as ‘the ratio of total labour costs to real output’. This factor presents challenges as the number of labourers per farm is not always accurately recorded in the agriculture sector. Additionally, using unit labour costs to distribute convergence funding could disadvantage areas with lower wage rates.

Farmer income

45. Several agricultural academics suggested that the distribution of low-income farmers across England, Scotland, Wales and Northern Ireland should be used to determine allocation of the convergence budget. This would mean that convergence funding become a form of financial support for low-income farmers.

Average per-hectare payment rates

46. The UK government considered the average per-hectare payment rates in England, Scotland, Wales and Northern Ireland when deciding how to determine the 2014 to 2020 allocation of convergence funding. In 2013, England received €265 per hectare, Scotland received €130, Wales received €247 and Northern Ireland received €339. This was advocated by the Scottish Government for the reasons explained in previous chapters, but was ultimately rejected, opposed by

Ministers representing those in England, Wales and Northern Ireland, since it would have led to a more significant budget cut for their administrations.

47. In future, convergence funding could be used to equalise the per-hectare payment rates between England, Scotland, Wales and Northern Ireland – creating a UK convergence model. One way of doing this could be to use the principles and methodology of the EU convergence model: taking 90% of the UK average payments per hectare, awarding increased funding to areas below this amount and taking funding away from countries who are above the UK average.

48. In 2013, 64% of the low per-hectare land was in Scotland, 14% was in England, 14% was in Wales and 9% was in Northern Ireland. Scotland would therefore be the biggest beneficiary of this funding methodology. In practical terms, this would result in Scotland gaining a significant amount of convergence funding, Wales gaining a moderate amount, and England and Northern Ireland seeing a small reduction in their convergence funding budgets.

49. Using this factor would be a way to use the spirit of convergence funding and the new context of the UK leaving the CAP, to allocate funding to all areas of land which qualified the UK for an uplift. This approach is in line with the EU's intention for convergence funding and would be popular with Scottish stakeholders, as they would be the largest beneficiary. But it is somewhat circular because land falling in that category is receiving less money because of a presumably rational funding formula – in this case based in the income-support purpose of Pillar 1 direct payments for those farming CAP-supported sectors. To argue in favour of such an approach effectively returns us to the debate between using the current allocations and using the external convergence formula within a member state.

Other factors

50. We **ruled out** the following list of factors:

- *Number of farms and farm size* – There are many reasons for the variation in farm sizes and number in different parts of the UK, none of which provide a single comparative factor that could be used for a UK-wide allocation. In some areas, farm size tends to reflect the nature of the land farmed and the most suitable type of activity (but hardly an adequate proxy for land classification, since large land holdings are typical both for farms conducting large-scale arable operations on high-quality land and for those with extensive upland grazing on low-quality land); in others it reflects market dynamics and business consolidation.

- *Agricultural Gross Value Added per person* – Data on the number of labourers in the agriculture sector is not always accurate. A better measure of looking at agricultural gross value added is through agricultural output.

- *Number of cattle and sheep, woodland area, change in woodland areas over time and special areas of conservation* – Land use factors such as these allow direct comparisons between different parts of the UK, but constitute variations on the UAA factor discussed above and would be an arbitrary measure. They would allow the UK government to balance funding in favour of particular agricultural sectors, perhaps to support those facing particular market or environmental challenges, or to provide incentives for the provision of particular (public) goods, if all administrations agreed. Such an approach would need extensive discussion between the administrations in the UK to ensure this was a common objective. It would also likely need frequent review.

- *Population (i.e. the Barnett formula)* – Population does not reflect agriculture specifically and ignores the geography of the UK, which is central to the practice of farming. The UK government has also committed that the wider agriculture budget will not be distributed according to population size. Stakeholders in Scotland, Wales and Northern Ireland are adamant that agricultural funding should not be allocated according to the Barnett formula.

- *Capital expenditure per head* – Agriculture is a devolved policy area, and it is for the devolved administrations to decide how to spend their agricultural funding, therefore using this factor would merely reflect devolved spending decisions rather than any objectively comparable factor across the whole UK. Agricultural academics also advocated against consideration of this factor.

6.4 Conclusion

51. There are some broad challenges to a factors-based approach, as we discussed before reviewing all the alternatives. But we wanted to conduct a thought experiment for how an approach based on completely new factors *could* work, to assure ourselves that we had thoroughly explored all our options.

52. Ministers are free to apply new factors, and the panel has heard variously from stakeholders and administrations how allocations should reflect a range of existing factors: the challenges of upland farming; the potential for delivery of environmental public goods; the need to support agricultural incomes due to the current uncertainty for UK farmers; and the need for financial support because of the social value of, and inherent uncertainty involved in, farming in general. In light of this feedback, if we were to recommend completely new factors, we would attempt to reflect these considerations in our proposal.

53. Given the weight afforded to income support built into the rest of the CAP Pillar 1 budget – because of its link to the productive sectors traditionally supported by the CAP – the relatively small convergence element over the period since 2013

(0.89% of the 2014-20 direct payments budget[33]) might be used to tilt the balance further toward farmers facing the greatest environmental challenges, who are also well-placed to deliver environmental public goods. The panel heard support for LFA as the measure for achieving this, but also that it had limitations. In order to avoid simply rewarding the holders of land over a certain altitude and potentially giving undue market advantage to a very small number of farm businesses, a simple approach consistent with these principles would be to allocate the convergence pot based on the number of farm business recipients of basic payments in designated LFA areas in each of England, Scotland, Wales and Northern Ireland.

54. Such a relatively simple methodology reflects the process conducted by the panel for this short review, but it is not an approach we could recommend. LFA remains an imperfect, and in many senses outdated, measure to reflect the challenges faced by those farming various land types. A simple methodology has attractions, but is ultimately too blunt a tool, even for this small component of the total farm support budget. The UK government would no doubt want to conduct a thorough impact assessment of the various possible options should it consider using completely new factors for allocating the ‘convergence’ budget.

55. Whatever factors chosen within this option, there would also be a tension between, on the one hand, a simple, understandable single factor and, on the other, a formula of weighted factors that may better reflect the reality of agriculture, land use and geography across the UK, but is hard to explain. In addition, many of the credible factors are not standardised between administrations, making direct comparisons difficult.

56. Furthermore, choosing a common factor for the whole UK to determine allocations to each part could suggest that individual administrations should spend their allocation in line with that factor. New factors should not be set up that could undermine the flexibility of each devolved administration to spend their allocation as they see fit, and nothing in our recommendations should be interpreted as threatening that principle. But this does underline the need for a consensus to be found between all the administrations of the UK for an allocation methodology – particularly for a sustainable long-term funding settlement – so that the interaction between the intra-UK allocation and each administration’s legitimate funding decisions can be explained from a shared starting point.

[33] The €223 the UK was allocated in convergence funding from 2014-20 as a proportion of the 2014-20 direct payments budget: https://www.gov.uk/government/news/uk-cap-allocations-announced

7. What should be done?

1. Since all of the options discussed in the previous chapter have significant disadvantages, and none on their own address the various challenges identified by all stakeholders and administrations, we considered a series of compromises that might go some way to address the issues identified whilst minimising the negative impact on farmers in any one administration.

2. This included of course the recommendation that Pillar 1 allocations remain as planned for the 2020-22 period. Stakeholders were very keen not to add to existing uncertainty by creating winners and losers through a new allocation during this period and we take seriously the requirement for recommendations to be fiscally neutral. But we cannot ultimately recommend this approach because Scottish stakeholders maintain that an injustice has been done. Without addressing this, it would not be possible to create a stable foundation for the sustainability of any future settlement. We therefore concluded that addressing this disagreement – this perceived injustice – was something we had to do, to allow all parties to move on and focus on an agreed and objective basis for long-term agriculture funding.

7.1 Recommendations

3. It would not be practical within our terms of reference to try to achieve ‘full restitution’ to Scotland for something for which there are arguments on both sides and for which many of the sums demanded have already been spent. We therefore propose some modest changes in allocation to benefit to a small extent those farmers challenged by difficult terrain, which coincide with the areas recognised by the EU’s original external convergence formula, and which are predominantly in Scotland.

4. Such an approach retains a link to the formula that led to the external convergence windfall to the UK, but also takes advantage of the freedom afforded by leaving the EU, allowing us to consider factors that reflect the reality of farming in the UK. This reality is both that most farming occurs on productive land, but that upland farming on lower productivity land is much harder for those farmers. The panel feel that this upland farming has value, and that there is a legitimate balance to be struck between support for the industry where it is predominantly conducted and support for those facing the toughest environments. These are the two elements of the needs-based approach that we support. These tough environments are also where the potential for the delivery of environmental public goods is high.

5. Using a per-hectare measure for this relatively small proportion of the overall farm support budget allows this tilt towards challenging farming environments to be achieved, whilst also retaining a short-term link to the EU formula. The rest of the budget already rewards productive farming, continuing the original Pillar 1 objectives reflected in the historical allocations.

6. **For the period 2020-22, we therefore recommend that the convergence funding budget is split according to the proportion of low per-hectare land in each part of the UK**.

7. For the year 2020 (using 2013 data[34]) this would mean: England receives 13.9% of a notional convergence funding budget, versus the current 65.5%; Scotland receives 63.7%, versus the current 16.3%; Wales receives 13.7% versus the current 9.0%; and Northern Ireland receives 8.7% versus the current 9.2%.[35]

Figure 9: 2014-2020 allocation of the UK convergence funding budget

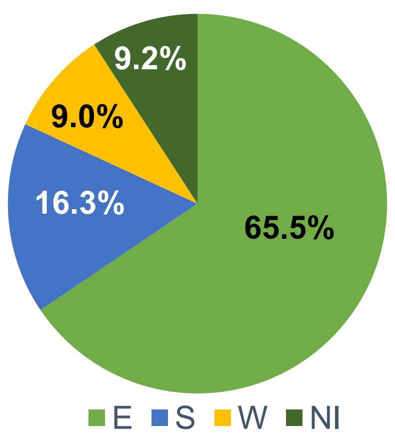
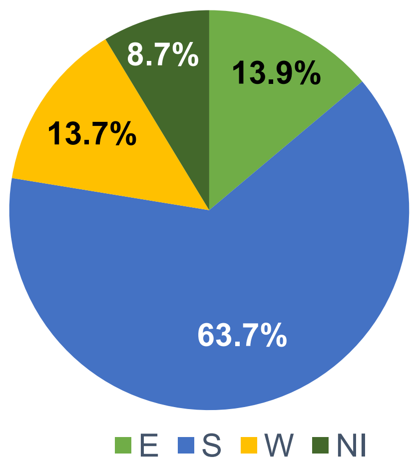


Figure 10: Our recommended 2020-2022 allocation of the UK convergence funding budget



8. Our description of the history of convergence funding earlier in this report explained the different methodologies for determining what proportion of the farm support budget should be treated as 'convergence'. We recommend the final year of the EU's funding is the sensible baseline for the 2020-22 period, which would see a total of €127.6 million over two years (the 2020 and 2021 scheme years) divided according to our recommended allocation. Since we are retaining a link to the EU's own external convergence methodology for a further two years, it is right that we pick up where the EU's budget left off, rather than averaging the convergence element from the prior six years. Per annum, the change from the current allocation we are recommending would – on its own – see a reduction in the budget for England of €32.96 million, an increase for Scotland's budget of

[34] Data was available for other years, but the panel chose 2013 data because this reflected the position when external convergence was first introduced, and the aim of the recommendation to address the argument made by Scottish stakeholders that the original allocation should have been based on the EU's per-hectare methodology.
[35] This data has been provided by the payment agencies in England, Scotland, Wales and Northern Ireland and has been verified by the four administration of England, Scotland, Wales and Northern Ireland. The methodology used to generate this data has been approved by external validators Steven Thomson (senior Agricultural Economist, SRUC) and Dr Andrew Moxey (freelance economist, Pareto Consulting). The current share is the allocation prior to transfers to Pillar 2.

€30.21 million, an increase for Wales of €3.06 million and a reduction from Northern Ireland's allocation of €0.31 million.

9. Such an approach would therefore see some administrations have smaller budgets compared to the status quo *if* this recommendation is to have no fiscal impact, because the larger convergence budget we recommend compared to the 2014-20 period would come at the expense of the rest of the Pillar 1 budget, as shown in Annex 3. However, we consider **any reduction to be unacceptable and therefore recommend that the UK government increase the farm support budget by €66.54 million (€65.91 million to England and €0.63 million to Northern Ireland) over the two-year period** so that no farmer receives less than they were expecting. This would fulfil our overriding objective of recommending a fair allocation across the UK. Especially in the current circumstances, with so much uncertainty and instability surrounding the UK's exit from the EU, we hope this recommendation will receive a positive response from the UK government.

10. In this report we have explained as comprehensively as possible, with the material available to us, the arguments for the different ways in which convergence funding should have been allocated and could now be allocated. Whatever one's perspective, we hope this will allow the issue to be understood dispassionately and based on the equally rational analyses for each position.

11. This is therefore a one-off solution to draw a line under this issue, without any farmer losing money they might reasonably have expected at an acutely uncertain time. This unique moment, when the UK leaves the EU but before Ministers determine a new basis on which agriculture spending is allocated across the UK, means that no precedent should be set. Furthermore, we believe that **this would be an inappropriate basis on which to allocate total agriculture funding beyond this period over the long term**. Our recommendation is a one-off solution to address a perceived historical injustice, in order to allow a fair future settlement to be developed without a previous inter-administration disagreement hanging over it. After 2022 the CAP-based factors we suggest for the convergence component of the budget will no longer have the CAP as the policy context and the notional convergence element will no longer exist.

12. We hope however that our *wider* investigations into the possible factors that are relevant to UK agriculture today may help those considering questions of intra-UK allocation beyond the end of the parliament.

7.2 Wider observations

13. This review's terms of reference are limited to the period between 2020 and 2022 and are framed within the UK government's commitment to provide the same cash total in funds for farm support until the end of this parliament (expected in 2022). While the period beyond 2022 falls outside of the remit of the review, it remains to be seen how future farm support funding will be allocated throughout

the UK. In this context, the work of this review has highlighted that **there is an important case to be made for continued government support for agriculture** after the period covered by the terms of reference, to ensure that each part of the UK is able to support its farming sectors.

14. Our investigations for this review have highlighted a range of issues facing farmers and land managers at this unique time for the UK.

15. Most immediate is the impact of the ongoing uncertainty over when the UK will leave the EU and on what terms. Even before the UK has exited the EU, and the almost universally acknowledged disruptive effects felt of an increasingly likely 'no deal' scenario, prices have been affected. The beef industry is an example of one sector that has seen such impacts. When comparing the period from January to June 2019 (that covering this review) with the same period in 2018, UK prices for finished clean cattle (cattle whose prime purpose is for meat production) were on average around 18.4 pence lower per kilo, representing an average 5.1% reduction in price across the UK and a loss in value of £65 million.[36]

16. We have heard how uncertainty and lack of clarity over long-term funding arrangements are preventing farmers and governments from being able to make the long-term plans inherent to agriculture.

17. We have also heard how funding should be prioritised increasingly in line with a desire to address environmental challenges, including climate change, whilst also recognising the social value of farming and sustainable food production in upland areas. We support a 'public money for public goods' approach as a means to take account of both of these considerations, given the potential to deliver environmental public goods inherent in upland areas, but obviously devolution dictates that policy decisions on how the money is spent lies with individual administrations, rather than with the UK government.

18. However, **we suggest UK government Ministers consider engaging collectively with their devolved administration counterparts to agree some principles for the initial 2022 intra-UK allocation of agriculture funding**, whatever the mechanism for managing the consequences of subsequent changes to that funding. Ministers should try to avoid giving farmers in any one part of the UK an unfair competitive advantage when deciding future allocations.

19. **We advocate including in those principles a recognition both of the social value of upland farming in particular and the challenges facing those practising it, and of the potential for delivering environmental public goods alongside sustainable food production, wherever in the UK that potential exists**.

20. The constitutional debates over a ring-fenced UK-wide agriculture budget when the UK is no longer bound by the CAP – let alone the quantum of funding after

[36] Using data compiled by Defra, AHDB, Quality Meat Scotland and the Livestock and Meat Commission

2022 – are all well beyond our terms of reference. But we are sympathetic to the challenges faced by upland farmers, and we would therefore support shifting the balance further to incentives for environmental enhancement.

21. We therefore **suggest Defra and HMT Ministers ensure that funding for agriculture and rural areas more broadly is protected, if not enhanced, given its high benefit-to-cost ratio**.

Annexes

[1]: Terms of reference

1. Objectives

Considering the convergence funding received by the UK in the current Multiannual Financial Framework (MFF), this review will look at what factors should be taken into account to ensure an equitable intra-UK allocation of domestic farm support funding to the end of this parliament. The review's conclusions will be advisory.

2. Scope

The review will:

- Inform domestic intra-UK agricultural funding allocations under the farm support manifesto commitment to the end of this parliament, limited to the quantum of convergence funding.
- Consider a wide range of factors reflecting the environmental, agricultural and socio-economic circumstances of each of the four parts of the UK. For example, factors could include:
    - the need to use public funds cost effectively;
    - farm output, numbers and size across the UK; and
    - land classification including environmental land conditions.
- Be fiscally neutral within the envelope set by the farm support manifesto commitment.

The review will not:

- Revisit the intra-UK allocation of 2014-20 Common Agricultural Policy (CAP) funding.
- Set the quantum of funding under the farm support manifesto commitment.
- Pre-empt decisions to be made on the agricultural funding arrangements beyond 2022.

3. Timings

The review should commence as soon as possible. We anticipate the review lasting between 3 and 6 months.

4. Lead reviewer and advisory panel members

An independent reviewer will be selected to lead the review based on objective criteria agreed by Defra, HM Treasury and No.10.

The lead reviewer will be supported by a team of advisory panel members. These would need to be drawn from England, Scotland, Wales and Northern Ireland, based on objective criteria similar to those used to select the lead reviewer. Panel members will be appointed by the UK government after consultation with the devolved administrations.

5. Secretariat

Defra and HM Treasury will provide the secretariat to the review team.

6. Post review

The UK government will be responsible for considering and responding to the non-binding recommendations of the review.

[2]: The size of the convergence pot

Calculating external convergence funding

1. In February 2013, the European Council negotiated a cut to the EU budget. The CAP budget for the UK for the period 2014 to 2020 was €27.6 billion – with €25.1 billion budgeted for Pillar 1 direct support payments.
2. The UK received a 1.6% cut to its CAP budget – this was slightly less than for many other Member States as the UK was allocated €223 million through external convergence. This was because the UK average for direct payments per hectare was less than 90% of the EU average.
3. After consulting with stakeholders, the UK government decided to maintain the historic intra-UK split of direct payments for the period 2014 to 2020. This meant that each part of the UK saw a 1.6% reduction in their direct payments between 2014 and 2019.
4. This reduction applied to the total budget for 2014-20 and was spread across the seven years (Table 1). This means there are multiple ways to calculate the convergence pot as it applies to CAP years 2020 and 2021 (EU financial years 2021 and 2022), the time period to be considered for the review.

Method 1: Roll forward the annual average from the 2014-2020 period

5. The annual average uplift across 2014-20 was €31.9 million. This gives a total pot for the two years considered by the review of €63.7 million.

Table 1: External convergence funding calculations

EU financial year	CAP scheme year	Convergence uplift (€m)	Total UK ceiling (€m)
2014	2013	0.0	3 166.8
2015	2014	10.7	3 170.7
2016	2015	21.3	3 177.3
2017	2016	31.9	3 183.6
2018	2017	42.5	3 192.2
2019	2018	53.2	3 201.4
2020 (estimated)	2019	63.8	3 351.0 (estimated)
	TOTAL	**223.4**	**22 443.5**
	Average over the 2014-20 MFF	**31.9**	**3 206.1**

Method 2: Roll forward the final year of convergence funding

6. The aim of the convergence policy was to reach a level of consistency across the EU, attained in 2020 (as can be seen in Table 1). One could therefore argue that convergence funding should be continued at the 2020 level: €63.8 million annually or €127.6 million across the two years.

[3] Payments per hectare methodology

1. In 2013 the European Commission calculated how many hectares in each Member State received payments below 90% of the EU-wide average. This annex explains how that calculation has been replicated to estimate equivalent hectare numbers for England, Scotland, Wales and Northern Ireland.
2. The EU average payment per hectare in 2013 was €268, and 90% of €268 is €241.
3. To ensure consistency with the EU calculations, various amounts of money had to be 'added back in' to the payments per hectare across the UK, as they had been included in the EU's calculations, but had since been removed voluntarily by domestic administrations to be used for other purposes. These include:
    - A transfer from Pillar 1 to Pillar 2
    - A redistributive payment
    - Coupled payments
4. As entitlement rates (the payment rates attached to each hectare, as received by farmers) are calculated from envelopes from which these amounts have already been subtracted, it is extremely complex to adjust them upwards to reflect the (hypothetical) re-addition of each of these amounts.
5. An alternative, however, which comes to more or less the same thing, is to *lower* the cut-off rate to reflect the deductions made to cover all these amounts. Thus, for England, as an example, in 2013 the total Pillar 1 to Pillar 2 transfers were €256.7 million. The total payable hectares in England in the same year was approximately €8.7 million. Dividing one by the other gives a necessary adjustment of approximately €30 per hectare. Conceptually this could either be added back in to each entitlement, or it could be subtracted from the cut-off point – with the latter being the much simpler option in terms of data requirements.
6. Thus, the England '90% of the average' cut-off point falls from €241 per hectare to €211 per hectare, and data provided by the Rural Payments Agency shows that in 2013 there were approximately 678,000 hectares with entitlement values of less than €211 per hectare. Equivalent numbers for the devolved administrations are all shown in Table 1.
7. As discussed in Annex 2, the convergence pot is notional for the period 2020 to 2022. The impacts of the two methods of calculating the size of the convergence pot on the financial allocations to each devolved administration are shown below. In these tables, convergence funding is allocated according to the share of the UK's land with a low per-hectare payment rate in each of the four parts of the UK.

Table 1: Number of hectares below (adjusted) 90% of the EU average in 2013 in each devolved administration[37]

	Total Payable Hectares	No. of Hectares below 90% of EU average	Proportion of hectares below 90% of EU average (%)	Share of the UK's hectares below 90% of EU average (%)
E	8,626,877	677,968	8 %	13.869 %
S	4,261,852	3,113,852	73 %	63.701 %
W	1,351,925	671,985	50 %	13.747 %
NI	976,787	424389	43 %	8.682 %

8. As discussed in Annex 2, the convergence pot is notional for the period 2020 to 2022. The impacts of the two methods of calculating the size of the convergence pot on the financial allocations to each devolved administration are shown below. In these tables, convergence funding is allocated according to the share of the UK's land with a low per-hectare payment rate in each of the four parts of the UK.

[37] This data has been provided by the payment agencies in England, Scotland, Wales and Northern Ireland and has been verified by the four administrations in England, Scotland, Wales and Northern Ireland. The methodology used to generate this data has been approved by external validators Steven Thomson (senior Agricultural Economist, Scotland's Rural College) and Dr Andrew Moxey (freelance economist, Pareto Consulting).

Method 1: Roll forward the annual average from the 2014-20 period

Table 2: Annual funding 2014-2020

	Annual average pillar 1 funding (€m)	Of which convergence funding (€m)	Proportion of the UK total convergence funding budget received	Share of the pillar 1 budget
E	2,346	20.912	65.526 %	65.526 %
S	585	5.216	16.345 %	16.345 %
W	321	2.858	8.956 %	8.956 %
NI	328	2.927	9.173 %	9.173 %

Table 3: Annual funding 2020-2022

	Annual average pillar 1 funding (€m)	Of which convergence funding (€m)	Proportion of the UK total convergence funding budget received	Share of the pillar 1 budget
E	2,329	4.426	13.869 %	65.066 %
S	600	20.330	63.701 %	16.767 %
W	322	4.387	13.747 %	8.999 %
NI	328	2.771	8.682 %	9.169 %

Table 4: Change from 2014-2020 to 2020-2022

	Monetary change in annual CAP pillar 1 budget (€m)	Percentage change in annual CAP pillar 1 budget (%)
E	-16.486	-0.703 %
S	15.113	2.583 %
W	1.529	0.477 %
NI	-0.157	-0.048 %

Total required to offset reductions to Defra and DAERA budgets 2020-22: **€33.29 million.**

Method 2: Roll forward the final year of convergence funding

Table 5: Annual funding 2014-2020

	Annual average pillar 1 funding (€m)	Of which convergence funding (€m)	Proportion of the UK total convergence funding budget received	Share of the pillar 1 budget
E	2,346	41.806	65.526 %	65.526 %
S	585	10.428	16.345 %	16.345 %
W	321	5.714	8.956 %	8.956 %
NI	328	5.852	9.173 %	9.173 %

Table 6: Annual funding 2020-2022

	Annual average pillar 1 funding (€m)	Of which convergence funding (€m)	Proportion of the UK total convergence funding budget received	Share of the pillar 1 budget
E	2,313	8.849	13.869 %	64.605 %
S	615	40.642	63.701 %	17.189 %
W	324	8.771	13.747 %	9.041 %
NI	328	5.539	8.682 %	9.164 %

Table 7: Change from 2014-2020 to 2020-2022

	Monetary change in annual CAP pillar 1 budget (€m)	Percentage change in annual CAP pillar 1 budget (%)
E	-32.957	-1.405 %
S	30.213	5.163 %
W	3.057	0.953 %
NI	-0.313	-0.095 %

Total required to offset reductions to Defra and DAERA budgets 2020-22: **€66.54 million.**

[4] The Scottish perspective

1. The 2014-20 allocation of convergence funding received strong criticism from the Scottish Government and Scottish stakeholders who argued that Scotland should have received the entirety of the convergence pot over this period. Below is an extract from a letter signed by representatives of several political parties in Scotland, demonstrating their strength of feeling.

2. Richard Lochhead (Cabinet Secretary for Rural Affairs and the Environment), Claire Baker (Scottish Labour), Alex Fergusson (Scottish Conservatives), and Tavish Scott (Scottish Liberal Democrats) wrote:

   "We are writing to express cross-party support in the Scottish Parliament on an issue relating to the imminent decision on the within-UK allocation of the UK's CAP budget receipts for 2014 to 2020: namely, the need for the UK's external convergence receipts under CAP Pillar 1 to be allocated to Scotland.

   "These receipts only exist because of Scotland's current position. All other parts of the UK are above the threshold set by the EU for external convergence, and it is only because of Scotland's extremely low average level of Pillar 1 payments per hectare that the UK as a whole fell below the threshold and qualified for an external convergence uplift. **Passing on this uplift to Scotland will also not entail any deductions at all for farming colleagues in England, Wales or Northern Ireland.**

   "The European methodology focused entirely on per-hectare levels of payment, and the within-UK decision must be on the same basis.

   "It is helpful that the European Commission has quantified the uplift precisely, so that it is possible to know exactly how much funding is involved and avoid any risk of cutting into funding which should correctly go to farmers in England, Wales and Northern Ireland.

   "We urge you to acknowledge that the only fair outcome on the external convergence funding is for it to come to Scotland, the only part of the UK to be below the EU's threshold. We would welcome an opportunity to meet with you to discuss this important subject."

The UK's eligibility for convergence funding

3. The UK was eligible for convergence funding because its average direct payment rate per hectare was 85% of the EU's average. The UK's average payment rate was brought down because Scotland attracted lower direct payments per hectare – in part because intra-UK payment rates are linked to the productivity of the land.

Average direct payments per hectare across the UK

4. If England, Wales, Scotland and Northern Ireland were all treated as independent member states for the purpose of applying the EU's convergence methodology,

the 2013 European Commission review would have the following impact on their budgets:

Table A: The effect of convergence funding if it was allocated in 2013 on a national level within the UK

Country	**Direct payments, € per hectare**	**Direct payments as a percentage of the EU average direct payment per hectare**	**Change in direct payments budget**
England	265	99%	No change
Wales	247	92%	No change
Scotland	130	48%	€171.1 million increase
Northern Ireland	339	126%	Large reduction

5. As England and Wales (shown in amber) both receive between 90% and 100% of the EU's average, their budgets would have been *unaffected* by the introduction of external convergence. Scotland (shown in green) would receive a significant increase in its direct payment budget, as it received only 48% of the EU's average for direct payments in 2013. In contrast, Northern Ireland (shown in red) would see a significant decrease in its budget, due to the fact it received 126% of the EU's average for direct payments per hectare.

6. As England, Wales, Scotland and Northern Ireland are not Member States, these figures are illustrative and are shown to demonstrate the differing rates of direct payments per hectare across the UK.

The *hypothetical* allocation of convergence funding in 2019, and the impact on Scotland

7. The review covers the period 2020 to 2022, but the 2019 data is used in this annex as this is the most recent data on convergence funding. This data can also be used to illustrate the impact if the 2014-20 convergence funding budget had been allocated differently. **The numbers below are therefore entirely illustrative**.

8. The meeting with the European Commission on 13 May 2013 confirmed that the UK would have a €66 million increase in its 2019 direct payments budget (before cuts to the MFF). This pot was split across each part of the UK in the existing way, with England receiving 65.526%, Scotland receiving 16.345%, Northern Ireland receiving 9.173% and Wales receiving 8.956% of the convergence budget.

9. This convergence uplift meant that Scotland's average direct payment per hectare increased to **€128** in 2019. However, if Scotland had received the entire convergence funding uplift, then Scotland's average direct payment per hectare would have been **€142** in 2019.

10. Therefore, even if Scotland received all the funding the UK received for convergence in 2019, it would still receive significantly less than **€196 per hectare** – the target set by the European Commission for Member States to reach by 2020.

A comparison of EU Member State average direct payments

11. On 15 April 2018, the European Commission released revised Member State ceilings in light of cuts to the MFF. These ceilings included adjustments for external convergence, and the requirement that all Member States receive at least €196 per hectare by 2020.

12. Table B compares the UK as a whole and each part of the UK, relative to other member states in terms of their average Pillar 1 payment in 2019.

13. Table B additionally demonstrates what the impact on per-hectare payments *would have been* had Scotland received the entirety of the 2019 convergence funding budget.

Table B:

Member State	**2019 Direct payment ceilings (post MFF cuts) (€m)**	**2009 Potentially eligible area (ha)**	**2019 Payment Per Ha (€)**
Malta	5	7,328	641
Netherlands	732	1,815,594	403
Belgium	505	1,308,651	386
Greece	2,135	5,563,613	384
Italy	3,704	10,199,249	363
Cyprus	49	143,703	338
Northern Ireland	329	987,776	333
Denmark	880	2,655,562	332
Slovenia	134	443,905	303
Germany	5,018	16,864,123	298
France	7,437	26,496,003	281
Luxembourg	33	124,371	269
Ireland	1,211	4,637,136	261
England	2,353	9,030,404	261
Austria	692	2,729,300	253
Hungary	1,269	5,056,517	251
Czech Republic	873	3,511,090	249
Wales	322	1,326,022	243
Spain	4,954	21,027,315	236
Finland	525	2,278,241	230
Sweden	700	3,053,508	229
Bulgaria	799	3,492,383	229

Member State	**2019 Direct payment ceilings (post MFF cuts) (€m)**	**2009 Potentially eligible area (ha)**	**2019 Payment Per Ha (€)**
United Kingdom	3,592	15,941,629	225
Poland	3,062	14,150,577	216
Slovakia	394	1,876,009	210
Portugal	600	2,917,979	205
Estonia	169	865,061	196
Latvia	303	1,546,362	196
Romania	1,903	9,720,864	196
Lithuania	517	2,640,799	196
Scotland – if Scotland had received the entire convergence funding uplift	653	4,597,427	142
Scotland – actual allocation	587	4,597,427	128

Table 1 – Sub-UK allocations[38]

	2012 Ceiling (€)	2009 IACS Return	2012 Ceilings per ha	% of EU average
	Net Ceiling + VM	Eligible Area (ha)	Net Ceiling + VM	
England	2,391,700,000	9,030,404	265	99%
Scotland	596,600,000	4,597,427	130	48%
Wales	326,900,000	1,326,022	247	92%
NI	334,800,000	987,776	339	126%
UK	3,650,000,000	15,941,629	229	85%
RUK	3,053,400,000	11,344,202	269	100%

14. For each part of the UK, the UK as a whole and RUK, Table 1 shows:

    a) The 2012 financial ceiling (this is the same as the 2013 financial ceiling).

    b) The eligible land area (hectares).

    c) The average direct payments per hectare (euros).

    d) The proportion that (3) is of the EU average per-hectare payment.

[38] Source: DARD

Table 2 – EC information[39]

Redistribution needs/financing	EU	UK
Redistribution envelope (€m)	43,225	3,649.9
PEA 2009	161,163,049	15,941,629
Average aid per hectare	268	229
Aid per hectare % of EU average	N/A	85%

15. The figures in the 'Average aid per hectare' row are used in calculation 1 below.

Calculation 1 – UK convergence for the 2019 calendar year

16. The progress below outlines how the UK's 2019 convergence uplift (€66 million) was calculated:

17. The EU's average direct payment per hectare is €268.21, and 90% of this is €241.39.

18. The difference between the UK's average direct payment (€228.96) and 90% of the EU's average (€241.39) is €12.43.

19. One-third of the difference between the UK's average and 90% of the EU's average is 4.14. Therefore, the scale of the UK's uplift is 4.14.

20. Multiplying the UK's uplift (4.14) by the eligible area of hectares in the UK (15,941,629), the UK convergence for 2019 is **€66,025,697.**

Calculation 2 and Table 3 – Sub-UK convergence for the 2019 calendar year

	2012/13 ceilings per hectare (Table 1)	Proportion of EU average	Impact of European Commission review
England	265	99%	No impact as England's average is between 90% and 100% of the EU's average
Scotland	130	48%	Uplift
Wales	247	92%	No impact as Wales' average is between 90% and 100% of the EU's average
Northern Ireland	339	126%	Decrease

21. Using the methodology explained above:

[39] UK meeting note 130513

22. The EU's average direct payment per hectare is €268.21, and 90% of this is €241.39.

23. The difference between Scotland's average direct payment (€129.77) and 90% of the EU's average (€241.39) is €111.62.

24. One-third of the difference between Scotland's average and 90% of the EU's average is 37.21. Therefore, the scale of Scotland's uplift is 37.21.

25. Multiplying the UK's uplift (37.21) by the eligible area of hectares in the UK (4,597,427), the UK convergence for 2019 is €171,050,643.

26. Hence Scotland would receive an **uplift of €171,050,643** and Northern Ireland would see a **large reduction.**[40]

[40] The European Commission has not disclosed the methodology used to calculate how much those Member States whose average direct payments per hectare were above the EU average would financially contribute to the convergence funding pot. However, the European Commission did confirm that these Member States would see a reduction, proportional to their distance from this average. As Northern Ireland's average direct payments per hectare are substanitally above the EU average, they would therefore see a significant reduction

Correspondence from the Scottish Government to the Department of Environment, Food and Rural Affairs on the 2013 CAP Allocations

Cabinet Secretary for Rural Affairs and the Environment

Ridseard Lochhead BPA

Richard Lochhead MSP

The Scottish Government

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The Scottish Government
Riaghaltas na h-Alba

LEGACY 2014
XX COMMONWEALTH GAMES
SCOTLAND

Owen Paterson MP

Secretary of State for the Department of Environment,

Food and Rural Affairs

Nobel House

17 Smiths Square

12th September 2013

Dear Owen,

Thank you for your letter seeking my views on how the UK CAP Budget for 2014 — 2020 should be allocated as set out in the joint paper. Like you I would also like to thank our officials for their hard work in pulling this joint paper together.

As you know, Scotland currently fares very badly in terms of CAP support and it is vital that the future CAP is a fairer one for Scotland. At present we have the fourth lowest per hectare Pillar 1 rate and the lowest Pillar 2 rate in the whole of the EU, and the lowest rates for both Pillars within the UK. Without a significant uplift in Scotland's budget we will end up with the lowest rates across Europe for both Pillars. That cannot be a fair outcome.

For Pillar 1, the fairest way forward for Scotland would obviously be to bring our average per hectare payment up to the EU's €196 minimum rate as set out in the MFF conclusions. After all, if Scotland had already been independent during this round of EU negotiations, then we, like every other member state with very low payment rates, would have benefited from this rule. This would give Scottish farmers an extra €1 billion of support over the 2014- 2019 period.

There is strong support across the Scottish Parliament for a much fairer and higher direct payment allocation for Scotland. Indeed, in a debate earlier this year, the Scottish Conservative spokesman tabled an amendment calling for “a move towards internal convergence across the UK to ensure that all British farmers are paid equally”, and for all governments to work towards the target of €196 per hectare by 2020. In view of this strong message, I urge you to give this serious consideration.

As you know, Europe has also set out an external convergence mechanism which will benefit countries such as the Baltic countries which currently have very low rates; rates far below the European average. It is helpful that Europe has now confirmed that the future budget to the UK will include an uplift because of external convergence.

This uplift has been earned by Scotland by virtue of its very low rate so obviously it should come to Scotland. Scotland’s current rate, which is less than half (48%) the European average, is not only very low but also the only one in the UK below Europe’s threshold of being less than 90% of the EU average. The other UK regions are either at or in some cases above the EU average (England 99%, Wales 92%, Northern Ireland 126% of the EU average). If it wasn’t for Scotland, the UK as a whole would be a net contributor under external convergence rather than a beneficiary so it is only right that the full extra allocation, of around €11m in 2014 rising to over €60m in 2019, comes to Scotland.

Furthermore, using the right baseline for the calculations will be important when we come to agree on the future division of the UK ceiling between the regions. It is regrettable that it has never been possible to get to the bottom of the mismatch between actual spend and the regional ceilings, however, it is only sensible and logical that any calculations going forward are based on actual spend, which is how the original ceilings were meant to be set.

This brings me to the table in your letter showing relatively high average Single Farm Payments to farmers in Scotland. But your table does not compare like with like, as you will have seen for yourself on your recent visit to the Highlands.

Certainly there are differences but these reflect differences in the average holding size in different parts of the UK. Scotland’s average holding is much larger than those in England, Wales and Northern Ireland due mainly to the quality of land. With 85% of Scottish farmland less favoured, it follows that much of our farming is extensive and there are high production costs. But it would be completely wrong to penalise Scottish farmers because of geography and climate. Indeed it is because farm size varies so much across Europe, that Europe uses average rates per hectare for its comparisons.

In addition, the different regions of the UK implement the CAP very differently. In Scotland we only pay Single Farm Payments to active farmers with a minimum of 3 hectares of land. In England however, the minimum claim size is only 1 hectare and many of these small SFP claims are tiny claimants (pony paddocks etc.).

In the context of capping, the UK has strongly argued throughout the CAP negotiations that receipts per farmer are irrelevant. It would be unacceptable for us if the UK departs from this view now for the purpose of the budget allocation decisions.

Using average rates per hectare, as Europe does, is the only fair comparison and supports what I'm sure you saw on the ground, on your visit to the Highlands, that many Scottish farmers are struggling unfairly because of our low allocation.

Furthermore, my view of what is an acceptable level of Pillar 1 support also depends on whether our coupled support has to stay within 8% of Scotland's direct payments ceiling or whether it could go higher provided the UK ceiling remains below 8%. When we discussed this a few weeks ago you appeared to rule out Scotland borrowing some of the wider UK ceiling on Voluntary Coupled Support. I would be grateful if you would confirm your position on this.

For Pillar 2, I find it extremely disappointing that again we are talking about a purely historic split of the UK allocation. I appreciate the constraints that officials found themselves under, given that the Commission has chosen not to divulge what objective criteria were taken into account when allocating member state shares. It is extremely disappointing that, after calling for a fairer distribution of the Pillar 2 budget in Europe, the UK seems to have gained no ground at all. That said, the UK supported the EU's original intention that a substantial share of Pillar 2 funds should be based on objective criteria. The fact that the EU plans seem to have been watered down doesn't alter the fact that we agreed before the negotiations that using objective criteria was a good idea for Europe and so this is the mechanism we should now be using within the UK.

From the scenarios set out in the joint paper it is clear that using a single year at the end of the programme as a baseline is wholly misleading. In comparison, a multi-annual baseline provides an insight into the impact of the increasing compulsory modulation over the period and a more accurate picture of funding over the period. But it highlights an issue with the way compulsory modulation is treated in the examples. It is clearly unfair that, while the compulsory modulation cuts to our respective Pillar 1 budgets are much the same in percentage terms, counting compulsory modulation against Pillar 2 distorts the results for Pillar 2 in a way that increases England's share at the expense of Scotland, Wales and Northern Ireland. The fact that compulsory modulation was increased during the last CAP period means that this distortion has been exacerbated over time.

I fully understand that it was necessary for our officials to opt for a methodology for dealing with modulation for the purposes of producing the paper but I consider this should be investigated further before any decisions are taken.

I recognise the need to reach a decision on how we split the UK CAP budget as soon as possible but such an important decision, which will affect our farmers for several years to come, should not be taken hastily. I would be happy to discuss this issue with you further either face—to-face if this is possible or over by telephone if that would be easier to arrange. I look forward to hearing from you.

I am copying this letter to Alun Davies and Michelle O’Neill.

RICHARD LOCHHEAD

Regards. Richard

[5] The Welsh perspective

9. The Welsh perspective has remained consistent. In 2013 the Welsh Government was in agreement with the decision to allocate convergence funding across the 2014-20 period in line with the existing CAP funding proportions. More recently, the Welsh Government has reiterated that Wales should not receive a penny less as a result of this review, nor should Welsh Ministers lose any flexibility to determine funding arrangements and priorities for Wales. The Welsh Government has always aimed to ensure Wales receives the same or an improved allocation of the budget.

10. Below are some statements from the Welsh Government and the Wales Office in which they demonstrate their support for the 2014-20 funding allocations.

Written statement by Alan Davies AM, Minister for Natural Resources and Food in the Welsh Government on 8 November 2013

The Common Agricultural Policy budget for Wales 2014-20

"I made an oral statement to the National Assembly on 9 July 2013 about the political agreement reached in Europe about reform of the Common Agricultural Policy (CAP). I outlined the main points agreed and also updated Assembly Members about the responses to my spring 'conversation' exercise with stakeholders in Wales. At the Royal Welsh Show I launched a consultation exercise about direct payments to farmers – CAP Pillar 1. The consultation paper explained the main features of the reforms and the decisions I am proposing, in principle, to take. As part of the consultation I have held public meetings throughout Wales this autumn.

"My July statement, and the consultation paper, made assumptions about the CAP budget because negotiation between the European Parliament, the Commission and the Council of Agriculture Ministers did not conclude until September. This delay confirming the budget figure for the UK meant that decisions could not be taken within the UK about how the UK budget would be shared. I have already stated my regret about decisions in Europe in February of this year which cut the budget and resulted in the UK receiving less, with obvious consequences for Wales.

Nevertheless, whilst I am critical of the role the UK government played in that budget settlement, there has been willingness on Defra's part to try and ensure a fair distribution of the budget across the UK. Assembly Members will be aware of the vociferous case made by Scotland to secure a much larger share of the UK budget pot. I have opposed that argument, not only because I felt it was unjustified but also because it would have reduced the funding available to Wales further. My aim, in a time of declining funding, has been to secure for Wales at least the same share of the UK budget it has had until now.

"I wrote to Defra in the summer setting out in detail how I wished to see the budget divided up. I am happy that these proposals have been accepted and the UK budget has been agreed in this way.

“The Pillar 1 budget is to be allocated in the same proportion as now, 2013. This will mean a Welsh annual budget of €322 million come 2019, based on current prices. All parts of the UK will take the same size percentage cut of 1.6% with respect to the budget for 2013. This is the best outcome for Wales in which we will receive some 8.96% of the UK budget ceiling. Alternatives, notably any option which would have provided additional funds for Scotland, would have meant a bigger cut for Wales. I am pleased that the Secretary of State has recognized the importance of being even-handed across the UK and sharing the budget reduction equally.

“For Pillar 2, Wales will receive €355 million in current prices over the period 2014-20, an increase of 7.8% compared to the period 2007-13. All parts of the UK will benefit to the same degree in the uplift of the UK’s Pillar 2 budget ceiling. In my view this is the fairest outcome and a good result for Wales.

“With confirmation of the Welsh budget, I am now able to firm up the data modeling work we have undertaken with stakeholder representatives. I will publish further modeling information updating the scenarios in my consultation document. In view of the time taken to reach firm budget figures, and also my desire to consider CAP reform alongside Kevin Roberts’ review of farming resilience, I have extended the direct payments consultation closing date to the end of this month (30 November). In addition, I will publish a more up-to-date map showing moorland in Wales which, following trial work, will use altitude to determine which areas within the 1992 moorland map should reasonably be classified as ‘moorland’ for Pillar 1 payment purposes. This will reduce considerably the area of land initially categorized as ‘moorland’ and will, I hope, address some of the concern expressed recently about treatment of improved and semi-improved land within the original line.

“It is my intention to take final decisions on Pillar 1 – direct payments – from Christmas 2013, and I will make an announcement in January on the way forward, including on transfers of funding between the two pillars of the CAP. I will also set out at that time my indicative proposals for Pillar 2 – the Wales RDP – including in relation to future agri-environment measures. Pillar 2 is running to a slightly different timetable, and I will consult on the planned new RDP schemes next spring.”

11. David Jones, Secretary of State for Wales, said:

“This agreement announced today shows that this government is listening and has ultimately acted in the best interests of all UK farmers. The Wales Office Ministerial team has worked closely with Welsh Government officials, and with farming organisations, such as NFU Cymru and the Farmer’s Union of Wales, as we worked towards reaching this important agreement.

“In doing so, we have secured outcomes that have successfully addressed their key concerns and achieved the fairest possible deal for Welsh farmers. This is a clear demonstration of the outcomes that can be achieved when the two governments in Westminster and Cardiff Bay work closely together for the good of the Welsh and wider UK economies.”

Correspondence from the Welsh Government to the Department of Environment, Food and Rural Affairs on the 2013 CAP Allocations

Alun Davies AC / AM

Y Gweinidog Cyfoeth Naturiol a Bwyd

Minister for Natural Resources and Food

Llywodraeth Cymru
Welsh Government

Ein cyf/Our ref **MB/AD-/3775/13**

Rt Hon Owen Paterson MP
Secretary of State for the Department of
Environment, Food and Rural Affairs
DEFRA
Nobel House
17 Smith Square
London SW1P 3JR

16th August 2013

Dear Mr Paterson,

CAP BUDGET FOR THE PERIOD 2014 - 2020

Thank you for your letter of 31 July. I have also seen Michelle O'Neill's response to you of 1 August. We have certainly travelled a long way together on this Reform but there remains a great deal of detail to sort out before we can implement the new CAP, so it is good now to have reached this formative point. I am very grateful to you and to colleagues in all our Administrations who have worked so hard to get us to this stage in the process.

Pillar 1

In a nutshell, it seems to me that to use Scenario 1b) as a basis for allocation would in effect reward parts of the UK for spending in excess of their allocations. This regional overspending has occurred over several years under the current CAP and only the fact that we and other home nations have spent within their allocations has prevented the UK as a whole from exceeding its ceiling. In recent years Wales has managed its payments carefully and kept close to its ceiling. I really cannot support an approach based on payments. This is a Reform where the EC is introducing a mechanism to improve financial discipline; for us to proceed on Scenario 1b) might be read as rewarding the opposite.

I understand that Richard Lochhead and his team are keen pursue Scenario 2, but I cannot support this either. Scotland does have a relatively low average payment per hectare but that is for a reason: much of the land area there has relatively low economic worth and in the past the UK's entitlement system reflected that fairly. This was considered at length during the CAP Health Check only a few years ago.

It follows that, like Michelle, my clear preference for the allocation of Pillar 1 is **Scenario 1a)**, which maintains the current shares of the UK allocation.

I would be very concerned by any decision to support option 1(b) since this would fundamentally affect so many parts of the UK and seriously disadvantage many thousands of farmers across the UK.

Pillar 2

The Rural Development Plan under EAFRD has always been conceived of (and operated) as a multi-year programme, and any planning or evaluation exercise has had to look to the full programme period rather than a single year in isolation. Scenario 1 is based on only a single year in the multi-year programme and as such it is liable to significant distortions. The later years of the programme have been affected by the CAP Health Check which introduced changes, inter alia, to modulation; being dependent on Pillar 1 allocations, these have affected each Administration differently. As a result the profile in 2013 is quite different to the profile in 2008 or over the whole programme period and I feel strongly that this should not be used as the basis for a decision on future funding.

Scenario 2 properly takes into account the whole period of funding, and it averages out the “tail-end” effect of the CAP Health Check changes, and seems the most logical approach to take. No annual snapshot or slice of an RDP will be representative of the whole programme, which is why it is managed on a multi-year programme basis. I endorse this approach.

I hope that this helps your deliberations. Please let me know if there is anything further that I can help with. I believe a speedy resolution is in the interests of all our farmers.

I am copying this letter to Michelle O’Neill and Richard Lochhead.

Alun Davies AC / AM

Y Gweinidog Cyfoeth Naturiol a Bwyd

Minister for Natural Resources and Food

[6] The perspective from Northern Ireland

1. The 2014-20 allocation of convergence funding received support from the Northern Ireland Assembly, who were pleased that Northern Ireland would receive the same proportion of the CAP budget for this period. Below are some statements from the Northern Ireland Assembly and the Northern Ireland Office in which they demonstrate their support for the 2014-20 funding allocations.

2. Agriculture Minister Michelle O'Neill in the Northern Ireland Executive said:

   "I am extremely pleased to announce that as a result of our strong arguments in defence of our allocation of the CAP budget for Pillar 1 and Pillar 2, we have succeeded in retaining our historic budget share. The negotiations were difficult and protracted as Scotland was pushing hard for an increased share. When I met with my ministerial colleagues from Britain at the start of this week, I made it very clear that we needed to bring this matter to a rapid conclusion. The decision has now been made and I have secured the outcome I was looking to achieve, which will deliver an additional €20 million in support to the local industry between now and 2019. I believe that this represents the fairest possible outcome as the existing budget distribution reflects the nature and agricultural production characteristics across all of the regions.

   "I have already voiced my disappointment that the EU budget deal will leave us with reduced budgets, but as a result of today's decision, the risk of any further reduction has been avoided. This provides welcome clarity on the CAP monies available in the north and now allows us to move on to decide how these should be best used for the long-term benefit of the rural economy and environment."

3. Theresa Villiers, Secretary of State for Northern Ireland, said:

   "This is good news for farmers across Northern Ireland and the wider UK. Having worked closely with Defra on this issue, I'm delighted that we have kept allocations proportional for the next round of CAP funding."

Correspondence from the Northern Ireland Executive to the Department of Environment, Food and Rural Affairs on the 2013 CAP Allocations

From the Office of the Minister

Michelle O'Neill MLA

Department of
Agriculture and Rural Development
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Owen Paterson MP
Defra Secretary of State
Nobel House
17 Smith Square
London
SW1 P 3JR

Our Ref: COR/476/2013

Your Ref:

1 August 2013

Owen, a chara

Thank you for your letter of 31 July 2013 seeking views on the regional allocation of CAP funds for the period 2014-2020 based on the comprehensive analysis and options set out in the accompanying paper.

Pillar 1

I will start by stating my clear position that the forthcoming regional budget allocation should be based on the distribution pattern exhibited in the current budget period.My reason for stating this is that the current allocation emerged as an accurate reflection and consequence of the structure and output of the agricultural sectors within each region (which, in turn, reflected the influence of factors such as the soils, topography and climate within which the sectors operated). I don't believe that there has been any significant relative change between the regions in these underlying factors and hence, there is no logical argument to change the existing pattern of budget distribution, which is built on this very firm, objective foundation.

I am, of course, aware that at EU level, there has been some very modest reallocation of support between Member States based on a formula linked to levels of support per hectare. However, this was largely a political exercise designed mainly to address an issue pressed by some New Member States, which argued that their agricultural output did not benefit from the existence of coupled support prior to their accession to the EU and that this left them with a low budget allocation under the previous method. There may be some validity to that underlying argument, but I very much doubt that a simplistic solution based on converging the level of support per hectare is an accurate way of correcting for that perceived difficulty.

Of course, that particular problem does not exist within Britain and the north of Ireland and so there is neither a logic, nor an obligation, to replicate that subjective, formulaic approach to determine regional allocations. Indeed, the analysis in the paper clearly illustrates that while there is a wide variation in the average rates of support per hectare between the regions, there is equally a wide range in the average level of support per farmer, which follows a‘ completely different regional hierarchy. That is entirely in keeping with my opening comments — that the current support distribution pattern is a reflection of the underlying nature and circumstance of our respective agricultural sectors. And while an argument might be mounted to converge the rate of support per hectare across the regions, that argument would completely ignore the legitimate underlying economic and environmental forces which have created the current regional distribution pattern. Of course, any number of alternative allocation keys could be advanced if we were all intent on promoting our narrow regional interests. However, as this is a zero sum game within a fixed budget, I think we must instead focus on finding a fair, balanced and logical solution which reflects the intrinsic nature of our respective agricultural sectors.

My preference, therefore, is for a historic-based allocation using the 2013 regional ceilings baseline (**Scenario 1(a)** in the paper).

It follows on from the above that I could not accept Scenario 2, whereby the entire external convergence uplift is allocated to Scotland. The external convergence uplift arises from the application of a formula at EU level to try, in a very crude manner, to address the Old Member State/New Member State political problem referenced earlier. Therefore, there is absolutely no logic that could justify carrying that subjective approach, or its consequences, through to an internal regional allocation key, particularly if it is to benefit claimants already enjoying a very high level of support (and the second highest in the EU, I believe). Moreover, it must be remembered that despite the external convergence gain, our overall Member State allocation will have been reduced by 1.6% in 2019 compared with 2013 (and that is before taking account of inflation). Therefore, a scenario that gives a 7.3% increase to one region and imposes a 3.3% reduction to all others with no rational justification is not one that could ever be regarded as fair and, hence, is not one that I could ever support. .

Pillar 2

In relation to Pillar 2, I believe that there is no option other than to use a historic basis for the regional budget allocation going forward. It is hugely disappointing to me that despite suggestions of objective criteria being used at EU level, in part, to determine the Member State allocations, this has failed to result in any significant benefit.

In terms of the two options put forward in the paper, I would prefer the regional budget allocation to be based on historic shares over the 2007-2013 period (i.e. Scenario 2). This would result in the increase in Pillar 2 funds (in current terms) being shared proportionately among the regions, which seems to me the fairest way to proceed. It is also logical, given that rural development is planned and delivered on a multi-annual basis, which suggests that the budget allocation should refer to the multi-annual budget distribution over the full life of the previous programme rather than simply the distribution in its final year. I also think it would be difficult to justify the widely differing impacts across the regional budgets that would emerge under Scenario 1. .

I hope that you find this response helpful and constructive and I would like to thank your officials and those in the other regions for their work in preparing the options paper. I am, of course, ready to discuss this further with you and other Ministers should that be necessary, though like you, I am very keen to have an early resolution of this matter.

I am copying this letter to Alun Davies and Richard Lochhead.

Is mise le meas

Michelle O'Neill

MICHELLE O'NEILL MLA

Minister of Agriculture and Rural Development

[7] The English perspective

1. The 2014-20 allocation of convergence funding received support from English stakeholders, who were pleased that England would receive the same proportion of the CAP budget for this period.

2. Agriculture is a devolved policy area and each devolved administration had a view on whether the 2013 allocation of convergence funding was fair. However, there is no equivalent English perspective on that decision. This is because of the constitutional position of the UK government in relation to England: Scotland, Wales and Northern Ireland have devolved legislatures and executives, whereas there is no devolved parliament or assembly for England.

3. When the 2014-2020 CAP allocations were announced, Owen Paterson, Secretary of State for the Environment, said:

   "The UK government fought hard for the best possible deal on CAP, and we've worked closely with farmers and ministers from Scotland, Wales and Northern Ireland to make sure that this is fairly allocated across the UK."

[8] Letter from Lord Bew to the Secretary of State for Environment, Food and Rural Affairs on the Intra-UK Allocations Review

The Rt Hon Michael Gove MP
Secretary of State for Environment, Food and Rural Affairs
Seacole Building
2 Marsham Street
London
SW1P 4DF

February 2019

INTRA-UK ALLOCATIONS REVIEW

Dear Secretary of State,

I am writing to you as chair of the review of the intra-UK allocation review, commissioned by the UK government. The review panel have all seen and approved this letter.

During the panel's first meeting on the 8th January 2019, we discussed how the review might benefit from being given access to advice given to Defra Ministers on their 2013 decision on the allocation of convergence funding from 2014 to 2020. We feel it could enable the panel to conduct a fuller and fairer review, taking into account all of the relevant facts, which would help us to make well-informed recommendations for the future.

As you know, the panel is exploring which factors should inform the allocation of convergence funding from 2020 to 2022. Even if you are unable to share the advice, it would therefore be useful if you could outline the factors that were used to allocate the 2014-2020 convergence funding, and the considerations that were taken into account in choosing and weighting them.

We make a firm commitment and would be contractually obliged that any government material that is shared with the review panel will be kept strictly confidential.

We will also be writing to Phil Hogan, the European Commissioner for Agriculture and Rural Development, to obtain access to all correspondence the Commission had with UK government Ministers about external convergence in 2013 and 2014, and would be grateful if you could give your consent for this correspondence to be made available to the panel.

The panel would be grateful if you could confirm in writing that we will have access to the full documentation prior to the next panel member meeting in mid-February.

I am copying this letter to the Chief Secretary to the Treasury.

Yours sincerely,

Lord Paul Bew

[9] Letter from the Secretary of State for Environment, Food and Rural Affairs to Lord Bew about the Intra-UK Allocations Review

Department for Environment Food & Rural Affairs

The Rt Hon Michael Gove MP
From the Secretary of State for Environment, Food and Rural Affairs

Seacole Building
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London SW1P 4DF

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defra.helpline@defra.gov.uk
www.gov.uk/defra

Lord Bew of Donegore
House of Lords
London
SW1A 0PW

May 2019

Thank you for your letter of 4 February on behalf of the intra-UK allocations review panel. I was pleased to read that the review had begun in earnest and I was grateful for a summary of the panel's discussions.

I am sorry for the delay in responding – given the significance being placed on this matter, I asked my officials to explore thoroughly what would be possible, including consultation with the Director General of Propriety and Ethics in the Cabinet Office about the rules on the release of Civil Service advice to Ministers. My letter draws on their guidance and indeed my own discussions as I have taken a personal interest in trying to reach an acceptable resolution.

As I said during my debate with Fergus Ewing on 18 February, I would have been willing to share relevant ministerial advice with the review panel, if I was permitted to do so. I regret to inform you that upon further investigation, and on the advice of the Cabinet Office, I will be unable to share this advice with the panel because there is **no legal basis** to provide this information in these circumstances.

Such a legal basis can arise under the Freedom of Information Act 2000, Data Protection Act 2018, Public Records Act 1958, Environmental Information Regulations 2004, in litigation, criminal investigations and statutory inquiries held under the Inquiries Act 2005.

I recognise this will be disappointing but hope the following explanation is helpful.

As you will know, it is a long-standing principle of the operation of good government that advice from civil servants to Ministers is provided in confidence. This 'safe space' helps to make sure that civil servants can advise Ministers in accordance with the Civil Service Code, without fear or favour of the consequences. This supports the wider principle of collective Cabinet government (set out in the Cabinet Manual) that Ministers should be able to express their views frankly, in the expectation that they can argue freely in private and then maintain a united front once decisions have been reached.

Under the Public Records Act 1958, advice from officials would only normally be made public (through The National Archives) once it becomes an historical document. This is known as the 20-year rule. However, before advice is transferred, its contents are reviewed for sensitivity and, depending on the contents of the advice, the documentation may be closed from the public or retained.

The Freedom of Information Act also recognises the importance of a 'safe space' for policy making: information can only be released under the Act *if* the public interest in disclosure outweighs the importance of protecting the 'safe space' needed for good government and policymaking. Other routes for providing a lawful basis to release information are for statutory inquiries (under the Inquiries Act 2005) and as part of disclosure in legal proceedings.

While the Intra-UK Allocations Review is independent, it is sponsored by the UK government and is governed by the terms of reference which Ministers determined and on which basis panel members were appointed. These terms of reference outline which information the Government will provide to the review, within the parameters of the legal framework set out above. The specific advice requested is outside the terms of the review, which state that "*the review will not revisit the intra-UK allocation of 2014-2020 Common Agricultural Policy (CAP) funding*". Therefore Defra are unable to release confidential policy advice provided to previous Ministers to a non-statutory review, and to do so would go against the constitutional conventions underpinning collective agreement.

Fergus Ewing has also informed me that ministerial advice has been shared with Scottish Government-sponsored inquiries in the past, including the Lord Fraser inquiry and the Scottish Child Abuse Inquiry. While I am grateful for these examples, public inquiries specifically set up to investigate past decision-making are different from future-focused policy reviews. In addition, I understand that Scotland operates under its own legislative framework (the Public Records Scotland Act), which is different from the Public Records Act.

I can assure you that I have been considering what information can be shared, consistent with your terms of reference, and which will assist with your advice on factors to inform a fair allocation of 'convergence' funding across the UK.

With this in mind, I would be happy to outline the factors that were used in 2013 to allocate the 2014-2020 pot of convergence funding. The previous allocation decision was taken according to the direct payments regulation requiring Member States to allocate the basic payment 'between the regions in accordance with objective and non-discriminatory criteria'. To inform their decision-making, Ministers considered average payment rates per hectare throughout the UK, the financial implications of the allocation on each part of the UK, financial ceilings for direct payments, the distribution of structural funds and land types across the UK, as well as wider political considerations.

You also requested that the panel be given access to correspondence between UK government Ministers and the European Commission about external convergence between 2013 and 2014. If any letters were sent by a former administration, they would be the property of Defra and it would be for the Permanent Secretary to decide whether to share these documents with the panel, consistent with the legal framework described above. Defra officials have not identified any such correspondence.

Thank you again for your letter and for the panel’s continued hard work. I am sure that any recommendations the panel make will be hugely valuable in making sure that future allocations are distributed fairly. I look forward to reading these recommendations in due course.

With every good wish,

Yours,

Michael Gove

[10] Letter from Lord Bew to Phil Hogan, the European Commissioner, about the Intra-UK Allocations Review

Phil Hogan
European Commissioner for Agriculture and
Rural Development
European Commission
Rue de la Loi / Wetstraat 200
1049 Brussels
Belgium

February 2019

Dear Commissioner Hogan,

I am writing to you as chair of the review of the intra-UK allocation review, commissioned by the UK government. This review will look into which factors should be taken into account to make sure that domestic farm support ‘convergence’ funding is fairly allocated across the UK between 2020 and 2022. This is a period when the UK will have left the EU but will, under the Conservative Government’s Manifesto commitment, maintain the overall UK level of farm support paid at the point of the UK’s departure.

The panel is made up of Jim Walker CBE, representing Scotland’s interests, Leo O’Reilly, representing Northern Ireland’s interests, Lord Donald Curry, representing England’s interests and Rebecca Williams, representing Wales’ interests – they have all seen and approved this letter.

The review was established in part to recognise that stakeholders in Scotland felt that the UK government should have allocated the ‘convergence funding’ paid to the UK under the CAP differently between Scotland and the other parts of the UK. We feel that having access to any correspondence between the Commission and the UK government regarding ‘convergence’ funding from 2013 could enable the panel to conduct a more full and fair review, taking into account all of the relevant facts which would help us to make well informed recommendations for the future.

We therefore ask if you could share any correspondence and minutes of any discussion the European Commission had with Defra, HM Treasury and the UK government on the issue of external convergence in 2013 and 2014.

Additionally, we are interested in your views on the progress made towards the commitments made as part of the 2013 round of CAP reform in ensuring that:

- all Member States with per-hectare direct payments below 90% of the EU average close one third of the gap between their current direct payments level and 90% of the EU average; and
- no Member State would receive less than €196 per hectare by 2020.

We would be grateful for your views on the policy thinking behind external convergence (particularly given that is it still a live issue in the new CAP proposals) and how much longer you think convergence funding will be needed to address the disparity in per-hectare payments. We would also find it useful to know how reductions are applied to those Member States with payment rates above the average. Given your expertise on the matter, we believe that an oral or written briefing on external convergence from your officials would be extremely helpful to the panel. If you would be willing for this to happen, please would you put them in touch with the review secretariat at intra-UK-allocations-review@defra.gov.uk. We look forward to hearing from you and welcome any further insight you can provide.

We are sending a copy of this letter to Defra Ministers and HMT Ministers.

Yours sincerely,

Lord Paul Bew

[11] Letter from Phil Hogan, the European Commissioner, to Lord Bew about the Intra-UK Allocations Review

European
Commission

PHIL HOGAN

MEMBER or THE EUROPEAN COMMISSION

AGRICULTURE AND RURAL DEVELOPMENT

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Brussels, 14 Mars 2019

Ares(2019)1522874

Dear Lord Bew.

Thank you for your letter of 2 February 2019 concerning the intra— UK allocation review in relation to direct payments. You ask in particular for the views on the progress of the external convergence of the direct payments agreed for the 2014-2020 period and for the policy thinking behind the external convergence also with a view to the future.

The currently ongoing external convergence of the direct payments reflects the conclusions of the European Council of February 2013 on the Multiannual ‘financial framework (MFF) 2014-2020. These conclusions included an agreement that all Member States should reach a minimum aid level of 196 EUR/hectare by 2020. The principles of this agreement were implemented in the form of the pre-allocations (annual national ceilings for the relevant period) to Member States fixed in Annex II to Regulation (EU) No 1307/2013 on direct payments[41].

Following the so-called principle of “shared management”, it is the responsibility of Member States to ensure the yearly implementation of the direct payment schemes and allocate support to farmers in accordance with the mentioned regulation and the related detailed legislation. The implementation has to respect the yearly financial pre- allocation as established in the regulation. Hence, the evolution of the amounts of support paid to farmers over the years reflects the agreed convergence principles for the current MFF. As such, the convergence is progressing according to schedule. The implementation of the yearly adjustment of the support depends on how the individual Member State uses the options provided by the legislation.

It should be mentioned that further to the Member States’ allocations initially established in the mentioned regulation, Member States have the flexibility to transfer a certain share of funds between their direct payments and rural development allocations. In case a Member State decided to use this flexibility, the implementation of the direct payments in a given year will not only reflect the envelopes as set based on the convergence principles but also the subsequent decision of the Member States as regards flexibility[42]. As a concrete example, for a Member State that decided to transfer amounts from direct payments to rural development, the average direct payment aid level of that Member State has obviously decreased compared to that Member State‘s allocation initially agreed in the MFF negotiations. This is then compensated by a corresponding increase in its rural development allocation.

The Commission Communication on the Future of Food and Farming (COM(2017)713 final) mentioned the need for the CAP to play its role in following the principles of “Equality between its Members, big or small, East or West, North or South”, which were recalled by President Juncker in his State of the Union address of 2017. In this sense, the CAP should reduce differences between Member States in CAP support. Even if the wide diversity of relative costs of labour and land as well as the different agronomic potentials across the EU should be acknowledged, all EU farmers face similar challenges.

Further to this, the Commission proposal for the MFF for the period 2021-2027 includes a continuation of the process of external convergence of the direct payments to farmers. According to this proposal, all Member States with direct payments below 90% of the EU-27 average, will close 50% of the gap to 90% of the EU average over 6 years.

[41] The pre-allocations were calculated based on the agricultural areas of claim year 2009.

[42] See Article 14 of Regulation (EU) No 1307/2013. According to Article 11, also the estimated product of "reduction" of direct payments shall be transferred to the rural development allocations.

Whereas the currently ongoing convergence was financed by reducing the envelopes of the Member States having an average support rate above the EU average, the proposal for the MFF 2021-2027 is that all 27 Member States will contribute equally to finance the convergence. Overall, the Commission considers that the proposal strikes a careful balance between strong requests for a very ambitious convergence and avoiding excessive cuts in the allocations for any Member State, within the overall challenging budgetary context in which the MFF proposal had to be prepared.

The proposal for the MFF 2021-2027 is currently under discussion by the legislator with view to finding a compromise, also on the question of allocation of direct payments. As you will know, CAP support for the UK is not part of the Commission proposal on the MFF 2021-2027.

It is at this stage therefore not possible to provide any clarification concerning the future choices as regards evolution in disparities between per hectare support level. As regards your request to share with you any correspondence and minutes of any discussion the Commission had with Defra, HM Treasury and the UK government on the issue of external convergence in 2013 and 2014. I would like to inform you that Directorate General Agriculture and Rural Development is not in possession of such documents.

Yours sincerely,

PHIL HOGAN

[12] Stakeholder engagement documentation

Letter from Lord Bew to industry stakeholders inviting them to contribute their views

Department for Environment Food & Rural Affairs

2 Marsham Street
Seacole Building
SW1P 4DF

T: 03459 335577
helpline@defra.gov.uk
www.gov.uk/defra

In October 2018, the Government announced an independent review into the intra-UK allocation of domestic farm support funding. As Chair of the review panel, I am writing to invite you to contribute your views.

The panel is considering which factors should be taken into account to ensure an equitable allocation of 'convergence' funding for domestic farm support across the UK from 2020 to the end of this Parliament. The terms of reference of the review and further background information are attached (Annexes A and B).

The panel is seeking the views of industry stakeholders from each part of the UK to inform its recommendations. Specifically, the panel is asking for input on the environmental, agricultural and socioeconomic factors and wider principles that should be considered to ensure a fair allocation of convergence funding between each part of the UK from 2020 to 2022.

Therefore I am writing to invite your organisation's views on the objectives of the review. **I would be most grateful if you could answer the questions in the template attached (Annex C).**

Please provide responses in writing **no later than Friday 12 April 2019**. Responses can be submitted via email to: intra-uk-allocations-review@defra.gov.uk or post to: Intra-UK allocations Review Secretariat, Defra, Second Floor, Seacole Building, 2 Marsham Street, London SW1P 4DF.

All responses will be used to inform the review's recommendations, which will be published in the final report. Any information that you provide in answer to these questions may therefore be summarised or included in this report. Please let us know using the form if you would prefer your responses not to be attributed.

I am very conscious of the demands currently being placed upon organisations. I am sure you can appreciate, however, that we are keen to ensure an equitable future allocation of domestic farm support funding between each part of the UK, and we highly value the views of stakeholders in our considerations. In addition to seeking your views in writing, if you would like to arrange a meeting, please contact the secretariat through the email address above.

Thank you in advance.

Lord Paul Bew

Background paper sent to stakeholders

THE REVIEW OF THE INTRA-UK ALLOCATION OF DOMESTIC FARM SUPPORT FUNDING

BACKGROUND PAPER

1. Introduction

Intra-UK allocation is a term used to describe how the UK's Common Agricultural Policy (CAP) budget is divided between England, Scotland, Wales and Northern Ireland.

In 2013, the European Commission introduced 'convergence' as part of the 2013 reform of the CAP. This involved a small reallocation of funding for direct payments between Member States. Convergence was designed to bring the average per-hectare payments to a more uniform levels across Member States, with increases to qualifying Members States funded by those whose payments were above the EU average.

Now the UK is leaving the EU and the CAP, the UK government has commissioned an independent review to look into which factors should inform the allocation of convergence funding across the UK in the future. The review will look at the **allocation of convergence funding from 2020 to 2022**.

The review is led by Lord Bew of Donegore. He is supported by an advisory panel comprised of Jim Walker, Rebecca Williams, Leo O'Reilly and Lord Curry of Kirkharle (nominated by each of the Scottish Government, the Welsh Government, the Northern Ireland Department of Agriculture, Environment and Rural Affairs, and Defra respectively).

2. CAP allocations for pillar 1 payments in the UK

In the UK, CAP allocations for pillar 1 direct payments have been historically allocated on the basis that more productive land receives a higher rate of payments and less-favoured land received a lower rate of payment. Currently England receives 65% of the CAP budget, Scotland receives 17% and Northern Ireland and Wales each receive 9%.

3. External Convergence

In 2013, the EU introduced external convergence to make direct payment policy fairer between Member States. External convergence aimed to bring the amount all Member States received closer to the EU average, based on a per-hectare payment measure.

The UK was allocated **€223 million through external convergence**, meaning it received less of a reduction from the February 2013 overall CAP 1.6% budget cut than it would have done otherwise.

In 2013, the UK government decided to **maintain the historic intra-UK split** of direct payments from the CAP, so each part of the UK saw a 1.6% reduction in their direct payments between 2014 and 2019.

The Scottish Government have pressed for a reallocation of the €223 million convergence uplift to Scotland. They argue that the UK only received the 'uplift' because Scotland's low per hectare average brought the UK average below the threshold that qualified for the convergence funding. Scotland has a high proportion of marginal farming land (land which has little or no potential for profit), which is paid at a lower rate per hectare.

The table below demonstrates the average direct payments per hectare for each part of the UK – and the UK as a whole – and how they compare to the EU average.

Country	Average direct payments per hectare in 2013, €	Average direct payments in 2013 as % of EU average
Northern Ireland *	339	126%
England **	265	99%
Wales **	247	92%
UK ***	**229**	**85%**
Scotland ***	130	48%

Countries in green (*) receive more than the EU average for direct payments per hectare, countries in amber (**) receive between 90% and 100% of the EU average for direct payments per hectare (and so wouldn't qualify for a convergence uplift) and countries in red (***) receive less than 90% of the EU average for direct payments per hectare.

4. Recommendations for the future

When the UK leaves the EU, the concept of convergence funding will no longer apply, but the panel is able to make recommendations for the allocation of the funds that would have made up the 'convergence' sum (**not the entire agriculture budget in each administration**). The panel does not therefore need to be bound by the principles that determined convergence payments, given their aim of achieving 'external convergence' between the Member States of a union to which the UK will no longer belong. However, in recommending a 'fair' allocation, the panel will need to decide how far to take account of the past decision and the views of stakeholders from any particular part of the UK, and how far to use other factors relevant to agriculture across the UK.

5. Questions to consider

In forming their recommendations, the panel seek your views on which environmental, agricultural and socioeconomic factors should be considered to make sure that all parts of the UK receive a fair allocation of convergence funding in the future. **Please use the template provided (Annex C) to give your responses to questions. There is also a space for any further relevant comments.**

Questionnaire sent to stakeholders

INDEPENDENT REVIEW OF THE INTRA-UK ALLOCATION OF DOMESTIC FARM SUPPORT FUNDING

STAKEHOLDER SURVEY

☐ **Please tick this box if you wish for your responses to be anonymized**

Name	
Organisation	
Please state which part of the UK you are representing	☐ England ☐Scotland ☐ Wales ☐ Northern Ireland ☐ Whole of the UK

QUESTION 1

Between 2014 and 2020, convergence funding was allocated to England, Wales, Scotland and Northern Ireland in the same way as the rest of the Common Agricultural Policy budget. Not everyone supported this decision, as explained in more detail in the attached paper.

The review panel will form recommendations on how convergence funding should be allocated to each part of the UK between 2020 and 2022.

Should the existing proportion of support for each country of the UK be maintained at present levels until 2022? ☐ Yes ☐ No If not, what changes do you think should be made and why? Please explain your answer.

QUESTION 2

Should the panel take into account any issues specific to one part of the UK in the allocation of convergence funding across the UK?

☐ Yes ☐ No If so, how could any impact on the other parts of the UK be addressed? Please explain your answer.

QUESTION 3

The review panel are looking into which factors should be taken into account to ensure a fair allocation of convergence funding across the UK from 2020 to 2022, in line with the attached terms of reference.

Which factors or principles do you consider to be important for the allocation of convergence funding? Please explain your answer and in doing so highlight which factors are the most important.

QUESTION 4

Are there any factors or principles in relation to future allocation of convergence funding that should be definitely ruled out by the Review Panel? ☐ Yes ☐ No

Please explain your answer.

QUESTION 5

Please use this space to provide any further relevant comments.

[13] List of stakeholders who have submitted evidence to the review

AFBI and Queen's University Belfast

Alliance Party of Northern Ireland

CLA (Countryside Land and Business Association)

Conservative Party

DAERA

Democratic Unionist Party

Farmers' Union of Wales

Fermanagh and Omagh District Council

Highlands and Islands Agricultural Support Group

Institute of Auctioneers and Appraisers in Scotland

National Farmers' Union

National Farmers' Union Cymru

National Farmers' Union Scotland

National Federation of Young Farmers' Clubs (AGRI)

National Sheep Association Scotland

Northern Ireland Meat Exporters' Association

Pareto Consulting

Plaid Cymru

Quality Meat Scotland

Royal Society of the Protection of Birds (RSPB)

RSPB Cyrmu/WEL Land Use Group

RSPB Northern Ireland

Scotland's Rural College (SRUC)

Scottish Association of Meat Wholesalers

Scottish Crofting Federation

Scottish Government

Scottish Labour Party

Scottish Land and Estates

SEL Farming and land Use Group

Sinn Fein

Tenant Farmers' Association

Ulster Farmers' Union

Ulster Unionist Party

Ulster Wildlife

University of Cambridge

University of Newcastle

University of Reading

Welsh Conservative Party

Welsh Labour

[14] Glossary

Accession Agreement: Accession of new member states to the European Union is governed by Article 49 of the Treaty of the European Union. A candidate country much adapt its institutions, standards and infrastructure to enable it to meet its obligations as a Member State.

Actual Land Use: Reference to the use of land in coded form in accordance to the Single Application Form e.g. type of crop grown.

Barnett Formula: Funding allocated according to the population size of each country.

Basic Payment Scheme (BPS): The Basic Payment Scheme is the biggest of the European Union's rural grants and payment to help the farming industry. Farmers apply once a year – normally in May – and payments begin in December.

Comprehensive Spending Review: HM Treasury's process to set expenditure limits.

Common Agricultural Policy (CAP): The Common Agricultural Policy is a system of agricultural subsidies and programmes covering farming, environmental measures and rural development. The UK receives around €4 billion in CAP funds each year.

Convergence funding: An introduction by the European Commission from their 2013 CAP reform to bring direct payment levels to more uniform levels both across and within Member States (internal and external convergence).

Convergence uplift: The increase in funding received by a Member State from the European Commission's CAP reform.

Coupled support payments: Payments to farmers linked to production levels, with payments were made on the basis of the specific crop grown or the number of livestock kept.

Decoupled payments: Payments to farmers not linked to production levels.

Direct Payments: Agricultural payments granted to farmers based on the number of hectares farmed.

External convergence: European Commission adjusting budgets to ensure a more equal distribution of direct support between Member States.

European Agricultural Fund for Rural Development (EAFRD): Finances the European Union's contribution to rural development programmes.

European Agricultural Guarantee Fund (EAGF): Primarily finances direct payments to farmers and measures regulating or supporting agricultural markets.

Financial envelope: The amount available to the UK and each member state for direct payments, limited by its annual allocation.

Good Friday Agreement: The Good Friday Agreement, also known as the Belfast Agreement, was reached on 10 April 1998. It covers three areas: the creation of a democratically elected Assembly; the creation of a North/South Ministerial Council; and the creation of a British-Irish Council and the British-Irish Governmental Conference.

Internal convergence: Introduced by the European Commission to bring the value of per-hectare entitlements to a more uniform level *within* Member States.

Less Favoured Areas (LFA): Less Favoured Areas were established in 1975 as a means to provide support to mountainous and hill farming areas. Farmers within the LFA boundaries are often referred to as upland farms.

Lowland: The region of Scotland lying south and east of the Highlands.

Multiannual Financial Framework (MFF): The European Union's long-term budget.

National Character Area Profiles: National Character Areas divide England into 159 distinct natural areas. Each is defined by a unique combination of landscape, biodiversity, geodiversity, history, and cultural and economic activity. Their boundaries follow natural lines in the landscape rather than administrative boundaries.

Pillar 1 Funding: Pillar 1 of the Common Agricultural Policy is direct income support for farmers. 80% of CAP funds are directed to Pillar 1 and in order to receive these payments, farmers must adhere to minimum standards relating to the environment, animal and plant health and animal welfare, collectively known as 'cross compliance'.

Pillar 2 Funding: Pillar 2 of the Common Agricultural Policy is rural development policy, designed to support rural areas of the European Union and meet the wide range of economic, environmental and societal challenges. 20% of CAP funds are directed to Pillar 2.

Public Goods: Public goods delivered by farmers, land managers and foresters can include environmental public goods such as improved water quality; increased biodiversity and climate change prevention; increased public access; and protection of iconic countryside features and green spaces.

Single Application Form (SAF): Form required to claim payments for various government agriculture schemes.

Utilised agricultural area (UAA): Land used for arable and horticulture crops, uncropped arable land, common rough grazing, temporary and permanent grassland and land used for outdoor pigs.

[15] Abbreviations

:

BPS: Basic Payment Scheme

CAP: Common Agricultural Policy

CLA: Countryside Land and Business Association

DAERA: Department of Agriculture, Environment and Rural Affairs (Northern Ireland)

DA: Devolved Administration

Defra: Department for the Environment, Food and Rural Affairs

DUP: Democratic Unionist Party

EAGF: European Agricultural Guarantee Fund

EARDF: European Agricultural Fund for Rural Development

EU: European Union

FUW: Farmers' Union Wales

HA: Hectare

HMT: HM Treasury

LFA: Less Favoured Areas

MFF: Multiannual Financial Framework

NI: Northern Ireland

RDP: Rural Development Programme

RUK: Rest of the UK

SAF: Single Application Form

SPS: Single Payments Scheme

UUA: Utilised Agricultural Area