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Department
for Environment
Food & Rural Affairs

Implementation of CAP Reform in England

Consultation Document

October 2013

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Ministerial Foreword

Since I became Secretary of State, I have attached great importance to getting Common Agricultural Policy (CAP) reform right and to working openly and collaboratively to achieve that.

A new CAP package was agreed in principle by EU Agriculture Ministers in June. Even though it is not the genuine reform we had hoped for, we fought hard to secure a CAP package that is much better than the original proposals and to prevent the adoption of a number of regressive proposals that would have harmed UK farmers. We also secured important national flexibility in how we implement aspects of the new CAP.

Getting the best out of the negotiations was crucial. Making the right decisions about how we implement the next CAP in England is of equal importance and will be central to supporting the four very clear departmental priorities I have set for Defra: to grow the rural economy, improve the environment, safeguard animal health and safeguard plant health.

Although the next CAP settlement will be smaller than last time, it will still deliver very significant sums of money to English farmers and other CAP recipients. It will also require substantial investment in systems to administer the schemes. The taxpayer has a right to expect that the funds will deliver maximum value and be spent efficiently.

Simplicity, affordability and effectiveness will underpin our approach to implementing the new CAP in England and the policy choices we take. I am resolutely determined to avoid the mistakes of 2005. Then policy choices were made that simply did not work well on the ground. That caused unnecessary uncertainty and delayed payments to a significant number of farmers and ultimately cost the taxpayer dearly in EU fines.

I have strongly championed the value of the Rural Development element of the CAP. It offers the flexibility to tailor schemes that improve farming competitiveness and innovation and help support farmers in their crucial role in enhancing and protecting the natural environment. It delivers significant public goods in a way that the direct subsidy payments simply cannot. My view is that it unquestionably represents the better use of taxpayers' money.

The new CAP and its measures, including future agri-environment schemes, will need to be smarter and more targeted. The next Rural Development Programme is a major opportunity to invest over seven years in the rural environment, farming competitiveness and the rural economy. This is why I believe that transferring the maximum 15% from Pillar 1 to Pillar 2 would be the right thing to do where we can demonstrate it would deliver worthwhile and valuable outcomes for farming and society and contribute to rural economic growth and enhance the environment.

Consulting widely and engaging openly with the farming industry and other interested groups will ensure we make the right decisions. This does not mean we will all agree on everything. There will undoubtedly be strong and divergent views, and there will be difficult decisions. Some elements of the new CAP will increase complexity and it is important that we minimise these where we can. I have been insistent that on greening, for example, we will look to balance the environmental benefit with my pledge not to add unnecessary burdens on farmers. We will adhere to the key principles from the Farming Regulation Task Force of early engagement and co-design.

It has always been important to me to listen to the widest variety of views on CAP Reform. This was the approach I adopted during the negotiations and which I will maintain as we prepare for implementation in England. This is why, together with other Ministers and officials, I have been engaging directly and often with the farming industry and other interested groups. We must continue to work collaboratively in the months ahead as we prepare for 2015 and beyond. I look forward to hearing your views and discussing them with you.

THE RT HON OWEN PATERSON MP

1 Introduction

Consultation scope

1.1 The reform of the Common Agricultural Policy (CAP) is in the final stages of EU negotiation. We will continue to work closely with other Member States, the European Commission and European Parliament on the remaining detail. Ahead of that, it is important that we consider what the new CAP means for England. This will ensure we are well prepared for implementation in 2015.

1.2 Many scheme rules are set out in the European regulations and we have no choice other than to follow them. However there are aspects where we have options on how we implement elements of CAP nationally. On some of these the Government already has a clear view on the way forward, or has already had to make decisions due to the long lead time for implementing aspects of the schemes or the need for farmers to have certainty. In these cases the document sets out what we have decided. In other areas we are seeking views in order to make the best informed choices.

1.3 There are some constraints that affect the timetable for consultation. We need to notify the Commission formally by 31 December 2013 on our position on whether and to what extent we wish to transfer funds from the CAP budget for direct payments (Pillar 1) to fund rural development (Pillar 2), which is part of this consultation. On some issues, we are consulting before the final detail has emerged from the European regulations. Our approach is to make the consultation as comprehensive as possible to help interested parties to reach an informed view on interrelated issues and to minimise the need for separate consultations.

1.4 This consultation is an integral part of a much broader approach to engagement with interested parties. Prior to publication of this document, Ministers and officials have been working closely with stakeholders to consider what reform of the CAP means in England. We will continue to do so. There are some detailed issues on which it would not be sensible to reach a view until we have more information from the European Commission about how the rules will apply. We will engage closely with stakeholders on these issues as the details from the EU processes emerge.

1.5 As there is not yet an agreed allocation for CAP funds between UK countries, we assume for the purpose of illustrating the impact of the new CAP in this consultation that direct payment (Pillar 1) allocations are based on current regional shares and rural development allocations (Pillar 2) are based on the historic allocation for the current rural development programme. This does not prejudge the eventual decision on the allocation.

Our aim for CAP Implementation in England

1.6 We want to see a competitive farming industry that faces less red tape, takes advantage of export opportunities and is less reliant on public subsidy. Over the next seven years the UK will receive £17.8 billion in Pillar 1 on direct subsidies and £1.84 billion in Pillar 2 on the environment and rural development[1]. Whatever decisions we take on the implementation of the CAP, and specifically in relation to the potential transfer of money from Pillar 1 to Pillar 2, the vast majority of CAP payments will still be to farmers through a Pillar 1 direct payment. Where we have greater discretion on how CAP money is spent, we need to make sure it is spent efficiently, in the right places and where it adds greatest public value.

1.7 The next CAP, through Pillar 2, can make a significant contribution to improving the environment, investing in farming competitiveness and growing the wider rural economy in England. These are the Government's top priorities for Defra, alongside the safeguarding of animal and plant health. We set out in this consultation why we believe that to do this effectively would require a transfer of funds from Pillar 1 to Pillar 2 at the maximum available level of 15% and we invite views on this.

1.8 The new delivery system for the next CAP will make it far easier for customers to do business with us. The system includes a single online application and payment system ready for use in scheme year 2015 and will replace an ageing array of IT systems and costly and inflexible contractual arrangements.

1.9 The Government is committed to transparency for taxpayers. The amount of CAP payments made to 'legal persons' (eg companies, trusts, and limited liability partnerships) are published on a public website, and can be accessed here: http://cap-payments.defra.gov.uk . EU rules do not presently allow us to go further and publish data on 'natural persons' (eg individuals). However the Government is working for this rule to be changed to bring even greater transparency on how CAP money is spent, and has welcomed the proposals being agreed in Europe which will allow publication of all but the very smallest payments.

The new CAP

1.10 Many elements of the new CAP will be similar to the current arrangements. The CAP will retain its two pillar structure: Pillar 1 for direct payments to farmers and market control measures and Pillar 2 to promote rural development. A new Basic Payment Scheme will replace the current Single Payment Scheme as the main element of Pillar 1 direct payments. Payment under this scheme will still require farmers to hold eligible land and entitlements and to meet the rules for cross compliance.

[1] Subject to confirmation, figures in 2011 price terms

1.11 Changes to direct payments include the introduction of an 'active farmer test' and rules requiring the largest payments to be reduced. There will also be a scheme to support young farmers who have recently started farming. There will be changes to how we will administer payments through the Rural Development Programme under Pillar 2.

CAP and the environment

1.12 The CAP will be a significant contributor to meeting the Government's environmental objectives and legal obligations, in particular on:

- Biodiversity (including the commitments in the Biodiversity 2020 strategy, and supporting pollinator and farmland bird populations);
- Water and soils quality (including the Water Framework Directive and restoring peatlands);
- Woodland creation and management;
- Landscape and the historic environment;
- Educational access;
- Genetic conservation; and
- Climate change mitigation and adaptation on farmland.

1.13 There is particular interest, given current pressures, in the potential of the CAP to do more for pollinators (which in turn will help support a wide range of other flora and fauna). We are looking to create a package of measures to generate more habitats and food sources for pollinators:

- Greening of Pillar 1 has the potential to maintain and create buffer strips, fallow land, hedgerows and fields of nitrogen fixing crops. All of these could potentially provide a basic level of benefits for pollinators;
- Voluntary action under the Campaign for the Farmed Environment can build on this to add more value for pollinators, e. g. by adding nectar and pollen mix or wildflower mix to Environmental Focus Areas; and
- Under the proposal for a new environmental land management scheme in Pillar 2 we are developing combinations of measures that would particularly aim to create food and nesting resources for pollinators.

1.14 The Government regards Pillar 2 as the best mechanism to fund environmental outcomes from farmland in England. It allows for longer term land management agreements and more flexible interventions that are adjusted to the specific potential of any given area of land. To make a significant contribution to achieving our environmental objectives and legal obligations we will need to maximise the funding available in Pillar 2 and therefore consider that there is a strong case to take full advantage of the flexibility to transfer funds from Pillar 1 to Pillar 2 (that is, 15%).

1.15 Even with this transfer, some of our key environmental commitments, such as Biodiversity 2020 and the Water Framework Directive, will require additional funds from other sources. As the Ecosystems Market Task Force argued, we need in particular to look for opportunities to develop new markets for ecosystem services (ie benefits to humans and society from a multitude of resources and processes that are supplied by ecosystems) to lever in funding from private and voluntary sources, which can work in conjunction with public funding to deliver our goals.

1.16 We will continue to look to cross compliance to deliver basic good agricultural and environmental conditions. We propose to implement greening in a way that keeps closely to the minimum European requirements and this will deliver, together with cross compliance, some environmental benefits.

A New Environmental Land Management Scheme

1.17 The design of the new environmental land management scheme, a part of the Rural Development Programme in Pillar 2, is our main mechanism for achieving an improvement in England's rural environment. We propose to put in place a more integrated and targeted approach than the current Environmental Stewardship schemes and through this achieve better value for money.

1.18 Our proposal is for a single new scheme with two main themes. First the improvement or maintenance of the most important designated sites (such as Sites of Special Scientific Interest (SSSIs)). Second, targeted improvements in the wider countryside, including more landscape scale co-ordination in line with the Natural Environment White Paper vision to support wildlife, and continuing focus on improving water quality. Stronger targeting of benefits would mean an end to the current universally available Entry Level Scheme, though an offer limited to small capital grants and advice could still be made available for wider rural environment purposes.

Uplands

1.19 Farming in the uplands faces particular economic challenges, but plays an important role in the management of ecosystem services, in maintaining the distinctive landscape of the English uplands and in wider socio-economic activities. We believe that increasing the share of direct payments for the uplands under the Basic Payment Scheme offers the most effective and administratively efficient approach to support upland farmers and create greater equity. This would have a small impact on payments to lowland farmers, but could offer significantly higher direct payments for upland farmers. The uplands can also be expected to remain a recipient of targeted agri-environment funding, both for designated sites and wider landscape scale activity.

CAP and rural economic growth

1.20 We want the new CAP to make a significant contribution to rural economic growth and the quality of life in rural communities. Investment through agri-environment schemes in an enhanced environment also creates the conditions for growth in the rural economy, not least through tourism. The Rural Development Programme will also offer targeted measures such as grants to enable farming, forestry and other land-based businesses to become more productive, efficient and resilient.

1.21 The Government is committed to implementing the approach to streamlining the management of EU funds to promote economic growth as recommended by Lord Heseltine's review. In March 2013, in its response to Lord Heseltine's review, the Government confirmed that for the 2014–20 funding period the European Regional Development Fund, the European Social Fund, and part of the European Agricultural Fund for Rural Development, the technical name for CAP Pillar 2 funds, will be combined into a European Structural and Investment Funds Growth Programme for England. The large majority of funding in this programme will be allocated to Local Enterprise Partnership (LEP) areas. The Local Enterprise Partnership and their partners have been asked to set out how they intend to use this allocation in a European Structural and Investment Funds Strategy, which should be agreed with Government by early 2014.

1.22 Pillar 2 Rural Development funding will contribute to this Growth Programme, allowing LEP investment strategies to support investments in rural broadband, micro-enterprise, skills development, tourism and community-scale renewables. The funds invested through LEADER Local Action Groups will make a strengthened contribution to rural growth and the quality of life in rural areas through locally targeted investments.

Supporting documents

1.23 Alongside this consultation we have released a number of supporting evidence documents. There is an evidence paper on the overall impact of some of the main elements of CAP implementation, such as direct payments (including greening) and Pillar 1 to Pillar 2 transfer, as well as a more detailed impact assessment for the new Rural Development Programme.

1.24 We also published two status reports on 12 August that set out in more detail the outcome of the negotiations, including greening, and the new Rural Development Programme. The status reports are available at:

Direct payments: https://www.gov.uk/Government/publications/cap-reform-in-england-status-report-on-direct-payments

Rural Development Programme: https://www.gov.uk/Government/publications/cap-reform-in-england-status-report-on-the-new-rural-development-programme

The deadline for responses is set out on the consultation website.

Responses can be made:

- **On-line at** https://www.gov.uk/government/publications?keywords=&publication_filter_option=consultations&topics%5B%5D=all&departments
- **By e-mail at: Capconsultation@defra.gsi.gov.uk**
- **By Post: CAP Consultation, Area 1D, Defra, Nobel House, 17 Smith Square, London, SW1P 3JR**

2 Direct payments: changes in the new regime

Introduction

2.1 Under CAP reform, farmers will continue to qualify to receive direct payments if they meet the conditions defined in the European regulation. The direct payment will comprise a basic payment and one or more additional payments. As under the existing Single Payment Scheme (SPS), the key conditions will be that the farmer holds entitlements and has eligible land at their disposal for the relevant year. The amount of the basic payment will depend on the number, and value, of entitlements supported by eligible land. There is no link to the number of animals kept or the amount of food produced. Farmers will continue to have to meet the rules on cross compliance. Under the new scheme, farmers will have to meet an 'active farmer test' and a part of the direct payment will depend on implementing greening measures. There is also a new scheme for young farmers.

2.2 Many of the main parameters of the schemes are defined by the European regulation and by the implementing regulations which will be agreed over the coming months. There are however areas in which Member States do have some discretion, mainly about whether to adopt particular options. The status report published in August described these discretions in more detail. The Government therefore needs to decide what options to adopt in England. In the main, these options affect how the predetermined total available for direct payments will be distributed between different categories of farmers.

2.3 In making these choices, the Government will seek to provide certainty about how the scheme will work as soon as possible, both to help farmers plan their businesses and to allow the delivery bodies to design, test and implement their business systems in good time.

2.4 There are, however, a number of issues where it would not be sensible to reach a view until we have greater clarity about the detailed rules which will be defined in the European Commission implementing regulations, which have yet to be agreed. The rules for claiming direct payments on common land and the detailed requirements of the 'active farmer' test, which the European Commission have not yet published, are examples. We expect to discuss these issues and other detailed aspects of scheme design with stakeholders in the first half of 2014.

2.5 In this chapter of the consultation paper, to compare the options effectively, we have used estimations of payment rates in 2015. To do this it has been necessary to make some assumptions solely for modelling purposes. The principal assumptions are that:

- 2015 direct payments budget for UK will be €3.556 bn;
- 65.562% of the UK direct payments ceiling is allocated to England (as under SPS);
- 15% of the pillar 1 budget is transferred to pillar 2;
- a Young Farmers Scheme uses 2% of the revised direct payments ceiling[2];
- Five hectares is the minimum claim size;
- the three regions within England for basic payments remain unchanged;
- a national reserve uses 3% of the basic payments ceilings.

Number of basic payments regions

2.6 In 2005 the Government decided to adopt three regions within England for the SPS, with different payment rates:

- Land in non-severely disadvantaged areas (SDAs) (ie the lowlands outside the SDA);
- Land in SDAs other than moorland (ie the uplands below the moorland line); and
- Moorland (ie land above the moorland line)

2.7 With the new direct payments system, we have the option of revisiting the question of whether to have regions and if so whether to retain the same number and the same boundaries. These regions, known as basic payments regions, will have to be defined by objective criteria.

2.8 Any change to the present regional structure (other than a merger of two or all three regions) would require a costly and time consuming exercise to identify and map the new regions. Embarking on such an exercise now would be highly disruptive to the delivery of CAP reform in 2015, and place unreasonable burdens on both farmers and the Rural Payments Agency (RPA). However, if it is felt appropriate, the payment rates for each region can be adjusted: we explore this possibility in the next section.

[2] The revised direct payments ceiling is the direct payments ceiling after taking account of any transfers between pillars 1 and 2.

Decision

> **The Government has decided that we should not create any new regions nor amend the existing regional boundaries, in order to avoid unnecessary complexity in the transition to the new direct payments system.**

Regional distribution of direct payments

2.9 We need to decide whether to change the proportion of the funds allocated to each region. The money allocated to England for the SPS was divided between these regions so that the proportion of funding for each region remained broadly similar to that under the preceding agricultural subsidy schemes. This means that, because farming is less productive in upland areas owing to poor climate, soils and terrain, upland farms receive a lower SPS payment per hectare than lowland farms.

2.10 In England, upland farming is generally recognised as that which falls within the Severely Disadvantaged Area (SDA). The SDA is a domestic designation of part of the European Commission's definition of Less Favoured Areas (LFAs) where agricultural production is severely restricted by soil, relief, aspect or climatic conditions. The SDA includes around 1.3m ha of agricultural land (ie 14% of agricultural land in England), of which around 0.7m ha is moorland. Around 33% of the country's breeding sheep population and 19% of beef cows are in the uplands. Hill and upland sheep enterprises also provide important linkages with lowland systems and contribute to the production of good quality meat animals on more lowland units. Around 67% of the National Park area is within the SDA. Currently the SDA receives just 7% of SPS payments.

2.11 A significant proportion of agricultural land within the uplands is tenanted (around half compared to around one third outside of the SDA) and there are 0.3m ha of common land. Most upland farms operate on a relatively marginal basis when considering agricultural production in isolation. Many upland farm households rely on a range of income streams (ie agricultural production, diversification, off-farm income and other household income, as well as direct payments and revenue from agri-environment schemes). Around half of upland farmers indicated within the 2012 Upland Farm Survey that the farm business accounted for less than half of household income.

2.12 Upland farming has the potential to deliver a range of public goods, including landscape and scenery, biodiversity, species protection and carbon storage. However, upland areas face particular challenges accentuated by their terrain, for example accessing services, limited public transport and expensive housing.

2.13 Historically, under successive direct payment schemes, upland farmers have received lower payments than lowland farms despite the constraints. Access to Uplands Entry Level Stewardship (Uplands ELS) agreements has provided additional targeted funding for uplands farming, but our proposals under a new environment land management scheme would end this funding during the next CAP term.

Proposals

2.14 If the current proportions of expenditure on the three regions were maintained into the new CAP term, the following rates might be reached in the 2015 scheme year:

Option 1: No change

Table 1: regional distribution of direct payments — no change

(per hectare)	Lowland	SDA	Moorland
Basic plus greening payment	€242	€195	€34

2.15 These rates are about 8% below 2012 rates in nominal terms. The average 2012 rates (post modulation) were €263 for lowland, €211 for SDA and €37 for moorland.

Option 2: Increase in upland direct payments

2.16 If the SDA rate were raised to the same level as the lowland rate (this amounts to an increase of €25 compared with the average 2012 rate), and with the same cash increase of €25 to the moorland rate, it would result in the following illustrative rates:

Table 2: regional distribution of direct payments — increase in upland direct payments

(per hectare)	Lowland and SDA	Moorland
Basic plus greening payment	€236	€62

2.17 The rates in this option illustrate the broad effect of a movement of funds from the lowland to SDA and moorland regions. This option provides convergence in payment rates for lowland farmland and land in the SDA below the moorland line. It does not raise the moorland rate to that of the SDA but provides the same cash uplift per hectare in the basic and greening payment for those farming above the moorland line, as would be achieved by those farming in the SDA. It provides increased subsidy to farmers in the uplands (with modest reductions to lowland farmers) through using Pillar 1 resources, therefore freeing up more Pillar 2 resources for schemes that can provide a higher level of targeted environmental benefits.

2.18 Option 2 would provide approximately €43m more subsidy to farmers in the uplands (compared to option 1). It would increase subsidy payments available to all upland farmers during a time when many of them will be leaving existing Uplands ELS agreements as they expire.

Question

Do you support the principle of moving to more equal rates of payment across the three payment regions?

- **Option 1: No change in the current regional distribution**
- **Option 2: Uplift in upland direct payments (with modest reductions to lowland direct payments), or**
- **Another option**

Please comment further if you wish, or explain what other option you favour.

Areas facing natural constraints

2.19 The 'Areas facing Natural Constraints' (ANCs) designation has been introduced by the European Commission in response to the 2003 findings of the European Court of Auditors that the current LFA based approach across the EU is inconsistent and does not provide value for money for EU taxpayers. If implemented, ANC would replace current LFA and SDA designations.

2.20 Defra has been carrying out a technical mapping exercise looking at what land would be captured by applying EU specified biophysical criteria, followed by economic fine-tuning. If the ANC designation were adopted, it would mean there would be a facility to top-up basic payments in Pillar 1 or to deliver an additional discretionary payment under Pillar 2, or both, in the ANCs but at the expense of other areas.

2.21 While we are open minded on the eventual adoption of ANCs in England, we believe that the SDA regions are robust in reflecting difficult hill farming conditions and therefore remain valid. In view of this, we propose to halt ANC mapping for now and reconsider in 2015 whether to resume it, when changes to some of the processes may also have been introduced by the European Commission.

2.22 This approach has the benefit of allowing simpler and potentially cheaper delivery of support in the uplands. This is because implementing ANCs would require the RPA to undertake a potentially expensive revision of its systems to apply the ANC map and carry out an appeals process. Using the existing basic payments regions to support the uplands from 2015 (with or without changes to the distribution of funds between those regions) would rely on existing mapping in the Rural Land Register and, if necessary, require relatively simple changes to payment rates within the system. Customers are also familiar with and understand the existing regional model for SPS.

Decision

The Government has decided that we will not be introducing payments linked to an ANC designation at the present time.

Reductions and the redistributive payment

2.23 During the negotiations on the reform of the CAP, the Government opposed the capping of farmers' direct payments. We thought it would add a significant amount of administrative complexity for farmers and paying agencies, would be a distraction from our objective of reducing subsidy across the board and would run counter to the development of a competitive agriculture sector by providing an incentive for farms to remain small.

2.24 We successfully fought off the European Commission's proposal to require payments to be capped, but as part of an overall compromise European Agriculture Ministers agreed to a provision to reduce payments going to those claimants receiving the largest payments. We have to do this either by reducing claims over a certain threshold or by making redistributive payments (through which payments on a claimant's first tier of hectares are topped up). We can use either or both of these methods. We propose below that in England we should adopt the lowest possible level of reductions, but we also explore the alternative of redistributive payments.

2.25 In either case, the farmer must not seek any advantage by artificially creating circumstances which would avoid the effect of reductions or which would increase the amount paid out as redistributive payments, where the changes take place after 19th October 2011 (the date the European Commission published their proposal for the regulation). The RPA is required to enforce these provisions.

Reductions

2.26 The first option is the introduction of a system of reductions on basic payments over a threshold of €150,000. The minimum rate of reduction is 5%, but we have an option to increase the rates as high as 100%.

2.27 We are required to apply the reduction to only the basic payment. This means that the greening payment, however large, is not subject to reductions. The money recovered as a result of these reductions must be transferred to the Rural Development Programme.

Salary mitigation

2.28 The European regulation offers an option to ensure that payments to farmers reflecting their spending on agricultural wages are protected from any reduction. This means that we can allow claimants to exclude the value of salaries and related employment taxes linked to agricultural activity from the basic payment, before reductions are applied. This is called 'salary mitigation'. For the purposes of salary mitigation, salaries and related employment taxes would usually be those spent in the year previous to the payment.

2.29 Salary mitigation would require claimants to provide information about the salaries they have paid. It is not yet clear whether claimants would need to provide such information at the same time as their application for payment (without being sure whether their basic payments would exceed the threshold), or whether it could be supplied later on (once they were sure). This would increase the administrative burden on the claimant. This information would have to be checked by the RPA, and the additional complexity would increase the costs of the delivery system.

Table 3: example of reductions with and without salary mitigation

	Without salary mitigation	With salary mitigation
Basic payment due	€180,000	
Eligible agricul-tural salaries	€20,000	
Assume reductions at 5% over a threshold of €150,000		
Basic payment liable to reductions	€180,000	€180,000–€20,000=€160,000
Reductions	(€180,000–€150,000)×5%=€1,500	(€160,000–€150,000)×5%=€500
Basic payment after reductions	€180,000–€1,500 =€178,500	€180,000–€500 =€179,500

2.30 We estimate that approximately 90% of the farms that would be affected by reductions would receive a smaller reduction or none at all if we implement salary mitigation. The sums transferred to the Rural Development Programme would fall by the same amount.

2.31 The following table provides an estimate of the numbers of farmers affected and the amounts to be raised under three options for reductions.

Table 4: salary mitigation

Option	Farms affected	Amount transferred annually to Rural Development	Administra-tive burden on RPA
Option 1: 5% only above €150,000 (no salary mitigation)	340–560	€1.7m–€2.7m	Low
Option 2: 5% above €150,000 with salary mitigation (estimates)	35–80 will face reductions (although 340–560 would need to submit information regarding salaries)	€0.1m–€0.7m	High
Option 3: 100% (capping) at €150,000 (no salary mitigation)	340–560	€34.7–€53.4m	Low

Note: These estimates are based on the current allocations between regions. Further estimates based on increasing payments to uplands are available in the accompanying evidence paper

Proposal

2.32 In line with our position in the negotiations, we think that we should minimise distorting influences on the decisions that farmers take about the management of their farms, so as to avoid adversely affecting the competitiveness of our farming industry. Adopting the smallest possible reduction is consistent with this objective. It would also diminish the likelihood of the artificial restructuring of farms to evade the reduction, and so minimise the burden for the RPA to enforce against any such evasion. Our preferred option is therefore to apply the minimum level of reduction possible.

Question

Do you support our preferred option that we should apply the minimum level of reduction possible? If not, what level do you think should be applied?

- **We should apply the minimum level of reduction possible (5% on receipts over €150,000).**
- **We should apply a higher rate of reduction but less than 100% (please explain what reduction you favour).**
- **We should make €150,000 the most any farmer can receive — this is the maximum reduction possible.**

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

2.33 We propose to reduce the gross amount of the farmer's basic payment claim (without allowing for salary mitigation), since this would make the administration of the scheme simpler and more efficient, which is in the interests of all claimants.

Question

Do you support our preferred option that we should not implement salary mitigation? Please explain your response.

- **We should not adopt salary mitigation.**
- **We should not adopt salary mitigation, provided that the rate of reductions is applied at the minimum rate of 5%.**
- **Salary mitigation should be allowed.**

Please comment further if you wish.

Redistributive payments

2.34 The European regulation contains a provision to redistribute funds within direct payments to support smaller farmers. By redistributing payments, Member States can top up claimants' basic payment for their first tranche of land (up to 54 hectares in the UK) by up to 65%. These enhanced payments on the first tranche of land are paid at the expense of a reduced basic payment on all land: broadly, the effect is to increase the value of direct payments for small farms, and to reduce the value for large farms.

2.35 The supplement can be flat rate (ie a fixed rate say for the first 40 hectares) or graduated (ie so the supplement would be larger on say the first 20 ha than on the 21st to 40th hectare). If we adopt redistributive payments in preference to reductions, we are required to use more than 5% but no more than 30% of the direct payments ceiling for the purpose. Under this option no money is transferred to the Rural Development Programme.

2.36 Our preferred option is not to implement the redistributive payment as, in common with reductions, it could interfere with the decisions that farmers make about the management of their farms and affect the competitiveness of our farming industry. Given that we are required to reduce payments to the largest claimants either through this mechanism or reductions, our preference is to do so through reductions and to recycle any funds raised into the Rural Development programme.

2.37 Below is an illustration of the effect of the redistributive payment by region on the first 54 hectares of a BPS claim.

Table 5: effect of redistributive payment

	Region	Basic payment	Greening	Redistribution: extra payment on first 54ha	Top up as % of revised direct payments ceiling
		(Payment per hectare)			
Scenario 1 No Top Up	**Non-SDA**	€ 166	€ 76	€ 0	0%
	SDA	€ 134	€ 61	€ 0	
	Moorland	€ 23	€ 11	€ 0	
Scenario 2 20% Top Up	**Non-SDA**	€ 154	€ 76	€ 31	4.8%
	SDA	€ 123	€ 61	€ 25	
	Moorland	€ 23	€ 11	€ 5	
Scenario 3 65% Top Up	**Non-SDA**	€ 132	€ 76	€ 85	13.5%
	SDA	€ 103	€ 61	€ 67	
	Moorland	€ 23	€ 11	€ 15	

Note: These estimates are based on the current allocations between regions.

Decision

The Government has decided that, if we implement reductions, we will not also implement redistributive payments.

Question

Do you support our preferred option not to implement redistributive payments as an alternative to reductions?

- **We should not implement redistributive payments.**
- **We should implement redistributive payments instead of reductions.**

Please comment further if you wish.

Coupled support

2.38 The European regulation allows Member States to use a proportion of the money available for direct payments to fund schemes under which payments are linked to production in certain sectors. This is commonly referred to as 'coupled support'.

2.39 In England we could use up to 8% of our direct payment funds on coupled payments in any of the permitted sectors plus a further 2% for the purposes of coupling to production of protein crops.

2.40 The European regulation specifies that coupled support schemes may be introduced only in sectors which appear on a permitted list. The major agricultural production sectors in England appear on that list. Furthermore, coupled support can be provided only in regions where specific types of farming are undergoing difficulties and are particularly important for economic, social or environmental reasons. By way of exception, coupled support may also be introduced for farmers who currently hold 'special entitlements'.

2.41 The other main rules which apply to such schemes include that they must be designed so that they, at most, maintain production levels rather than incentivise increases. Also, coupled schemes must take the form of an annual payment based on areas, yields or animal numbers.

2.42 By their very nature, coupled payments distort the market as they encourage farmers to produce even where they would make a loss from the market. That has the effect of depressing prices for all EU producers and requires additional layers of bureaucracy, while the resulting overproduction can also lead to negative environmental and development impacts. It has, therefore, been the policy of successive governments to oppose the use of coupled payments and none of the options in previous CAP regimes have been taken up in England. Against that background, no plans have been made to introduce coupled support schemes as part of this reform.

Decision

The Government has decided not to introduce a coupled support scheme in England.

Minimum claim size

2.43 The European regulation requires us to set a minimum claim for direct payments. The minimum claim must be determined by area, in the range one to five hectares, or by value, in the range €100–€200. The current minimum claim size for the SPS in England is one hectare.

2.44 Setting the minimum claim size by value would have the effect of setting a lower threshold than currently exists, except in moorland areas. It would be out of step with concerns raised under the CAP Health Check that Member States were spending time and money on processing very small claims.

2.45 We therefore intend to set the minimum claim size by area, and to raise it to five hectares. A minimum claim size of five hectares would, in 2012, have excluded less than 1% of agricultural land, but the number of claims processed by the RPA would have been reduced by 16,000, or 15%. The land excluded by a higher threshold would cease to be subject to cross compliance, but we expect that the change would have minimal adverse impact on the environment, as many components of cross compliance will continue to apply under existing English or EU law. Holdings of five hectares are below the size at which the greening requirements for Ecological Focus Areas and crop diversification apply, so that excluding holdings under this size will have little impact on any benefits delivered by greening. In addition, farm census data suggest that the majority (60%) of holdings of between one and five hectares are not being managed primarily for agricultural business purposes.

Decision

The Government has decided that in order to achieve the best value for money, the minimum claim size for the new scheme should be fixed at five hectares.

2.46 Modelling of other proposals in this consultation document assumes a five hectare minimum claim size for the basic payment scheme and other direct payments.

Entitlements and national reserve

2.47 As now, farmers must hold ‘entitlements’ in order to qualify for a direct payment. The European regulation allows us (in the circumstances which apply in England) either to roll forward the existing SPS entitlements or to cancel the existing entitlements and make a new allocation at the start of the new scheme.

2.48 If we were to make a new allocation we could only allocate entitlements to those farmers who met certain criteria set in the European regulation. This includes the requirement for the farmer to have activated entitlements in 2013. Carrying out a new allocation would require RPA to check that each farmer meets these requirements (including consideration of cases where there has been a business change since 2013), and assess and process certain exception cases. Not all current SPS applicants would qualify.

2.49 To avoid unnecessary upheaval for farmers and additional burdens for RPA we will roll forward the existing SPS entitlements. This means that the number of entitlements a farmer holds on 31 December 2014 will be rolled forward into the new scheme. However, if a farmer holds more entitlements in 2015 than he has eligible hectares at that time, we are required to cancel the excess entitlements.

2.50 Following consultation with stakeholders it was clear that making a decision now would provide greater certainty for farmers, since land transactions and other business decisions can be framed with this decision in mind. An early decision also helps us to put in place suitable IT systems and business processes in good time.

2.51 Qualifying farmers, including some young farmers and new entrants, will be able to apply to a ‘national reserve’ for an allocation of entitlements. The detailed rules are not yet known and we will discuss these with stakeholders as more information becomes available.

Decision

The Government has decided to roll forward Single Payment Scheme entitlements into the new scheme.

Active farmer test

2.52 Following some concerns at EU level as to whether direct payments were being made to ‘genuine farmers’, the European regulation introduces a two part ‘active farmer test’. One part addresses minimum activity criteria for farmers for whom the majority of their land is naturally kept in a state suitable for grazing or agriculture. We will discuss these criteria with stakeholders.

2.53 The other part introduces a so-called ‘negative list’ of business types which will be ineligible to apply for direct payments (and for limited purposes, rural development payments). The list comprises operators of airports, railway services, waterworks, real estate services and permanent sport and recreational grounds. However, businesses which fall within this list will have their eligibility restored if they can show that:

- Their direct payments represent at least 5% of their non-agricultural receipts,
- Their agricultural activities are 'not insignificant', or
- Their organisation's principal objective is an agricultural activity.

2.54 The European Commission is expected to produce detailed implementing regulations on these readmission criteria.

2.55 We are able to set a threshold for the negative list, so that if a farmer's annual direct payment falls below this threshold, the negative list will not apply to them. The highest threshold allowed is €5,000.

2.56 We also have the option to extend the negative list to add further ineligible business types. We could extend this list to include similar classes as those already specified in the list, for example, gasworks and energy operators, or other major landowners whose primary purposes is not farming, for example public bodies. Such entities are currently eligible under the SPS. A decision to extend the list would need to be balanced against the set up and administration costs.

2.57 Given the diversified nature of English agriculture there is a risk of inadvertently capturing under an extended list a large number of farmers who are genuinely farming their land. Whilst readmission criteria exist, farmers will have to supply suitable evidence each year and this will need to be checked by the RPA. Extending the list could introduce extra administrative burdens on the farmer and the RPA. For these reasons, we do not propose extending the list, but would welcome views.

Decision

Ministers have decided to adopt a threshold of €5,000 for the purposes of applying the negative list, in order to minimise administrative burdens for farmers and the RPA.

Question

Do you support our preferred option not to extend the list of 'negative activities' forming part of the active farmer test?

- **The negative list should not be extended.**
- **The negative list should be extended.**

Please comment further if you wish, or explain what types of businesses should be added to the list and why.

Small farmers scheme

2.58 Member States have the option to provide a 'simplified' payment scheme for farmers as an alternative to direct payments. This would be known as the Small Farmers Scheme (SFS). In exchange for participating in the SFS a farmer would receive a standardised annual payment to replace all other direct payments to which the farmer would otherwise be entitled. The maximum annual payment permitted under the SFS would be €1,250. A farmer who participates in the SFS would also be exempt from greening and cross compliance requirements. Participation in SFS would be open to all farmers (regardless of farm size) and be voluntary.

2.59 The Government does not consider that farmers in receipt of public money should be exempted from cross compliance requirements, nor should resources be committed to implementing a SFS which would have that outcome.

Decision

The Government has decided that we should not operate a Small Farmers Scheme.

Young farmers scheme

2.60 We will develop a Young Farmers Scheme (YFS) in England as required by the European regulation. Those eligible to participate in the YFS will receive an additional payment that is broadly equivalent to 25% of their payment under the basic payments scheme for each of the first five years of the operation of their holding.

2.61 To be eligible for an additional payment under the Young Farmers Scheme a participant must meet all of the following criteria[3]:

- Is an individual (ie not an incorporated body);
- Is not more than 40 years old in the year when the direct payment application is made;
- Set up as a farmer (ie as 'head of holding') within the previous five years.

2.62 Member States have some flexibility as to how this scheme is implemented. We must set a limit on the number of entitlements or hectares for which the claim for the additional payment can be made, which must be between 25 and 90. We also have the option to set criteria which would require the young farmers applying to demonstrate that they have particular skills or training requirements in order to qualify.

2.63 While there may be benefits in adopting additional criteria in terms of targeting support towards those new entrants who hold appropriate qualifications, or who have prepared a realistic business plan, our preference is not to introduce additional criteria at this stage. It would be difficult to capture informal skills developed by those who have been working on family farms from a young age. The additional administrative costs needed to apply such additional criteria are likely to be significant, because they would require time-consuming and costly review of applicants' evidence (eg verification of qualifications or analysis of business plans).

[3] The European Commission is expected to make regulations which would allow 'legal persons' (eg companies or partnership) to qualify under conditions set out in those regulations.

Questions

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

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

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

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

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

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

Do you have any other comments you would like to make on the issues addressed in this section on the implementation of direct payments?

3 Direct payments: greening

Blueprint for greening in England

3.1 The Government has decided that the broad approach to greening in England should be to adhere to the measures set out in the direct payments Regulation. We have looked at the option to implement greening through a Certification Scheme containing additional, equivalent measures and have concluded that the additional potential benefits that could be derived are likely to be outweighed by the additional delivery risks and complexity for both farmers and enforcement agencies.

3.2 We also believe that implementing greening through a certification scheme approach brings with it an increased risk of disallowance. It is important that greening is implemented in a way that is achievable and manageable. We are not therefore minded to take up the option to implement greening through a Certification Scheme containing additional, equivalent measures.

Decision

The Government has decided that the broad approach to greening in England should be to adhere closely to the measures set out in the direct payments Regulation.

Question

The Government is not minded to take up the option to implement greening through a National Certification Scheme containing additional, equivalent measures. Do you agree with this approach or do you see a case for a National Certification Scheme and, if so, on what grounds?

The EU Requirements

3.3 Stemming from the European Commission's proposals, there are three elements to the greening requirements: Crop diversification; the maintenance of permanent grassland; and the need to establish Ecological Focus Areas on 5% of arable land. While there is flexibility in the Regulations to adopt so called "equivalent measures" (in reality largely more burdensome measures) to each of these elements, they provide no flexibility to move away from any one of these elements. Each of these elements brings different implementation challenges and different scales of potential environmental benefit.

Crop Diversification

3.4 The regulations provide for a three tier approach to Crop Diversification depending upon the area of arable land on the holding:

- Farmers with less than 10ha of arable land do not have to apply this requirement.
- Farmers with between 10 and 30ha of arable land must grow at least two different crops. The main crop must not cover more than 75% of the arable land.
- Farmers with more than 30ha of arable land must grow at least three different crops. The main crop must not cover more than 75% of the arable land and the two main crops together must not cover more than 95% of the arable land.

3.5 The environmental benefits to be derived from Crop Diversification are assessed to be relatively small but the possible equivalent alternatives to Crop Diversification are believed to be administratively difficult and costly for little or no additional benefit. We propose therefore to implement the rules exactly as set out above. In mitigation, we have been able to negotiate acceptance that winter and spring varieties will count as different crops for the purposes of these regulations — this will give farmers additional flexibility in complying with the rules.

Permanent Grassland

3.6 The permanent grassland rules require that there be no conversion and no ploughing of designated environmentally sensitive grasslands in Natura 2000 sites and possibly elsewhere. Overall, the ratio area of permanent grassland to agricultural area in England must not fall by more than 5% compared to the baseline. Remedial action is to be taken if it does.

Ecological Focus Areas (EFA)

3.7 The regulations require that where arable land on a holding exceeds 15ha, 5% of that land must be designated as EFA. We may choose which, from a list of land-use types listed in the regulation, options we shall permit for fulfilling the EFA requirement in England.

3.8 Member states may select from the following land-use types to count towards fulfilling the 5% EFA requirement:

- Land laying fallow;
- Terraces;
- Landscape features;
- Buffer Strips;
- Supported agro-forestry;
- Uncultivated land along forest edge;

- Areas of short-rotation coppice;
- Afforested areas established under rural development schemes;
- Areas with catch crops or green cover;
- Areas with nitrogen fixing crops.

3.9 We believe that a selection of measures drawn from this list will allow English farmers to fulfil the EFA obligation without undermining the productivity of farm businesses. There will be some environmental benefits delivered through maintaining 5% of arable land in this way, albeit at relatively low level. However the EFAs could also form the basis for voluntary action through initiatives such as the Campaign for the Farmed Environment to build upon, and this in turn will form the basis for successor Pillar II agri-environment schemes. This is explored further below.

3.10 This overall approach to greening is consistent with the Government's view that it is Pillar II of the CAP which provides the optimum mechanism to fund the majority of environmental outcomes from English farmland, not Pillar I. Alternative, equivalent options are available to us through a Certification Scheme approach to greening.

Exemptions

3.11 The European Regulations set out a number of circumstances where the greening payment can be made without it being necessary for farmers to carry out some or all of the greening requirements. These include the following:

- The greening requirements will not apply to units of a holding which are farmed organically.
- Farmers who have more than 75% of the eligible agricultural area in permanent grassland, and where their arable area does not exceed 30 hectares, do not have to apply the Crop Diversification and EFA requirements.
- Farmers who have more than 75% of their arable land is used for the production of grass (or other herbaceous forage) or laying fallow and the remaining arable land is less than 30ha do not have to apply the Crop Diversification and EFA requirements.
- Farmers who have less than 10 hectares of arable land do not have to apply the Crop Diversification requirements.
- Farmers who have less than 15 hectares of arable land do not have to apply the EFA requirements.

Questions

Do you agree that this approach to the implementation of greening in England strikes the right balance between environmental benefit and administrative cost, in the context of our approach to the CAP Reform package as a whole?

Making available the full list of proposed Ecological Focus Area (EFA) options would enable the EFA requirement to be met without the need for additional action. However, individual EFA options may realise differing levels of environmental benefit. Which selection of Ecological Focus Area options do you favour?

There is a particular interest to see benefits for pollinators arising from the implementation of greening. Are there any practical Ecological Focus Area options, or enhancements of these options, which could be easily adopted, have a high likelihood of uptake and which would be particularly beneficial for pollinators? Would these options be deliverable within the approach set out in the direct payments Regulation or would they need to be implemented through a National Certification Scheme?

Case Studies

3.12 This section sets out how we would expect greening to apply to four different farm types:

Case 1

A livestock farm of 100ha, with 90ha of permanent grassland and 10ha used for the growing of fodder crops.

Crop Diversification: The Crop Diversification requirements do not apply to this farm as more than 75% of the eligible agricultural area is permanent grassland and the arable area does not exceed 30ha.

Permanent Grassland: This farm will have to contribute to the obligation for the ratio of permanent grassland in England not to decrease by more than 5% compared to the reference ratio in any year.

Ecological Focus Area (EFA): The EFA requirements do not apply to this farm as more than 75% of the eligible agricultural area is permanent grassland and the arable area does not exceed 30ha.

Case 2

A mixed farm of 100ha with 70ha of permanent grassland and 30ha used for the production of arable crops.

Crop Diversification: Because the arable land of this farm covers between 10 and 30 hectares the farmer will be required to grow two different crops on that arable land. The main crop must not cover more than 75% of the arable land.

Permanent Grassland: This farm will have to contribute to the obligation for the ratio of permanent grassland in England not to decrease by more than 5% compared to the reference ratio in any year.

Ecological Focus Area (EFA): The EFA requirements apply to this farm as the arable land covers more than 15ha. 5% of the arable land must be managed as EFA, drawing from the list of EFA options made available in England.

Case 3

An arable farm of 100ha, with 90ha of land in arable use and 10ha of land in permanent grassland.

Crop Diversification: Because the arable land of this farm covers more than 30ha, the farmer will be required to grow three different crops on that arable land. The main crop must not cover more than 75% of the arable land and the two main crops together must not cover more than 95% of the arable land.

Permanent Grassland: This farm will have to contribute to the obligation for the ratio of permanent grassland in England not to decrease by more than 5% compared to the reference ratio in any year.

Ecological Focus Area (EFA): The EFA requirements apply to this farm as the arable land covers more than 15ha. 5% of the arable land must be managed as EFA, drawing from the list of EFA options made available in England.

Case 4

A farm of 100ha has 80ha in orchard use, growing top fruit. 20ha are in permanent grassland.

Crop Diversification: The Crop Diversification requirements do not apply to this farm. None of the land is classed as being in arable use.

Permanent Grassland: This farm will have to contribute to the obligation for the ratio of permanent grassland in England not to decrease by more than 5% compared to the reference ratio in any year.

Ecological Focus Area (EFA): The EFA requirements do not apply to this farm as the arable land covers less than 15ha. (In fact there is none).

4 Cross Compliance

4.1 The term 'cross compliance' refers to the requirement for farmers to comply with a set of Statutory Management Requirements (SMRs) and keep their land in Good Agricultural and Environmental Condition (GAEC) in order to qualify for the full single payment and other direct payments.

4.2 Under the new CAP cross compliance requirements have not changed significantly overall. The main changes are:

- SMRs and GAECs have been renumbered and amalgamated into a single framework;
- Four SMRs (sewage sludge and three relating to animal diseases) have been deleted and a further one (groundwater) has been changed to a GAEC requirement;
- GAEC requirements have been rationalised to seven compulsory standards with a single optional element relating to invasive weeds within one standard.

4.3 Member States retain some flexibility in setting the farmer requirements for GAECs. This allows us to review the implementation of these requirements to make sure that they are fit for purpose as well as meet our EU obligations. The current GAEC framework as set out by the European Commission, includes where the GAECs currently implemented in England meet these requirements (Annex D1: Current GAEC framework).

4.4 The new CAP GAEC requirements are set out in Annex D2: GAEC framework under CAP 2015. The GAEC requirements we set out in England must fit in with this new framework. We are not consulting on the implementation of the Statutory Management Requirements (SMRs) which reflect specific pieces of EU legislation which are already implemented in English law.

4.5 We will be consulting further with key stakeholders on these requirements early next year. The further consultations will cover each GAEC in more detail, assessing which requirements we will keep, which requirements need to be amended and what each requirement will cover.

Questions

Are there any current GAECs that you think should not be carried forward and included from 2015? If so, what are your reasons and evidence for this?

Are there elements within any GAEC that you think should or could be changed, implemented better, or excluded? If so why?

(For current guidance which shows all GAECs, please see: http://tinyurl.com/rpagaec)

5 Rural Development Programme

Introduction

5.1 The new Rural Development Programme for England provides a major opportunity to invest in the rural economy and environment. We plan to begin the new programme on 1 January 2015. This chapter discusses the broad shape and focus of the new Rural Development Programme. Chapter 6 looks in more detail at potential budgets for the new programme.

5.2 The Government's objectives for the next Rural Development Programme in England are to:

- promote strong rural economic growth;
- improve the environment: this includes helping to ensure that by 2021 the natural environment is improved as set out in the Natural Environment White Paper; and
- increase the productivity and efficiency of farming and forestry businesses, in order to improve their competitiveness and reduce the reliance of farmers and land managers on subsidies.

5.3 Annex A summarises a number of the main relevant obligations, commitments and policy ambitions which are relevant to consideration of what might be covered by the new Rural Development Programme.

The Rural Development regulation, the CAP and Europe 2020

5.4 Rural Development programmes are the delivery mechanism for Pillar 2 of the CAP. Political agreement on the wider CAP reform package includes a new Rural Development Regulation. This regulation provides the overarching legal framework for what the new Rural Development Programme for England can support using the European Agricultural Fund for Rural Development (EAFRD) for the period 2014–2020. A new "Horizontal" Regulation will set out important rules for how the CAP (including Rural Development Programmes) should be managed, financed and controlled.

5.5 From 2014 Rural Development will also form part of a suite of European Strategic and Investment Funds (ESIF), alongside the European Social Fund, European Regional Development Fund and the European Maritime and Fisheries Fund. A "Common Provisions" regulation will set out common rules for these funds. As with the CAP regulations, the Common Provisions regulation is not expected to be adopted until later in the autumn.

5.6 The European Commission will also publish a number of delegated acts and implementing acts setting out more detail on how programmes should be implemented. These are not expected to be agreed until spring 2014.

Priorities and activities which can be supported under the new Rural Development regulation

5.7 The new Rural Development Regulation outlines six broad 'priorities' for the EU for rural development. Member States must aim to meet at least four of the priorities in the design on their programmes. These priorities are broken down into a number of 'focus areas' under which Member States are required to identify activity for funding through their programmes. Details of these focus areas are provided in Annex C.

5.8 Member States have flexibility to design their programmes to best suit their needs and opportunities while delivering overarching objectives that support climate change adaptation and mitigation, innovation and the environment.

5.9 The six priorities are:

1. Fostering knowledge transfer and innovation in agriculture, forestry and rural areas.
2. Enhancing farm viability and competitiveness of all types of agriculture in all regions and promoting innovative farm technologies and sustainable management of forests.
3. Promoting food chain organisation, including processing and marketing of agricultural products, animal welfare and risk management in agriculture.
4. Restoring, preserving and enhancing ecosystems related to agriculture and forestry.
5. Promoting resource efficiency and supporting the shift towards a low carbon and climate resilient economy in agriculture, food and forestry sectors.
6. Promoting social inclusion, poverty reduction and economic development in rural areas.

5.10 To fulfil these priorities the regulation outlines 'measures' from which EU Member States can choose in the design of their domestic Rural Development Programmes. They must spend at least 30% of their EU funding on measures to protect and enhance the environment and at least 5% of their EU funds through the local delivery mechanism known as the LEADER approach. Details of these measures are included in Annex C.

The current Rural Development Programme for England, 2007–2013

5.11 The current Rural Development Programme for England implements the existing Rural Development Regulation and has a total budget of £3.8bn. Of this budget, around £800m is derived from EU Rural Development funds and a further £1.8bn through deductions from farmers' single payment scheme receipts. National co-financing from the UK Exchequer accounts for a further £1.2bn of funds.

5.12 The programme is built around four axes (objectives):

- Axis 1 — Improving the competitiveness of the agricultural and forestry sector (circa £370m).
- Axis 2 — Improving the environment and countryside (circa £3.2bn). This is primarily spent on agri-environment schemes. It also includes delivery of the English Woodland Grant Scheme. Agri-environment schemes account for about £2.9bn of the overall budget.
- Axis 3 — Quality of life in rural areas and diversification of the rural economy (circa £290m).
- Axis 4 — the LEADER approach, a 'bottom-up' community-led delivery approach funded principally by the other 3 Axes (particularly Axes 1&3).

5.13 The current Rural Development Programme has delivered environmental gains via delivery of agri-environment and woodland grant schemes, boosted the competitiveness of the farming, food industry and forestry sectors and delivered rural economic growth. Key successes to date are that:

- 70% of England farmland is under an agri-environment scheme.
- Around 96% of Sites of Special Scientific Interest (SSSIs) are now in favourable or unfavourable recovering condition.
- 10,000ha of new woodland has been created. 27% of non-State-owned woodland is under some form of woodland management agreement.
- Farming and forestry competitiveness projects have created over 2,600 jobs and safeguarded more than 5,100. Over 9,000 businesses have been supported.
- Rural economy projects including farm diversification projects have created over 6,100 jobs and safeguarded over 4,800. Over 6,100 businesses have been supported.

5.14 Commitments from multi-annual agri-environment and forestry agreements entered into by 2014 will consume about £2.16bn of the budget of the next Rural Development Programme.

Questions

What lessons can be learned from the current Rural Development Programme? How can we build upon its successes?

Areas of focus under the new Rural Development Programme

5.15 The new Rural Development Programme needs to focus on those areas where there is a real need for Government to act and provide good value for money to the UK taxpayer.

5.16 For the new Rural Development Programme we have to provide an assessment of the main development needs of rural England. This will include an analysis of the Strengths, Weaknesses, Opportunities and Threats to rural England (SWOT) and an assessment of where best to focus Rural Development funding.

5.17 A summary of our work so far on the needs assessment is at Annex C. We will undertake a full SWOT analysis and needs assessment as part of the final Programme Document we submit to the Commission in early 2014. We are also required to undertake a Strategic Environmental Assessment of the new programme. We are consulting on the scope of this assessment in parallel with this consultation.

Questions

Are there any key areas we have missed in our assessment of need to support the new Rural Development Programme? Are there any further sources of evidence of social, economic and environmental need in rural areas for England that have not been captured?

Prioritising investment through the Rural Development Programme

5.18 We have identified three main areas for support through the needs assessment. These are:

- Growth: *Delivering rural economic growth*
- Environment: *Restoring, preserving and enhancing our natural environment*
- Productivity: *Increasing the competitiveness and efficiency of our farming, forestry and land-based sectors*

5.19 We also see two other themes as important in supporting delivery of these areas:

- Innovation: *Promoting knowledge transfer, cooperation and sharing of best practice*
- Advice and skills: *Promoting growth, productivity and improving environmental performance*

5.20 We do not see a rationale for intervention in a number of areas, either because they offer very poor value for money or would be better supported through the market:

- quality schemes for agricultural products and foodstuffs;
- income stabilisation tools;
- support for crop, animal and plant insurance;
- mutual funds for adverse events, animal and plant diseases, pest infestations and environmental incidents.

Questions

Are the areas we outline for support under the new Rural Development Programme set out above the right ones? **How we can best target investment under the new Rural Development Programme to help gain the maximum value for money for UK taxpayers?**

Designing Rural Development Programme schemes

5.21 We propose to deliver the new Rural Development Programme though a small set of schemes and through the LEADER approach.

5.22 Applicants for grant schemes are currently required to demonstrate that their project fits with the objectives of the Programme, set out how the project represents value for money, and why public funding is needed to make it happen. Some schemes are open to all, while others are via a single or two stage application process. The latter is dependent on the size of the funding available with two-stage (outline and full) application processes designed to avoid applicants investing time in putting together detailed plans that are likely to be rejected.

5.23 We want to make sure that applying for investment through the next Rural Development Programme is as simple and straightforward as possible. We need to balance this against ensuring clear accountability for the use of public funds. We will ensure any requirements that applicants will need to fulfil are clear, proportionate, and fair.

Questions

How might we make the process for applying for Rural Development funding simpler or less bureaucratic?

How might this be balanced against the need to ensure clear accountability for public funds?

Environment: restoring, preserving and enhancing our natural environment

5.24 We propose a new environmental land management scheme to address the Environment priority. This would bring together a number of existing schemes into one scheme, building on and enhancing the current Environmental Stewardship (ES), the English Woodland Grant Scheme (EWGS) and the Catchment Sensitive Farming scheme.

Proposed scheme structure for the new environmental land management scheme

5.25 Existing commitments under ES and EWGS will stretch well into the next Programme. The budget headroom to pay for agreements under the new environmental land management scheme will increase only gradually in this period as current agreements expire within a flat profiled EU budget. Taken together with other financial and budgetary constraints our approach will be to look for the maximum opportunities to achieve multiple benefits through the same investment, for example, investments in water quality that will also benefit biodiversity, or landscape scale projects that deliver multiple benefits. Through such an 'ecosystem approach' the new scheme will be better focused on those areas which offer the better opportunities to secure these outcomes.

5.26 As now, this scheme would help England meet its Biodiversity 2020 goals, in particular our legal obligations under the Habitats and Birds Directives. It would also contribute to delivery of better, bigger and more connected habitats and closer engagement by people with the natural environment. The scheme would be better integrated and targeted. Integration would also deliver benefits across a number of water, biodiversity, soil and flood management objectives.

5.27 Therefore in addition to helping to meet Biodiversity 2020 goals, it would also support woodland creation and management currently covered by the English Woodland Grant Scheme to help contribute to the ambitions set out in the Forestry and Woodlands Policy Statement.[4]

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[4] https://www.gov.uk/government/publications/government-forestry-policy-statement

5.28 Currently less than a third of our water environment achieves “good status” under the Water Framework Directive. Therefore, compared with ES and EWGS, we would give greater priority to soil and water management, and in particular the Water Framework Directive

5.29 Support would also include options for investment in the historic environment, educational access, genetic conservation and would look to promote landscape scale change. Climate change adaptation and mitigation would remain an overarching objective. The new scheme would not offer separate strands for organic production or the uplands but would provide management options appropriate for these farming systems.

5.30 Cross-compliance would continue to be a basic scheme requirement, as it is part of the legal baseline that farmers follow to receive their payments under Pillar 1. It also ensures that farmers entering the new scheme are doing so at a common environmental standard. For instance, features such as hedges and dry stone walls would have to be retained undamaged, in addition to any features being managed as part of scheme agreement. The scheme would also operate a “no-detriment rule”, namely that management intended to achieve certain environmental outcomes should not be at the expense or to the detriment of other features present on a holding.

Site specific agreements

5.31 The intention is to have a single new scheme with two main types of agreements. One, more site specific, would be aimed at the improvement or maintenance of the most important designated sites (such as Sites of Special Scientific Interest (SSSIs)). The other, more area based, at targeted improvements in the wider countryside, including more landscape scale co-ordination in line with the Natural Environment White Paper vision. The site specific offer would be broadly similar to the current Higher Level Stewardship (HLS) offer. This “upper tier” would be designed to provide agreements on designated and protected sites such as SSSIs or scheduled monuments and those deemed of very high priority or complexity. Entry to this upper tier would mostly be by invitation, and would adopt similar arrangements to the current HLS offer to manage applications and plan resources efficiently (the HLS “pipeline”).

5.32 New priority customers would be able to access the upper tier scheme. However, we would expect that most upper tier agreements would be with either existing customers or be on land identified as suitable for higher level management.

Area specific agreements

5.33 We also propose offering area specific or landscape scale agreements. The most innovative element of these agreements would be the adoption of selection criteria which would favour the choice of the right options. Under current Entry Level

Stewardship agreements (ELS) applicants can choose any option in any area as long as they meet the qualifying points threshold which secures an agreement. Area specific agreements would instead be expected to respond to the opportunities identified in their area through a national targeting framework. Unlike ELS they would also include capital items such as fencing and hedge planting, laying and coppicing to help support particular environmental objectives.

5.34 The selection criteria would also promote clusters or groups of coordinated agreements across the landscape. Agreements would still be concluded between the individual land manager and the delivery bodies. With the exception of common land, there would be no intention of having a single agreement covering a group of farmers or land managers. We do not intend to prescribe the kinds of groupings that would be involved in such a landscape scale approach. Rather we would want to create a framework which would enable existing or newly formed groupings to propose where and how such an approach could be particularly beneficial.

5.35 Taken together these area-specific agreements would aim to ensure the choice of the right options in the right place and at a sufficiently high level to deliver the right outcomes. This more focused and coordinated approach will inevitably mean a gradual decline in the coverage of land under scheme for the current 70% to, we estimate, about 35–40%. On the other hand, better targeted and more selective option choices will mean more effective environmental outcomes.

Questions

What are your views on the structure of the proposed new environmental land management scheme, in particular the new "landscape scale" approach?

Do you agree that we should not be prescriptive about how groups of farmers or land managers could be brought together to deliver landscape scale agreements under the proposed new environmental land management scheme?

How could we help facilitate landscape-scale approaches under the proposed new environmental land management scheme?

Grant provision

5.36 A consequence of a more targeted and coordinated approach would be that some holdings would be unable to access the new scheme. This could impact on landscape, biodiversity and possibly features of archaeological or historical interest on such farms. A small scale, capital grant scheme, available England wide, could mitigate this impact. It could offer items that can be delivered by land managers based on simple on-line guidance. Available items might include hedgerow restoration/planting, dry stone walls, improvements to access infrastructure and scrub management on historic sites. This grant scheme would have very low administration costs, an annual application round and some element of competition. The budget would be limited in order not to undermine the core principle of targeting resources and spend to priority areas.

Questions

Should we offer a capital only grant as part of the proposed new environmental land management scheme?

Proposed scheme elements

5.37 Agreements in the new scheme would follow a common design. The new scheme would offer one single "menu" of options which would include both land management and capital works. Applicants would have access at different levels, to meet either higher tier 'site specific' or mid-tier 'area specific' objectives.

5.38 However, unlike the current Environmental Stewardship scheme, which can have a mix of HLS and underpinning ELS agreements, there would only be a single agreement per holding. Where necessary an agreement could accommodate site specific objectives, like SSSIs, as well as any broader landscape scale options.

5.39 The normal length of agreements would be five years. EU rules state that agreements should be for 5–7 years. In England, five year ELS agreements have been the exception to the 10 year norm in HLS and predecessor schemes such as the Countryside Stewardship Scheme and Environmentally Sensitive Areas. In specific cases, such as wetlands, coastal re-alignment or complex habitat restorations and for afforestation, 10 year agreements could still be justifiable.

5.40 There are two possible approaches to targeting the new scheme. One is by using geographically defined and mapped areas, often referred to as 'hard boundaries'. The other approach relies on identifying the areas of greatest opportunity to deliver the desired priorities and outcomes, providing some indicative targeting and seeking to incentivise uptake of the appropriate options in those areas but without drawing hard boundaries.

Questions

Do you agree with the principle that five year agreements should be the norm under the new environmental land management scheme?

What approach should we take to targeting the new environmental land management scheme?

5.41 Our evidence has highlighted the importance of advice and support once an agreement is set up to help ensure the environmental outcomes we want are delivered. However, advice and support is expensive, both in terms of administrative budget and staff time. Given the resource constraints in the delivery of the next programme we need to consider how this advice can be delivered most cost effectively for the “mid-tier” area specific agreements. This could mean advice and guidance is provided electronically or by third parties. For example, advice and guidance could increasingly be offered online and from a range of providers.

Question

With the exception of the highest priority sites, is there a case for making advice and guidance available increasingly on line or through third parties under the new environmental land management scheme?

Scheme entry requirements

5.42 The scheme entry requirements would need to be set above where ‘environmental good farming practice’ is judged to rest. As before, the new scheme would only be able to pay for measures which go beyond the legal minimum baseline that includes cross compliance, minimum requirements for fertiliser and pesticide use and other relevant mandatory requirements established by national legislation.

5.43 The scheme requirements which sit above the legal minimum will need to be based on the environmental objectives we are seeking to achieve, the available budget, and the need to ensure sufficient uptake by farmers and land managers. We will also need to ensure there is no double funding of greening practices.

5.44 We will be developing the requirements for the new environmental land management scheme, and will be working with interested parties to develop these further.

Question

Where should we set the scheme entry requirements (ie above the legal baseline) for the proposed new environmental land management scheme?

When would new scheme agreements start?

5.45 To avoid continuing risk of disallowance Ministers have agreed that agreements under the new scheme should all start at the same point in the calendar year ie 1 January. This means that we would no longer offer agreements which start in each month of the year. In practice the first agreements under the new scheme would not start until 1 January 2016. This is because the new scheme cannot be made available until the new programme has been formally approved by the European Commission. On the current timetable, this approval is unlikely to be available until the second half of 2014. This does not give sufficient time for our IT systems to be finished, information to be finalised and made available for applicants and for applicants to prepare and submit applications in time for a 1 January 2015 start. However, on current plans the new scheme will be open for applications from July 2015.

Uplands farming

5.46 While upland farming has the potential to deliver a range of public goods, upland areas face particular challenges accentuated by their terrain. For these reasons, we place priority on providing effective financial support to upland farmers. In looking at how best to deliver this support, we have concluded that increasing the level of direct payment under a new Basic Payment Scheme, which could achieve convergence with lowland farmers, would promote this objective (see chapter 2). Upland farmers would still be able to apply for other support, for example under the proposed new environmental land management scheme. However, in respect of agri-environment there would no longer be a widely available offer, such as now exists under Upland Entry Level Stewardship.

The Campaign for the Farmed Environment

5.47 The industry-led Campaign for the Farmed Environment (CFE) will provide farmers with continuity during agri-environmental scheme transition. Extended to all lowland areas and promoting voluntary environmental measures on both arable and grassland farms, it offers the opportunity for farmers and land managers to continue to demonstrate a commitment to voluntary environmental management as ELS agreements end. As an industry-led initiative, CFE will continue to provide a flexible opportunity to demonstrate how positive on-farm environmental management can benefit the farm business and provide land management opportunities contributing to environmental outcomes alongside the CAP schemes on cross compliance, greening and environmental land management.

5.48 The CFE delivery plan extends into early 2016 and can be adapted to align with changes in CAP and delivery of the new Rural Development Programme. Enabling industry to deliver on a voluntary basis, alongside CAP regulations and RDPE incentives, is critical and provides a way of adding value to formal schemes.

5.49 The CFE partnership, consisting of industry, advisory and environmental groups, has been successful in raising the profile of whole farm environmental management and has worked closely with a range of professional advice providers. Working in partnership has enabled a greater reach to those already accessing environmental schemes and also those outside formal schemes.

5.50 We will continue to work closely with CFE partners to develop an integrated industry-led delivery approach, maintain a broad consensus on the local environmental priorities and provide clear trusted advice to farmers on the best environmental options with the right management as part of a profitable farm business. Funding has been confirmed for the 2014–15 financial year.

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

5.51 Our proposals for farming, forestry and other land-based sectors are intended to enable businesses to become more productive, efficient and resilient. The proposals would build upon activity delivered under the current programme, under Axis 1.

5.52 Under the current Programme there are two main grant schemes that farm businesses can access. The Farm and Forestry Improvement Scheme (FFIS) provides small grants up to £25,000. The Rural Economy Grant (REG) provides grants above £25,000. The skills offer under the current Rural Development Programme is delivered via a Framework which offers support to both the Farming and Forestry sectors and targeted support for specific sector skills as well as business development skills. In addition the Catchment Sensitive Farming scheme offers capital grants of up to £10,000 in priority catchments, with a 50% contribution from the farmer, to improve the water environment and the farm business in tandem.

Proposed scheme structure to support productivity

5.53 In the next Programme, we could continue to use small and larger grant schemes, maintaining the principle that support must only go towards activity which goes beyond standard business practice.

5.54 We need to achieve a balance between funding activity which is innovative and proven to deliver and possibly riskier projects that may offer even greater gains. We are also considering a variety of funding mechanisms — ie how we can support hire purchase, purchase of second hand equipment, and more flexible ways of bringing together RDP funds with private investment, such as loans or loan guarantees.

5.55 Evidence from the needs assessment suggests that a scheme to support productivity in the farming, forestry and other land-based sectors could focus on all or some of the following objectives:

Supporting innovative practice, knowledge transfer and cooperation:

- Encouraging innovation, both through the use of new technology and practices through better collaboration between land managers, supply chains and research institutions.
- Encouraging knowledge exchange, through seminars, workshops and demonstration activity, along with informal knowledge transfer activities.
- Supporting cooperation and collaboration between land owners, primary producers and businesses in the supply chain to provide efficiencies of scale and other benefits that collaborative working brings.

Improving business performance and practice within the farming and forestry sectors

- Supporting improved business management practice, including leadership skills, project management, people management and negotiating skills and support to better understand financial planning and market opportunities.
- Supporting professional and continued development skills in both sectors.
- Supporting businesses to see the benefits of benchmarking, to encourage those with potential for greater productivity to learn from high performers.
- Improving standards of animal and plant health and animal welfare.
- Improving the efficiency and effective operation of supply chains.
- Supporting the woodland enterprise supply chain and venison supply chain to increase the area and benefits of woodland management.
- Supporting effective succession of businesses and support for new entrants in building their businesses successfully in the early years. This would include consideration of the recommendations in the recent Future of Farming Review which looked the different routes of entry into farming, such as through tenancies and profit sharing schemes.

Supporting improved environmental performance, resilience and efficiency

- Supporting improvements in the efficiency and use of both natural resources such as water and soils, other resources such as energy and improvements to air quality.
- Driving a shift to the low carbon economy through supporting improvements in energy efficiency in food production and initiatives for sustainable wood fuel and anaerobic digestion.
- Providing support and advice to farmers to support environmental performance, including meeting Water Framework Directive or other legislative requirements. This could potentially include the Farm Advisory System.
- Supporting greater resilience, potentially both through supporting risk management activities and through encouraging projects that make businesses more resilient to climate change and other extreme weather events eg provision of on-farm anaerobic digestion plants and supporting high-flow water reservoirs.

5.56 We will need to consider whether to continue with grant schemes similar to those already in use or to adapt these to support some of the areas we have highlighted above. Specific funds could be targeted to high priority areas or sectors. We could also link training and sharing of best practice with investments in capital projects. This has the potential to widen the number of beneficiaries of funding.

Questions

Have we identified the right areas of support under the new Rural Development Programme to help improve the competitiveness and efficiency of the farming, forestry and other land-based sectors? Are there any other areas which could be supported?

What activities to support the farming, forestry and other land-based sectors under the new Rural Development Programme would provide the best value for money for the UK taxpayer?

Advice and skills

5.57 We are also considering how advice, training and funding for capital items or equipment might be brought together. For example, advice for farmers through the Catchment Sensitive Farming scheme in priority water catchment areas under the current programme provides detailed on-farm advice alongside capital grants.

5.58 Any advice we offer will need to be targeted and clearly linked to other advice channels. The Review of Advice and Partnership Approaches[5] published in March 2013 highlighted the key principles for advice. Government advice needs to be clearly targeted and linked to that provided by other advice providers, rather than duplicating advice streams and creating confusion for those seeking it. Providing integrated advice could also lead to significant cost-savings.

5.59 The delivery of support for rural economic growth under the umbrella of the EU Structural and Investment Funds Growth Programme may also offer opportunities for delivery of activities to support skills in the farming and forestry sectors from other funding sources. We need to consider whether or not to choose skills as a priority for delivery under the Productivity focus area. Support for priority water catchment areas could also fall within the proposed new land management scheme.

[5] https://www.gov.uk/Government/publications/review-of-environmental-advice-incentives-and-partnership-approaches-for-the-farming-sector-in-england

Questions

How should we support advice and skills for the farming, forestry and land-based sectors under the new Rural Development Programme?

How can we ensure any advice provided to the farming, forestry and other land based sectors and through the new environmental land management scheme is integrated and linked with advice provided within the industry in the light of the Review of Advice and Partnership Approaches?

Innovation

5.60 Innovation will be an important theme in the programme. We are required by the EU Regulation to demonstrate how our programme will contribute to innovation as a cross-cutting priority under the relevant measures we include. We are also looking at how the European Commission's proposals for delivering innovation through a European Innovation Partnership (EIP) on agricultural productivity might work in England. This could be a partnership which brings together farmers, researchers, NGOs, businesses, advisers and others. We would be particularly interested in ways in which this could be done and at levels of interest for this type of approach.

Questions

How do we ensure innovation is considered across the breadth of the new Rural Development Programme?

How could we develop proposals for an England specific European Innovation Partnership to support this?

Growth: Delivering rural economic growth

5.61 Our principal mechanism for using EU funds to help deliver rural economic growth will be through the EU Structural and Investment Funds Growth Programme. The EU Structural and Investment Funds exist to promote sustainable growth. In addition to EU rural development funding, the funds available are: the European Regional Development Fund (ERDF); the European Social Fund (ESF); the European Maritime and Fisheries Fund (EMFF); and the Cohesion Fund.

5.62 The Growth Programme will enable the Funds to be managed in a more consistent and complementary way and targeted on more specific activities to maximise their impact. Funds will be notionally allocated to Local Enterprise Partnership areas. Local Enterprise Partnerships will identify through Local Structural and Investment strategies how funds should be focused in their areas.

5.63 Local Enterprise Partnerships will need to submit their final Local EU Structural and Investment strategies by January 2014. Government has issued guidance on completion of these strategies which is available at: www.gov.uk/Government/publications/european-structural-and-investment-funds-strategies-supplementary-guidance-to-local-enterprise-partnerships.

5.64 The Government's guidance to Local Enterprise Partnerships sets out what the relevant funding can be used for. In the case of Rural Development funding this consists of the following:

- building knowledge and skills in rural areas;[6]
- funding new and developing micro, small and medium sized rural businesses;
- funding small scale renewable and broadband investments in rural areas; and
- support for tourism activities in rural areas.

5.65 The Government has already decided that, except for projects funded through the LEADER approach, the EU Growth Programme will achieve the best targeting from rural development funding to groups other than farmers and other land managers. Funding allocated to supporting rural growth in this way will therefore be delivered through the Growth Programme. Local Enterprise Partnerships are developing strategies for how they will use this and the ERDF and ESF to support activity in their areas. ERDF and ESF funds can be used in rural as well as urban areas. Defra will remain accountable for how Rural Development Programme funding is spent.

5.66 The way we allocate rural development funding through the Growth Programme is still being developed. It will need to be fair and transparent, reflecting the rural areas in each Local Enterprise Partnership. We appreciate that the timing of announcing Rural Development funding allocations is critical for Local Enterprise Partnerships writing Structural and Investment Funds strategies. However, we need to await the outcome of this consultation exercise, in particular decisions on the funding available for Rural Development, before Ministers make any announcements on what these allocations will be. LEPs will receive their area's allocation before they are required to submit the final version of their strategies. The budget scenarios included in chapter 6 of this document give potential levels of available Rural Development spend, including through the Growth Programme.

LEADER

5.67 The LEADER approach currently delivers £138m of current RDPE funding through a network of 64 Local Action Groups. It delivers projects across a range of measures including support for micro enterprises, tourism, culture and heritage, rural services and village infrastructure. In some areas it also supports training and advice to farming and forestry businesses. LEADER is seen as an important mechanism

[6] Specific business skills for farming, forestry and land-based sectors could potentially be supported outside of the EU Structural and Investment Growth programme through the Productivity focus area described above

which provides the kinds of support that local partners feel are most needed to grow sustainable rural businesses and communities.

5.68 Under the new programme we will need to put at least 5% of our EU funds through the LEADER approach.

5.69 Ministers want to strengthen the contribution funds invested through LEADER make to delivering jobs and growth in rural areas. We are also looking to increase the proportion of England covered by LEADER, if we can afford to do so. Bringing the administration of LEADER into Defra has allowed us to take a more nationally consistent approach to managing spend and meeting EU targets. This is something we can build upon for the next programme through single national guidance, processes and clarity of roles.

5.70 We have recently completed an independent review of LEADER in the current programme. The report makes several recommendations which we are currently considering for the next phase of programme design. The allocation of up to £3m of transition funding to LEADER groups will help us build on delivery going forward by securing capacity and expertise and being in a position to start delivery earlier. In order to avoid disallowance, any changes to the way LEADER is delivered must also be balanced with the necessary audit and compliance requirements. We will look at every opportunity to reduce the costs of delivery, and deliver better value for money for the taxpayer and beneficiaries. The report can be found at: http://randd.defra.gov.uk/Default.aspx?Menu=Menu&Module=More&Location=None&Completed=0&ProjectID=18472.

5.71 Support to foster local development in rural areas will primarily be delivered through the LEADER mechanism, but is also part of a wider grass-roots and community based approach, called Community Led Local Development (CLLD) under the EU Structural and Investment Funds.

5.72 Whilst LEADER Groups are not part of the EU Structural and Investment Funds Growth Programme in England, any Local Enterprise Partnerships who want to provide additional funding to them from their Growth Programme allocations will be free to do so. It is also possible that Community Led Local Development could be adopted in non-rural areas as well as rural areas as a way of delivering some of the objectives of the EU Structural and Investment Fund programme.

Questions

How can we strengthen LEADER's contribution to delivering jobs and growth in rural areas?

How can we make the LEADER approach more effective and deliver better value for money?

Loans and other novel ways of funding

5.73 The new regulations allow Member States to develop and apply innovative financial instruments within their Rural Development programmes. These can take the form of loans, finance or guarantees and can be administered through a third party if necessary. The ability to 'recycle' funding through the programme period could deliver financial benefits and provide better value for money for the taxpayer and a wider range of beneficiaries. They can, however, be costly to administer. Depending on the payment period the full benefit in term of increasing available funding may be felt in future programme periods.

5.74 Whilst largely untried in Rural Development terms, loans have been used elsewhere through other European funds, as well as domestically in the UK to support waste recycling and renewable energy projects. Loans, loan guarantees, or gap funding, could be particularly helpful for enterprises with well-established markets and steady turnover, and where a loan will enable new growth. A separate paper providing some further information on the potential for loans and other financial instruments is available.

Question

What role could loans or other financial instruments play in delivering the Rural Development Programme?

6 Inter–pillar transfer

6.1 The new CAP package agreed in principle by EU Agriculture Ministers in June allows us to transfer up to 15% of the CAP budget for direct payments (Pillar 1) to fund rural development measures (Pillar 2). There is provision for Member States to review their level of transfer in 2017. Member States may also, depending on the level of their direct payments, transfer up to 15% or 25% from Pillar 2 to Pillar 1.

6.2 We believe that rewarding farmers for the environmental goods they provide is a much better use of taxpayers' money than providing direct subsidy. Transferring funding to Pillar 2 would also increase our ability to deliver improvements in the productivity and longer term competitiveness of UK agriculture and to help grow the rural economy in England. The cost of meeting our environmental obligations and objectives is more than we can afford to meet through the new Rural Development Programme even with a maximum transfer. Therefore, we will need to ensure that all investments are effectively targeted and deliver high value for public money. Our modelling suggests that, at the aggregate level, a reduction in Pillar 1 funding will have only a small impact on England's agricultural production levels. There is no evidence to suggest that voluntary modulation in the period 2008–12 had an adverse impact on England's farming competitiveness.

6.3 We therefore very much welcome the flexibility to continue transferring funds from Pillar 1 to Pillar 2 and consider that with effective Rural Development Schemes there is a strong case to make the maximum transfer of 15%. A 15% transfer from Pillar 1 to Pillar 2 could amount to £1.889bn compared to £1.615bn voluntarily transferred during the 2007–13 Programme. On average, the rate of transfer over 2009–2013 was 12%. The rate of voluntary transfer applied in 2013 in England was about 9%. We do not intend to transfer funds from Pillar 2 to Pillar 1.

6.4 We recognise that there are a range of views on whether and how much money to transfer from the direct payments budget to rural development. Therefore we would welcome your views on how much to transfer and the potential impact.

6.5 To help inform the debate on the right level of transfer from Pillar 1 to Pillar 2 we have developed a number of funding scenarios for the next Rural Development Programme. These allow us to show the potential impact of different levels of transfer from Pillar 1 on:

- the level of direct payments in Pillar 1;
- the funding available for Pillar 2 overall; and
- amounts available for different rural development activities, in total and year on year.

In order to develop these scenarios it has been necessary to make some assumptions solely for modelling purposes.

6.6 Our separate evidence paper sets out the broader impact of a transfer, with the finding that a 15% transfer would generate net benefits of around £3bn from spend in Pillar 2 compared with potential lost agricultural output of £0.1bn arising from the transfer out of Pillar 1. This chapter focuses on the impact on Rural Development Programme budgets. These scenarios and all funding figures in this document are based on a number of assumptions, set out in Annex B. Final budgets may differ from these figures.

Potential available funding for rural development

6.7 The figures used for this document are based on certain assumptions and are subject to final agreement on the EU budget, new CAP, and the allocation of EU CAP funds between the four parts of the UK. Details of assumptions are set out in Annex B Figures do not imply a preferred Defra option.. For simplicity's sake we assume an allocation to England of EU funds of about £1.427bn in Pillar 2 (rural development funds) for 2014 to 2020. That EU allocation may consist of:

- £0.211bn left over from the current programme; and
- £1.216bn from the new EU budget based on the current historic allocation.

6.8 A 15% Pillar 1 to Pillar 2 transfer could provide about £1.889bn on top of this, including the transfer already decided for 2014.

6.9 EU legislation requires Member States, or their regions, to contribute national Exchequer funding (taxpayers' money) in addition to the EU funds for each claim made by beneficiaries. The proportion of national and EU contributions is referred to as the co-financing rate. The level of national funding required depends on the activity funded and the source of the funds. Annex B sets out the rates agreed by Heads of Government as part of the EU budget deal. This includes not having to co-finance a transfer from Pillar 1 to Pillar 2. On this basis the minimum amount of national co-financing that may be required in England for the new programme could be about £558m.

Scenarios

6.10 In order to be able to fund ongoing contractual commitments and the legal requirement to spend 5% of EU funds through LEADER, a minimum of 1% would need to be transferred from Pillar 1 to Pillar 2.

6.11 We have therefore modelled three scenarios for a transfer:

- minimum — 1%;
- level of voluntary transfer funds from Pillar 1 to Pillar 2 in 2013 — 9%;
- maximum allowed — 15%.

6.12 Table 6 below summarises the potential impact of the three scenarios on the level of direct payments. These figures assume the current regional share of direct payments is maintained (see the table for Option 1 in paragraph 2.14). That assumption is for illustrative purposes only. A decision has not yet been made on the allocation of CAP funds within the UK.

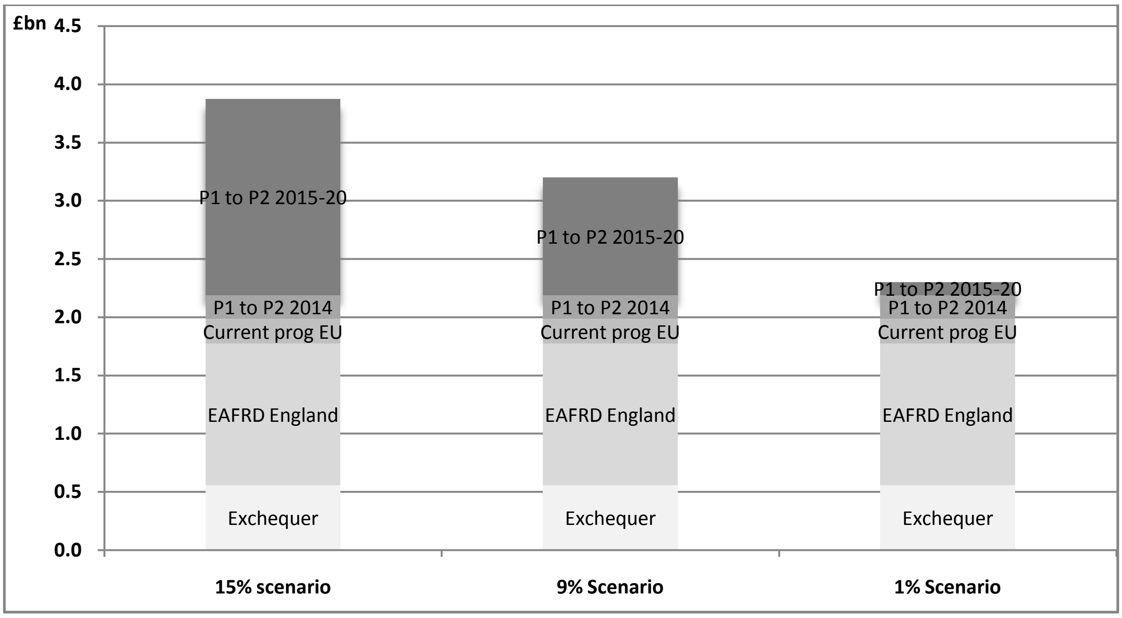
Table 6: potential funding available through direct payments in England (€bn)

Pillar 1 to Pillar 2 transfer	Rate per entitlement/hectare		
	Lowland	SDA	Moorland
15%	€242	€195	€34
9%	€259	€208	€36
1%	€282	€227	€39

6.13 Table 7 and the accompanying chart summarises and illustrates the potential funding available to the next Rural Development Programme in England for each rate of transfer:

Table 7: potential funding available to the next Rural Development Programme in England (£bn)

Source (£bn)	1%	9%	15%
Rural development allocation	1.216	1.216	1.216
Funds left over from current programme	0.211	0.211	0.211
2014 transitional transfer	0.205	0.205	0.205
Transfer from Pillar 1	0.112	1.010	1.684
National co-financing	0.558	0.558	0.558
TOTAL	2.302	3.200	3.874



Overall Impact of transfer of funds

6.14 Table 8 below summarises the amount of funding that might be available for new activities for three different amounts of Pillar 1 to Pillar 2 transfer. This takes account of the following factors:

- The need to fund commitments to fund existing and transition commitments to support long term environmental agreements set up under earlier rural development programmes; and ;
- The need to allocate at least 5% of England's EU funds to the LEADER delivery approach. Once national co-financing is taken in to account this equates to about 4% of total programme funds.

Table 8: potential amounts available for the next Rural Development Programme (£bn)

Pillar 1 to Pillar 2 transfer (£bn)	Total for next RDP	Existing and transition commit-ments	5% LEADER	Headroom for competi-tiveness, growth, new agri-environ-ment, water quality and forestry
15%	3.874	2.155	0.155	1.564
9%	3.200	2.155	0.122	0.923
1%	2.302	2.155	0.078	0.069

6.15 The application of reductions of direct payments could add to the amounts available in Pillar 2. The application of reductions at the minimum rate of 5%, and without provision for salary mitigation, would add £9m over the next programme period. That amounts to significantly less than 0.1% of the funds available over that period, under all scenarios. For simplicity we have omitted this impact.

6.16 We can highlight some key impacts of the different scenarios:

- A 15% transfer could involve a budget of about £3.87bn. With expected commitments of £2.16bn there would be total headroom of about £1.7bn to spend on new activities. Of this about £0.16bn would have to be spent through LEADER. That would leave approximately £1.6bn to support rural economic growth, agricultural and forestry competitiveness and efficiency and additional agreements to support biodiversity, habitat and water quality objectives.
- A 9% transfer could involve a budget of about £3.2bn. With expected commitments of £2.16bn there would be total headroom of about £1bn to spend on new activities. Of this about £0.12bn would have to be spent through LEADER. That would leave approximately £0.9bn to support rural economic growth, agricultural and forestry competitiveness and efficiency and additional agreements to support biodiversity, habitat and water quality objectives.

6.17 There are some big demands on the budgets. For example:

- Biodiversity: Progress towards the Biodiversity 2020 outcomes continues to be made and is reported at: www.gov.uk/government/publications/biodiversity-2020-simple-guide-and-progress-update-july-2013. The cost of fully delivering them could reach in the region of £500m per year by 2020, although more targeted land management to secure multiple outcomes should bring this figure down. The £500m approximation builds on the initial analysis undertaken by Natural England in 2012, which estimated the average cost over a ten-year period at about £400m per year, albeit on an increasing trajectory. The revised approximation reflects the reduced time until 2020, revised estimates and new information to deliver the key land based outcomes for Biodiversity 2020.

- Water quality: Water Framework Directive costs arise from the need to use RDPE funded agri-environment agreements, capital grants and advice to help reduce agricultural impacts on the water environment. It has been estimated that fully addressing diffuse pollution from agriculture through the Rural Development Programme might cost around £460m per annum. In addition, more than £80m per annum would be required from the Programme to avoid deterioration in water quality from diffuse agricultural pollution. These estimates are being revised. However it is clear that the amount required to deliver good status for the Water Framework Directive is likely to exceed the funds available and that in any event other sorts of measures will be needed in combination with the new Programme to meet our environmental obligations under this Directive.

6.18 Whilst the Rural Development Programme is likely to remain a core component of funding for the delivering the biodiversity, water quality and other environmental land-management, further work is in hand to explore new or other sources of funding because the demands are likely to exceed what is available. These include payments for the services that nature provides, known as ecosystem services, payments for new habitats to compensate for habitat lost to new development, and making more of new opportunities such as integrated projects under the EU funding instrument for the environment — LIFE. We will also continue to increase their effectiveness by for example: more targeted land-management to secure multiple environmental outcomes; greater innovation; and working to achieve the benefits of scale through greater collaborative arrangements and encouraging local partnerships.

Focus of programme spending

6.19 We have not yet decided on the allocation of Rural Development Programme spend between different activities. To illustrate the possible impact of different transfer rates we have also developed four scenarios for the balance of programme spending.

6.20 The four scenarios for the balance of the programme are:

- **Balance as now**: Leave the balance of total funding for the programme broadly as it is now. This would maintain the current high level of funding for environmental outcomes (83%), with 5% of the EU funds to LEADER as required by EU minimum spend targets, and the balance of 13% to wider rural growth and farming and forestry competitiveness and skills.

- **Increased focus on environmental outcomes:** This would mean increasing the proportion of funding for environmental outcomes (eg agri-environment, forestry and water management and quality) to about 88% and shrinking other elements. Primarily because of obligations on LEADER and commitment to contribute to the Growth Programme, this could mean shrinking the farming and forestry competitiveness and other growth elements to about 8%.
- **Increased focus on rural growth**: Put additional emphasis on boosting long term strategic growth in rural areas and reduce environmental outcomes. This could mean increasing spend on general rural growth from 8% to, say, 15% and reducing the expenditure on environmental outcomes to 78%. That would mean reducing expenditure on farming and forestry competitiveness to 3%.
- **Increased focus on farm and forestry competitiveness**: Put additional emphasis on reducing farmers' reliance on subsidy, and reduce other elements. This could mean increasing the proportion of expenditure on farming and forestry competitiveness to, say, 8% and maintain expenditure on general rural growth at 8%. Environmental outcomes would take up 80%.

6.21 Table 9 illustrates the different proportions of funding that would support each theme under the four scenarios (regardless of the % transfer from Pillar 1) and the proportion available to farming and land based industries. There is also potential to fund aspects of the delivery of the programme through 'Technical Assistance'. In the current programme this is a small proportion, so for simplicity we have omitted it from these scenarios. Decisions will need to be taken on how much Technical Assistance to provide.

Table 9: programme scenarios

Scenario	Agri-environment and forestry	LEADER	Farming competitiveness and forestry	Growth Programme
Balance as now	83%	4%	5%	8%
Increased Environment focus	88%	4%	3%	5%
Increased general rural Growth focus	78%	4%	3%	15%
Increased Competitiveness focus	80%	4%	8%	8%

Impact of 15% transfer

6.22 A 15% transfer from Pillar 1 would contribute 49% of overall funds to the next Programme budget. Table 10 illustrates how that amount of transfer shows how the resulting total programme budget could be directed towards different programme themes.

Table 10: split of the 15% budget scenario by thematic focus (£bn)

£bn	Current commit-ments	New agri-environ-ment and forestry	LEADER	Farming competi-tiveness and forestry	Growth Pro-gramme	Total
Balance as now	2.155	1.060	0.155	0.194	0.310	3.874
Increased Environment focus	2.155	1.254	0.155	0.116	0.194	3.874
Increased general rural Growth focus	2.155	0.866	0.155	0.116	0.581	3.874
Increased Competitive-ness focus	2.155	0.944	0.155	0.310	0.310	3.874

Annex B breaks down these programme totals into year on year figures.

Impact of 9% transfer

6.23 A 9% transfer from Pillar 1 would contribute 38% of overall funds to the next Programme budget. Table 11 illustrates how the total Programme budget could be directed towards different programme themes.

Table 11: split of the 9% budget scenario by thematic focus (£bn)

£bn	Current commit-ments	New agri-environ-ment and forestry	LEADER	Farming competi-tiveness and forestry	Growth Pro-gramme	Total
Balance as now	2.155	0.507	0.122	0.160	0.256	3.200
Increased Environment focus	2.155	0.667	0.122	0.096	0.160	3.200
Increased general rural Growth focus	2.155	0.347	0.122	0.096	0.480	3.200
Increased Competitive-ness focus	2.155	0.411	0.122	0.256	0.256	3.200

Annex B breaks down these programme totals into year on year figures.

Consequences of 9% and 15% transfer scenarios

6.24 The scenarios for 15% and 9% transfers have a number of implications;

- With a 15% transfer, assuming that the balance of the programme remains as now, total spend on agri-environment and forestry in 2015–16 would be slightly less than in 2014–15 as agreements expire, but from 2015–16 onward total annual spend on these areas could average around £460m compared with about £450m in 2013–14 and £440m in 2014–15.
- With a 9% transfer, total annual spend on agri-environment and forestry could average around £380m assuming the balance of the programme remains as now.
- With average annual on-going commitments of £308m during the next Programme, the balance as now scenario leaves, on average, £152m per year for new environmental land management agreements with a 15% transfer and £72m per year with a 9% transfer. Available funding, before entering into any new agreements, will be lower than the average at the beginning of the next Programme and higher than average towards the end of the Programme it as available annual funding would remain constant and commitments from the current programme would reduce over time.

- With a 9% transfer, ambitions for the new environmental land management scheme would have to be significantly reduced. Agreements would necessarily have to be focused on the designated and protected sites deemed highly important leading to a much reduced area cover. With a 15% transfer the proposed approach to a new environmental land management scheme set out in chapter 5 would be able to support, in addition, some level of landscape scale agreements across wider areas of the countryside depending on the final balance of the programme and confirmed budgets.
- Available funding for farming competitiveness and growth each year would increase as the programme progresses and existing commitments on agri-environment and forestry run down, assuming the headroom is not consumed by multi-annual agreements signed in the early part of the Programme.
- With a 9% transfer, there would be significant reductions to support for competitiveness and growth which would require also a revision to ambitions, whether it is delivery of fewer objectives or less support to each objective.

Growth Programme

6.25 Growing the rural economy is one of Defra's top priorities. A portion of the Rural Development Programme will continue to be directed towards activities that support rural economic growth beyond land management, such as supporting rural broadband, funding to help small and medium sized enterprises to grow and innovate, and strategically important tourism investments, boosting the rural economy as a whole.

6.26 There is an opportunity to use Local Enterprise Partnerships (LEPs), which are closer to rural economies than central government, to identify and address barriers to growth in their area. Defra's five Rural Growth Networks have already successfully piloted this approach. We propose that the new programme will allocate funding for rural growth through the EU Structural and Investment Funds Growth Programme, co-ordinated with other public investment in the rural economy and with strategic leadership by Local LEPs. There are reasons to consider the proportion of EU rural development funding to be channelled through the Growth Programme to support Defra and the Government's priority of economic growth for rural England. Allocations have not yet been decided and we are asking for views on what this should be.

6.27 Whilst a rural development funding allocation can only be spent in rural areas, it will supplement the other spending across the whole of the Local Enterprise Partnership area including from the EU Structural Funds. We are actively encouraging Local Enterprise Partnerships to use the full range of European funding to provide for the development needs across their whole area, including rural areas.

Questions

Should we transfer funding from Pillar 1 to Pillar 2?

If so, should we transfer the maximum 15% or less?

If less, what should the Rural Development Programme fund less as a result?

- **Environmental land management**
- **Rural economic growth**
- **Farming and forestry competitiveness and productivity**
- **Other, please specify**

RDP funding can improve the rural environment, improve the competitiveness of the farming sector and productivity of the forestry sector, support growth in the rural economy, and strengthen rural communities.

What priorities should we spend RDP funding on?

What proportion of RDP spend should we apply to:

- **Environment — agri-environment and forestry**
- **Farming competitiveness and forestry productivity**
- **Growth Programme**
- **LEADER**

Please explain your reasoning.

7 Market management

7.1 The Single Common Market Organisation (sCMO) regulation lays down rules for the common organisation of agricultural markets. Market measures set out in the Single CMO regulation include intervention, export refunds, private storage aid and the provision of a new crisis reserve. They combine with import tariffs and other trade and competition rules, and the quota systems that will now be in place for extended periods in the sugar and wine sectors. These distort the single market and keep agricultural and food prices in the EU higher than they would otherwise be. The OECD's preliminary estimates are that the cost of such measures to EU consumers amounted to more than €16 billion in 2012. In most cases, the new sCMO regulation updates existing provisions rather than representing a radical reform.

Overview

7.2 The revised Single CMO (sCMO) regulation will:

- Update existing systems of public intervention and private storage aid.
- Bring an end to the EU sugar quota regime on 30 September 2017.
- Introduce new crisis management tools, including the provision of a crisis reserve;
- Largely maintain existing trade and competition rules.
- Promote the formation of producer organisations (POs) and inter-branch organisations (IBOs) in all sectors, including an additional facility for POs to collectively negotiate contract terms in the, olive oil, arable crops and beef and veal sectors only.
- Maintain the current approach to marketing standards (although the Commission now has delegated powers to adopt additional marketing standards in future subject to an impact assessment).
- Introduce, as from 2016, a new planting-authorisation management mechanism in the wine sector with a fixed planting limit of 1% for vines per year (although the Government was successful in negotiating the UK's continued exclusion from these restrictions as the UK's wine industry is relatively small).

Areas for national discretion

7.3 The sCMO regulation is directly applicable in the UK. However, there are 2 key provisions in the regulation (discussed below) where Member States can decide what approach they wish to take. In line with the Government's priority of encouraging growth, the aim is to adopt the least burdensome and most beneficial approach for UK businesses and therefore our default assumption is that we should not go beyond the minimum requirements of the EU regulation.

Recognition of Producer Organisations and Inter-Branch Organisations

7.4 POs enable farmers to join forces as part of a professional organisation. Member States may also permit the establishment of inter-branch organisations bringing together operators from along the supply chain to improve transparency and promote best practice.

7.5 Groups of producers that meet key criteria set out in the sCMO regulation will continue to be entitled to be formally recognised as a Producer Organisation in the following sectors: fruit and vegetables, dairy, olive oil and table olives, silkworm, and hops. Inter-branch organisations in the olive oil and table olives sector and the tobacco sector will also continue to have this right of recognition. However, Member States may additionally now decide whether to extend this entitlement to other sectors of agriculture.

7.6 We do not consider that this approach would add significant value compared with other forms of co-operation that are already available under EU and UK competition law, such as agricultural co-operatives. POs and cooperatives are both forms of organised cooperation between farmers, the ultimate purpose of which is to enable their producer members to operate more efficiently and to strengthen their bargaining power within the supply chain. In order to be recognised as a PO, groups of farmers would need to meet the specific criteria set out in A.106 of the sCMO regulation. However, a co-operative does not need to meet any specific requirements laid down in legislation or to be officially recognised in order to operate as such.

7.7 Under the revised SCMO, in the beef and veal, olive oil, and cereals sectors, POs would be permitted to negotiate contract terms, including prices, on behalf of their members. However this will be subject to a maximum limit of 15% of national production and only under strict conditions. This holds little value as under EU competition rules, a co-operative may already decide on sales volumes and prices without falling foul of competition law, given certain provisos.

7.8 At this stage, there is no known industry interest in the recognition of inter-branch organisations. Given the existence in the UK of well-established trade associations and representative bodies for both farmers and processors, and the role of industry levy bodies which provide high quality market information and advice, it is not clear what additional benefits the IBO model could contribute.

Written contracts

7.9 The new sCMO regulation also allows Member States to decide whether or not to make it compulsory for farmers to have written contracts with processors or distributors covering certain key elements, including a price or price formula, the delivery volume, the duration of the contract, and the timing of collections. Again, this is unlikely to add value as the vast majority of domestic farmers already have a written contract with the processing company or distributor that buys their produce. In addition, experience in the UK dairy sector has shown that the industry can introduce its own non-legislative solution on contracts through a voluntary code of contractual best practice. The Dairy Code provides greater flexibility and covers more elements than the optional provisions for written contracts that are set out in the sCMO Regulation.

7.10 The Government will revisit the case for introducing these options as permitted by the EU Regulation if there is evidence that domestic businesses are at risk of being placed at a commercial disadvantage compared to their EU counterparts. Implementation of compulsory contracts and POs or IBOs could be re-examined at any time.

Questions:

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

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

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

8 Summary table of main impacts of the new CAP

8.1 The table below shows where changes in the new CAP which will have the most significant impact. The detailed evidence to support these conclusions is provided in supporting evidence paper on CAP reform.

Issue	Impact
EU-wide CAP budget reduced by 13% in real terms	CAP budget of €362.8bn for the period 2014–2020 (2011 prices) continues to represent a significant burden on taxpayers, with pillar 1 budget of €277.9bn delivering poor value for money.
Removal of sugar beet production quotas by end of 2017	Lowers EU sugar prices by up to 20 percent, rising to 35 per cent if restrictions on cane imports are also relaxed. Consumers enjoy overall savings of 1% in the price of the average food basket if production quotas and import restrictions are removed.
Decision to transfer up to 15% of pillar 1 budget to pillar 2 in England	A 15% transfer would generate net benefits around £3bn from spend in pillar 2 compared with a potential lost agricultural output of £0.1bn arising from the transfer out of pillar 1.
Greening requirements introduced as required in CAP reform	Net benefits from implementing Greening in England estimated up to £1bn, mostly arising from Ecological Focus Areas.
Possible migration of basic payments 'up the hill' in England	If this option is adopted this would adjust present distribution of funds between the three English regions, increasing payments in the upland regions.

Questions

Do respondents agree with the main conclusions of the analysis in the CAP reform evidence paper and in the RDPE Impact Assessment?

Are there any important impacts of the CAP implementation package that have been overlooked?

Are there any key inputs or assumptions where better evidence is available?

9 Summary of Decisions and Questions

Direct payments: changes in the new regime

Decision

The Government has decided that we should not create any new regions nor amend the existing regional boundaries, in order to avoid unnecessary complexity in the transition to the new direct payments system.

Question

Do you support the principle of moving to more equal rates of payment across the three payment regions?

- **Option 1: No change in the current regional distribution**
- **Option 2: Uplift in upland direct payments (with modest reductions to lowland direct payments), or**
- **Another option**

Please comment further if you wish, or explain what other option you favour.

Decision

The Government has decided that we will not be introducing payments linked to an ANC designation at the present time.

Question

Do you support our preferred option that we should apply the minimum level of reduction possible? If not, what level do you think should be applied?

- **We should apply the minimum level of reduction possible (5% on receipts over €150,000).**
- **We should apply a higher rate of reduction but less than 100% (please explain what reduction you favour).**
- **We should make €150,000 the most any farmer can receive — this is the maximum reduction possible.**

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

Question

Do you support our preferred option that we should not implement salary mitigation? Please explain your response.

- **We should not adopt salary mitigation.**
- **We should not adopt salary mitigation, provided that the rate of reductions is applied at the minimum rate of 5%.**
- **Salary mitigation should be allowed.**

Please comment further if you wish.

Decision

The Government has decided that, if we implement reductions, we will not also implement redistributive payments.

Question

Do you support our preferred option not to implement redistributive payments as an alternative to reductions?

- **We should not implement redistributive payments.**
- **We should implement redistributive payments instead of reductions.**

Please comment further if you wish.

Decision

The Government has decided not to introduce a coupled support scheme in England.

Decision

The Government has decided that in order to achieve the best value for money, the minimum claim size for the new scheme should be fixed at five hectares.

Decision

The Government has decided to roll forward Single Payment Scheme entitlements into the new scheme.

Decision

Ministers have decided to adopt a threshold of €5,000 for the purposes of applying the negative list, in order to minimise administrative burdens for farmers and the RPA.

Question

Do you support our preferred option not to extend the list of 'negative activities' forming part of the active farmer test?

- **The negative list should not be extended.**
- **The negative list should be extended.**

Please comment further if you wish, or explain what types of businesses should be added to the list and why.

Decision

The Government has decided that we should not operate a Small Farmers Scheme.

Questions

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

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

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

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

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

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

Do you have any other comments you would like to make on the issues addressed in this section on the implementation of direct payments?

Direct payments: greening

Decision

The Government has decided that the broad approach to greening in England should be to adhere closely to the measures set out in the direct payments Regulation.

Question

The Government is not minded to take up the option to implement greening through a National Certification Scheme containing additional, equivalent measures. Do you agree with this approach or do you see a case for a National Certification Scheme and, if so, on what grounds?

Questions

Do you agree that this approach to the implementation of greening in England strikes the right balance between environmental benefit and administrative cost, in the context of our approach to the CAP Reform package as a whole?

Making available the full list of proposed Ecological Focus Area (EFA) options would enable the EFA requirement to be met without the need for additional action. However, individual EFA options may realise differing levels of environmental benefit. Which selection of Ecological Focus Area options do you favour?

There is a particular interest to see benefits for pollinators arising from the implementation of greening. Are there any practical Ecological Focus Area options, or enhancements of these options, which could be easily adopted, have a high likelihood of uptake and which would be particularly beneficial for pollinators? Would these options be deliverable within the approach set out in the direct payments Regulation or would they need to be implemented through a National Certification Scheme?

Cross Compliance

Questions

Are there any current GAECs that you think should not be carried forward and included from 2015? If so, what are your reasons and evidence for this?

Are there elements within any GAEC that you think should or could be changed, implemented better, or excluded? If so why?

Rural Development Programme

Questions

What lessons can be learned from the current Rural Development Programme? How can we build upon its successes?

Questions

Are there any key areas we have missed in our assessment of need to support the new Rural Development Programme? Are there any further sources of evidence of social, economic and environmental need in rural areas for England that have not been captured?

Questions

Are the areas we outline for support under the new Rural Development Programme set out above the right ones?

How we can best target investment under the new Rural Development Programme to help gain the maximum value for money for UK taxpayers?

Questions

How might we make the process for applying for Rural Development funding simpler or less bureaucratic?

How might this be balanced against the need to ensure clear accountability for public funds?

Questions

What are your views on the structure of the proposed new environmental land management scheme, in particular the new "landscape scale" approach?

Do you agree that we should not be prescriptive about how groups of farmers or land managers could be brought together to deliver landscape scale agreements under the proposed new environmental land management scheme?

How could we help facilitate landscape-scale approaches under the proposed new environmental land management scheme?

Questions

Should we offer a capital only grant as part of the proposed new environmental land management scheme?

Questions

Do you agree with the principle that five year agreements should be the norm under the new environmental land management scheme?

What approach should we take to targeting the new environmental land management scheme?

Question

With the exception of the highest priority sites, is there a case for making advice and guidance available increasingly on line or through third parties under the new environmental land management scheme?

Question

Where should we set the scheme entry requirements (ie above the legal baseline) for the proposed new environmental land management scheme?

Questions

Have we identified the right areas of support under the new Rural Development Programme to help improve the competitiveness and efficiency of the farming, forestry and other land-based sectors? Are there any other areas which could be supported?

What activities to support the farming, forestry and other land-based sectors under the new Rural Development Programme would provide the best value for money for the UK taxpayer?

Questions

How should we support advice and skills for the farming, forestry and land-based sectors under the new Rural Development Programme?

How can we ensure any advice provided to the farming, forestry and other land based sectors and through the new environmental land management scheme is integrated and linked with advice provided within the industry in the light of the Review of Advice and Partnership Approaches?

Questions

How do we ensure innovation is considered across the breadth of the new Rural Development Programme?

How could we develop proposals for an England specific European Innovation Partnership to support this?

Questions

How can we strengthen LEADER's contribution to delivering jobs and growth in rural areas?

How can we make the LEADER approach more effective and deliver better value for money?

Question

What role could loans or other financial instruments play in delivering the Rural Development Programme?

Inter–pillar transfer

Questions

Should we transfer funding from Pillar 1 to Pillar 2?

If so, should we transfer the maximum 15% or less?

If less, what should the Rural Development Programme fund less as a result?

- **Environmental land management**
- **Rural economic growth**
- **Farming and forestry competitiveness and productivity**
- **Other, please specify**

RDP funding can improve the rural environment, improve the competitiveness of the farming sector and productivity of the forestry sector, support growth in the rural economy, and strengthen rural communities.

What priorities should we spend RDP funding on?

What proportion of RDP spend should we apply to:

- **Environment — agri-environment and forestry**

- **Farming competitiveness and forestry productivity**
- **Growth Programme**
- **LEADER**

Please explain your reasoning.

Market management

Questions:

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

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

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

Summary table of main impacts of the new CAP

Questions

Do respondents agree with the main conclusions of the analysis in the CAP reform evidence paper and in the RDPE Impact Assessment?

Are there any important impacts of the CAP implementation package that have been overlooked?

Are there any key inputs or assumptions where better evidence is available?

Annex A: Rural Development Programme obligations, commitments and potential policy ambitions

The next RDP will help meet requirements under a number of categories. These are:

- external legal obligations;
- obligations created by the current programme;
- impact of the new Common Agricultural Policy;
- defra policy aims and commitments;
- EU and international environmental obligations eg Ramsar, Convention on Biological Diversity;
- wider Government policy objectives.

Given constrained budgets, RDP alone will not meet all of Defra's policy priorities or obligations.

1. External legal obligations

There are various legal obligations, essentially set out in Directives. This drives much of the policy interventions that could be supported through RDPE. The Birds and Habitats Directives, and the Water Framework Directive are clearly significant drivers. Many of the obligations are inter-connected, for example meeting Water Quality standards has positive impacts on biodiversity, birds as well as habitats. The multi-criteria assessment of potential activities incorporates an assessment of where some of these multiple benefits will accrue.

In summary:

Birds Directive

- Obligation to take measures to maintain populations of all wild birds at levels corresponding to ecological, scientific and cultural requirements taking account of economic and recreational requirements.
- Obligation to preserve, maintain or re-establish a sufficient diversity and area of habitats for wild birds and to ensure that outside areas which are specifically designated as important bird habitats, efforts are taken to avoid pollution or deterioration of habitats.

Habitats Directive

- Directive aims "to contribute towards ensuring biodiversity through the conservation of natural habitats and of wild fauna and flora. Measures taken pursuant to the directive shall be designed to maintain or restore, at favourable conservation status, natural habitats and wild species of flora and fauna".

- Obligation to set up coherent ecological network of protected areas.
- Obligation to establish necessary conservation measures (which may include management plans) to fulfil the Directive.
- Obligation on Member States to endeavour, where they consider it necessary, in their land-use planning and development policies and, in particular, with a view to improving the ecological coherence of the Natura 2000 network, to encourage the management of features of the landscape which are of major importance for wild fauna and flora.
- Obligation on Member States to examine carefully the new EU financial proposals and to commence work on preparing Prioritised Action Frameworks (PAF) — a planning tool aimed at documenting the various means through which they manage the Natura 2000 network and how management activities are funded or to be funded. The European Commission estimates around €5.8 billion/year is required to manage the EU Natura 2000 network, met by a combination of national and EU budget funds. The England PAF sets out the strategic and general priority measures required to deliver our sites in the Natura 2000 network and sets out the current and potential funding sources required to meet these needs over the 2014–2020 Multiannual Financial period (national and EU).

Water Framework Directive

- The European Water Framework Directive (WFD) aims to achieve 'good status' for all ground and surface water (rivers, lakes, transitional waters, and coastal waters) by 2015.
- Obligation to identify all pressures acting on the water environment, including those that arise from agricultural land use, and put in place measures to address them. The key aim is to reduce these pressures over 3 planning cycles (up to 2027) until all waters meet good status. We are currently in the first river basin planning period 2009–2015, the 2nd cycle commences in 2015.
- Obligation also includes preventing water quality deteriorating.
- Recent discussion with the Commission highlighted their concern that our present policy to tackle diffuse water pollution from agriculture is not sufficient.

Wildlife and Countryside Act (SSSIs)

- General duties outlined requiring NE to take reasonable steps, consistent with the proper exercise of its functions, to further the conservation and enhancement of SSSI features for which it is designated. NE may formulate a management scheme for all or part of a SSSI for conserving and restoring the features of the SSSI. NE must serve notice of any such scheme on every owner occupier where an owner occupier is not giving effect to the management scheme and the features are being inadequately conserved or restored it may serve a notice to require the land to be managed in accordance with the management scheme and if necessary enter the land to carry out the works and recover costs.

Natural Environment and Rural Communities Act 2006

- Duty on the Secretary of State to take reasonably practicable steps to further the conservation of species and habitats afforded conservation priority.
- Duty on all public bodies, in exercising their functions, to have regard to the purpose of conserving biodiversity.

2. Obligations created by the current RDP

- Commitments from multi-annual agreements (essentially agri-environment and forestry) entered into by 2014 will consume about £2.16bn of the budget of the next RDP.

3. Impact of the new Common Agricultural Policy

- The new EU Rural Development Regulation outlines six broad 'priorities' for the EU in Rural Development. Member States must aim to meet at least four of priorities in the design of their Programmes. Member States must spend at least 30% of their Pillar 2 allocation on environmental measures. This includes investments in physical assets, agri-environment schemes, organic farming, Natura 2000 and Water Framework Directive Payments, Forestry, and Co-operation. Member states must also spend at least 5% of their Pillar 2 allocation on LEADER projects.
- EU Ministers have accepted the principle that there should not be double funding between greening in Pillar 1 and agri-environment in Pillar 2. However final legal texts have yet to be agreed. It is therefore not yet clear exactly how this might apply to existing agri-environment agreements and therefore whether it will free up additional funding for new activities within Pillar 2.
- Ambitions to reduce the cost of delivering CAP by 30% could affect the design of new schemes either requiring more targeting or offering schemes that require less resource eg in the form of advice.

4. Defra policy aims and commitments

Habitats and Biodiversity

- Better wildlife habitats — 90% of priority habitats are in favourable or recovering condition by 2020 with at least 50% OF SSSIs in favourable condition, whilst maintaining at least 95% of SSSIs in favourable or recovering condition (*Biodiversity 2020*)

- More, bigger and less fragmented areas for wildlife — Increase in extent of priority habitats by at least 200,000ha by 2020 (*Biodiversity 2020*)
- Restoring degraded ecosystems as a contribution to climate change mitigation and adaptation — 15% of degraded ecosystems restored by 2020 (*Biodiversity 2020*)
- Areas of particular importance for biodiversity and ecosystem services, are conserved through effective, integrated and joined up approaches to safeguard biodiversity and ecosystem services — 17% of land and inland water by 2020 (*Biodiversity 2020*)
- Establish new Nature Improvement Areas for the benefit of wildlife and people (*Natural Environment White Paper)*
- By 2020, we will see an overall improvement in the status of our wildlife and will have prevented further human induced extinctions of known threatened species (*Biodiversity 2020*).
- No net loss of priority habitat by 2020 (*Biodiversity 2020*)
- Establish a consistent, integrated and long-term expectation of land managers to deliver parts of the ecological network (*Lawton Report*)
- By 2020, significantly more people will be engaged in biodiversity issues, aware of its value and taking positive action (*Biodiversity 2020*)

Forestry & Woodland

- Bring around two thirds of woodland into active management in the next five years, rising to 80% eventually if woodfuel markets develop (currently around 47% of woodlands, mostly privately owned, are unmanaged or undermanaged). (*Forestry and Woodlands Policy Statement — January 2013*)
- Achieve 12% woodland cover by 2060, an average planting rate of 5,000 hectares per year (current cover is about 10%, with planting rates at about 2–3,000 hectares). (*Forestry and Woodlands Policy Statement — January 2013*)
- Protect the nation’s trees, woodlands and forests from increasing threats such as pests, diseases (*Forestry and Woodlands Policy Statement, January 2013*).

Landscape (EU and international environmental obligations)

- Meeting the Government commitment to the European Landscape Convention, that is: ‘to integrate landscape into its regional and town planning policies and in its cultural, environmental, agricultural, social and economic policies, as well as in any policies with possible direct or indirect impact on the landscape’.

Uplands

- ‘Our intention is to support and encourage all hill farmers to improve the competitiveness of their core agricultural business. At the same time, it is vital that hill farmers grasp the opportunities to diversify, whether as managers of the natural resources and ecosystems of the uplands, or through other business opportunities.' (*Uplands Policy Review*, *2011*)

- 'Ensure, longer-term, that reform of the Common Agricultural Policy post-2013 supports both the competitiveness of hill farms and makes adequate payment to secure the provision of public goods from the uplands, beyond those the market provides;' (*Uplands Policy Review*, *2011*)

Farming

- We need to get CAP reform right. We will continue to push to simplify CAP for farmers and are working in a number of ways to do this. We want to ensure that farmers are recognised for the public benefits they provide. We also want to secure flexibility in the regulations so that we are able to develop schemes that achieve our objectives for the farming industry and the environment. (*Government Response to the Farming Regulation Task Force, 2012)*

Cross Department Objectives

- Ensure that Defra policy outcomes reflect the need for climate change resilience where appropriate, in line with the National Adaptation Programme.

5. EU and international environmental obligations

EU Biodiversity Strategy

- This has six mutually supportive and inter-dependent targets that help to halt biodiversity loss and the degradation of ecosystem services by 2020. In short, they seek to protect and restore biodiversity and associated ecosystem services (targets 1 and 2); to enhance the positive contribution of agriculture and forestry by reducing key pressures on EU biodiversity (targets 3, 4 and 5); and to step up the EU's contribution to global biodiversity (target 6).

Convention on Biological Diversity (EU and international environmental obligations)

- Obligation to develop national strategies, plans or programmes for the conservation and sustainable use of biological diversity or to adapt existing strategies, plans or programmes for this purpose; and to integrate, as far as possible and as appropriate, the conservation and sustainable use of biological diversity into relevant sectoral or cross-sectoral plans, programmes and policies.
- A new Strategic Plan for the Convention covering the period 2011–2020 was adopted at the 10th Conference of the Parties to the Convention in October 2010. The Strategic Plan sets out the 20 'Aichi Targets', grouped under 5 Strategic Goals, to be achieved by 2020. The targets include:

- the rate of loss of all natural habitats, including forests, is at least halved and where feasible brought close to zero, and degradation and fragmentation is significantly reduced (Target 5);
- areas under agriculture, aquaculture and forestry are managed sustainably, ensuring conservation of biodiversity (Target 7);
- pollution, including from excess nutrients, has been brought to levels that are not detrimental to ecosystem function and biodiversity (Target 8);
- at least 17 per cent of terrestrial and inland water, and 10 per cent of coastal and marine areas, especially areas of particular importance for biodiversity and ecosystem services, conserved through effectively and equitably managed, ecologically representative and well-connected systems of protected areas and other effective area-based conservation measures, and integrated into the wider landscapes and seascapes (Target 11);
- ecosystem resilience and the contribution of biodiversity to carbon stocks has been enhanced, through conservation and restoration, including restoration of at least 15 per cent of degraded ecosystems (Target 15).

Ramsar Convention

- Obligation to designate suitable wetlands as 'Wetlands of International Importance' and to promote their conservation.

6. Wider Government policy objectives

Growth

As part of stimulating growth Defra has committed to putting a proportion of rural development funding via the EU funds Growth Programme to support general rural growth. Overarching Growth Programme priorities include:

- research, technological development and innovation;
- raising micro and SME competitiveness;
- shift to low-carbon economy;
- employment & skills (including social inclusion).

For Defra, this could deliver:

- skills and knowledge transfer, information sharing and provision of advice for rural economic activity;
- business development of small to medium sized enterprises and micro-businesses: start up support, investments in creation and development of non-agricultural activities in rural areas eg food and other supply chains;
- investments in small scale infrastructure in rural areas;
- broadband infrastructure in rural areas;
- support for tourism activities in rural areas.

Community action and Big Society

The EU obligation for LEADER also meets the Coalition Government's priorities on Social Action and Building the Big Society, which set out an agenda to give communities more power and support cooperative action.

Annex B: Rural Development Programme assumptions

Assumptions and further detail of Rural Development Programme funding scenarios

Basis of scenarios

1. The scenarios are based on certain assumptions:

   a) The actual UK CAP allocations are the same as the indicative ones already published by the EU Commission.

   b) As there is not yet an agreed allocation for UK countries, we assume for the purpose of this consultation that direct payment (Pillar 1) allocations are based on current regional shares and rural development allocations (Pillar 2) are based on the historic allocation for the current rural development programme. This does not prejudge the eventual decision on allocations.

   c) Defra co-finances EU funds to 2020 at the minimum co-financing rates agreed by heads of Government as part of the EU budget deal including no requirement to co-finance the transfer from pillar 1 to pillar 2.

   d) The planning assumption for converting Euro's to sterling remains at £0.80=€.

   e) All EU funds are consumed by 2020.

   f) All amounts are cash amounts (ie they are not adjusted for inflation).

   g) Commitments from the current programme and transition year carrying on into the next programme are unaffected by decisions on double funding with greening of Pillar 1 payments.

   h) Annualised figures are based on the EU allocation profile and do not represent Defra's forecast spend in the next Programme.

2. We have taken the following into account in developing the scenarios:

   - We need to allocate funding first to existing commitments. These consist of long-term environmental agreements set up before the start of the new Rural Development Programme.
   - We need to spend 5% of EU funding through the LEADER approach. That works out at about 4% of the combined EU and Exchequer budget.
   - A minimum of 30% of EU funds must be spent on environmental priorities.
   - Defra has committed to contribute a proportion of EU rural development funds to the EU Growth Programme.

3. Table B1 presents the key co-financing rates. Co-financing EU funds to 2020 at the minimum co-financing rates agreed by heads of Government as part of the EU

budget deal would add about £558m to the total Rural Development Programme budget for England under the scenarios developed for this consultation.

Table B1: key co-financing rates

Fund	Activity	Co-financing rate
Rural development allocation	Agri-environment	75% EU funds 25% national funds
Rural development allocation	LEADER	80% EU funds 20% national funds
Rural development allocation	Rural growth and farming and forestry competitiveness	53% EU funds 47% national funds
Transfer from direct payments to rural development	All	100% EU funds 0% national funds

Annual profile of spend in each scenario

4. The profile of headroom across the next Programme is uneven. The tail of commitments carried over from the current programme decreases over time as agreements expire whilst the annual budget remains fairly constant. Therefore there is more headroom on an annual basis for new investment towards the end of the programme.

5. Tables B2–B5 shows the annual headroom for each thematic activity over the course of the next programme with a 15% transfer. It should be noted that new spend on multi-annual agreements in any given year will reduce the headroom for that year and each subsequent year over the lifetime of the agreement. For example, in table B2 (15% balance as now), once the £35m headroom is committed for environmental land management in 2014–15, headroom for new agreements in the subsequent years of the agreement would reduce by £35m. Therefore in 2015–16, there would be £49m available for new agreements rather than £84m.

Table B2: Annual profile of headroom for 15% transfer; balance as now

15% transfer; Balance as now	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Total for next programme
Agri-environment and Forestry		£35m	£84m	£128m	£167m	£195m	£213m	£239m	**£1,060m**
Leader	*£24m*	£5m	£12m	£19m	£24m	£29m	£31m	£35m	**£155m**
Farming and forestry	*£79m*	£6m	£15m	£23m	£31m	£36m	£39m	£44m	**£194m**
Growth Programme	*£26m*	£10m	£24m	£37m	£49m	£57m	£62m	£70m	**£310m**
Total Headroom		**£56m**	**£136m**	**£207m**	**£271m**	**£316m**	**£345m**	**£387m**	**£1,719m**
Ongoing commitments		**£440m**	**£428m**	**£354m**	**£292m**	**£247m**	**£218m**	**£176m**	**£2,155m**
Agri-environment and Forestry Total	*£442m*	**£475m**	**£511m**	**£482m**	**£459m**	**£442m**	**£431m**	**£415m**	**£3,215m**
Total Programme	***£571m***	**£496m**	**£563m**	**£562m**	**£563m**	**£563m**	**£563m**	**£563m**	**£3,874m**

Table B3: Annual profile of headroom for 15% transfer; environment focus

15% transfer; Increased Environment focus	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Total for next programme
Agri-environment and Forestry		£41m	£99m	£151m	£198m	£230m	£252m	£283m	**£1,254m**
Leader	*£24m*	£5m	£12m	£19m	£24m	£29m	£31m	£35m	**£155m**
Farming and forestry	*£79m*	£4m	£9m	£14m	£18m	£21m	£23m	£26m	**£116m**
Growth Programme	*£26m*	£6m	£15m	£23m	£31m	£36m	£39m	£44m	**£194m**
Total Headroom		**£56m**	**£136m**	**£207m**	**£271m**	**£316m**	**£345m**	**£387m**	**£1,719m**
Ongoing commitments		**£440m**	**£428m**	**£354m**	**£292m**	**£247m**	**£218m**	**£176m**	**£2,155m**
Agri-environment and Forestry Total	*£442m*	**£481m**	**£527m**	**£506m**	**£490m**	**£477m**	**£470m**	**£458m**	**£3,409m**
Total Programme	***£571m***	**£496m**	**£563m**	**£562m**	**£563m**	**£563m**	**£563m**	**£563m**	**£3,874m**

Table B4: Annual profile of headroom for 15% transfer; Increased general rural Growth focus

15% transfer; General Rural Growth focus	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Total for next programme
Agri-environment and Forestry		£28m	£68m	£104m	£137m	£159m	£174m	£195m	**£866m**
Leader	*£24m*	£5m	£12m	£19m	£24m	£29m	£31m	£35m	**£155m**
Farming and forestry	*£79m*	£4m	£9m	£14m	£18m	£21m	£23m	£26m	**£116m**
Growth Programme	*£26m*	£19m	£46m	£70m	£92m	£107m	£117m	£131m	**£581m**
Total Headroom		**£56m**	**£136m**	**£207m**	**£271m**	**£316m**	**£345m**	**£387m**	**£1,719m**
Ongoing commitments		**£440m**	**£428m**	**£354m**	**£292m**	**£247m**	**£218m**	**£176m**	**£2,155m**
Agri-environment and Forestry Total	*£442m*	**£469m**	**£496m**	**£459m**	**£429m**	**£406m**	**£392m**	**£371m**	**£3,021m**
Total Programme	***£571m***	**£496m**	**£563m**	**£562m**	**£563m**	**£563m**	**£563m**	**£563m**	**£3,874m**

Table B5: Annual profile of headroom for 15% transfer; Increased Competitiveness focus

15% transfer; Increased Competitveness focus	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Total for next programme
Agri-environment and Forestry		£31m	£75m	£114m	£149m	£174m	£189m	£213m	**£944m**
Leader	*£24m*	£5m	£12m	£19m	£24m	£29m	£31m	£35m	**£155m**
Farming and forestry	*£79m*	£10m	£24m	£37m	£49m	£57m	£62m	£70m	**£310m**
Growth Programme	*£26m*	£10m	£24m	£37m	£49m	£57m	£62m	£70m	**£310m**
Total Headroom		**£56m**	**£136m**	**£207m**	**£271m**	**£316m**	**£345m**	**£387m**	**£1,719m**
Ongoing commitments		**£440m**	**£428m**	**£354m**	**£292m**	**£247m**	**£218m**	**£176m**	**£2,155m**
Agri-environment and Forestry Total	*£442m*	**£471m**	**£502m**	**£468m**	**£441m**	**£420m**	**£408m**	**£389m**	**£3,099m**
Total Programme	***£571m***	**£496m**	**£563m**	**£562m**	**£563m**	**£563m**	**£563m**	**£563m**	**£3,874m**

6. Tables B6–B9 shows the annual headroom for each thematic activity over the course of the next programme with a 9% transfer.

Table B6: Annual profile of headroom for 9% transfer; balance as now

9% transfer; Balance as now	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Total for next programme
Agri-environment and Forestry		£27m	£12m	£46m	£77m	£99m	£113m	£133m	**£507m**
Leader	*£24m*	£7m	£3m	£11m	£19m	£24m	£27m	£32m	**£122m**
Farming and forestry	*£79m*	£9m	£4m	£15m	£24m	£31m	£36m	£42m	**£160m**
Growth Programme	*£26m*	£14m	£6m	£23m	£39m	£50m	£57m	£67m	**£256m**
Total Headroom		**£56m**	**£24m**	**£95m**	**£159m**	**£204m**	**£232m**	**£275m**	**£1,045m**
Ongoing commitments		**£440m**	**£428m**	**£354m**	**£292m**	**£247m**	**£218m**	**£176m**	**£2,155m**
Agri-environment and Forestry Total	*£442m*	**£467m**	**£439m**	**£401m**	**£369m**	**£346m**	**£331m**	**£309m**	**£2,662m**
Total Programme	***£571m***	**£496m**	**£452m**	**£450m**	**£451m**	**£451m**	**£450m**	**£450m**	**£3,200m**

Table B7: Annual profile of headroom for 9% transfer; environment focus

9% transfer; Increased Environment focus	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Total for next programme
Agri-environment and Forestry		£36m	£15m	£61m	£102m	£130m	£148m	£175m	**£667m**
Leader	*£24m*	£7m	£3m	£11m	£19m	£24m	£27m	£32m	**£122m**
Farming and forestry	*£79m*	£5m	£2m	£9m	£15m	£19m	£21m	£25m	**£96m**
Growth Programme	*£26m*	£9m	£4m	£15m	£24m	£31m	£36m	£42m	**£160m**
Total Headroom		**£56m**	**£24m**	**£95m**	**£159m**	**£204m**	**£232m**	**£275m**	**£1,045m**
Ongoing commitments		**£440m**	**£428m**	**£354m**	**£292m**	**£247m**	**£218m**	**£176m**	**£2,155m**
Agri-environment and Forestry Total	*£442m*	**£476m**	**£443m**	**£415m**	**£394m**	**£377m**	**£366m**	**£351m**	**£2,822m**
Total Programme	***£571m***	**£496m**	**£452m**	**£450m**	**£451m**	**£451m**	**£450m**	**£450m**	**£3,200m**

Table B8: Annual profile of headroom for 9% transfer; Increased general rural Growth focus

9% transfer; General Rural Growth focus	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Total for next programme
Agri-environment and Forestry		£19m	£8m	£32m	£53m	£68m	£77m	£91m	**£347m**
Leader	*£24m*	£7m	£3m	£11m	£19m	£24m	£27m	£32m	**£122m**
Farming and forestry	*£79m*	£5m	£2m	£9m	£15m	£19m	£21m	£25m	**£96m**
Growth Programme	*£26m*	£26m	£11m	£44m	£73m	£94m	£107m	£126m	**£480m**
Total Headroom		**£56m**	**£24m**	**£95m**	**£159m**	**£204m**	**£232m**	**£275m**	**£1,045m**
Ongoing commitments		**£440m**	**£428m**	**£354m**	**£292m**	**£247m**	**£218m**	**£176m**	**£2,155m**
Agri-environment and Forestry Total	*£442m*	**£459m**	**£436m**	**£386m**	**£345m**	**£315m**	**£295m**	**£267m**	**£2,502m**
Total Programme	***£571m***	**£496m**	**£452m**	**£450m**	**£451m**	**£451m**	**£450m**	**£450m**	**£3,200m**

Table B9: Annual profile of headroom for 9% transfer; Increased Competitiveness focus

9% transfer; Increased Competitveness focus	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Total for next programme
Agri-environment and Forestry		£22m	£9m	£38m	£63m	£80m	£91m	£108m	**£411m**
Leader	*£24m*	£7m	£3m	£11m	£19m	£24m	£27m	£32m	**£122m**
Farming and forestry	*£79m*	£14m	£6m	£23m	£39m	£50m	£57m	£67m	**£256m**
Growth Programme	*£26m*	£14m	£6m	£23m	£39m	£50m	£57m	£67m	**£256m**
Total Headroom		**£56m**	**£24m**	**£95m**	**£159m**	**£204m**	**£232m**	**£275m**	**£1,045m**
Ongoing commitments		**£440m**	**£428m**	**£354m**	**£292m**	**£247m**	**£218m**	**£176m**	**£2,155m**
Agri-environment and Forestry Total	*£442m*	**£462m**	**£437m**	**£392m**	**£355m**	**£327m**	**£310m**	**£284m**	**£2,566m**
Total Programme	***£571m***	**£496m**	**£452m**	**£450m**	**£451m**	**£451m**	**£450m**	**£450m**	**£3,200m**

Annex C: Rural Development Programme supplementary information

What the Rural Development regulation allows us to do

What priorities and activities can we support under the new Rural Development regulation?

The new Rural Development regulation outlines six broad ‘priorities’ for the EU in rural development. Member States must aim to meet at least four of the priorities in the design on their programmes. These priorities are broken into a number of ‘focus areas’ under which Member States are required to identify activity for funding through their programmes.[7]

Member States have the flexibility to design their programme that best suit their needs and opportunities while delivering the cross-cutting objectives of climate change adaptation and mitigation, innovation and the environment.

The six priorities, and the relevant focus areas, are:

Priority 1: Fostering knowledge transfer and innovation in agriculture, forestry and rural areas, with a focus on the following areas:

1A: fostering innovation, cooperation and the development of the knowledge base in rural areas;

1B: strengthening the links between agriculture, food production and forestry and research and innovation, including for the purpose of improved environment management and performance;

1C: fostering lifelong learning and vocational training in the agricultural and forestry sectors.

[7] Based on the text agreed at June 2013 Agriculture Council.

Priority 2: Enhancing farm viability and competitiveness of all types of agriculture in all regions and promoting innovative farm technologies and sustainable management of forests, with a focus on the following areas:

2A: improving the economic performance of all farms and facilitating farm restructuring and modernisation, notably with a view to increase market participation and orientation as well as agricultural diversification;

2B: facilitating entry of adequately skilled farmers into the agricultural sector and in particular generational renewal.

Priority 3: Promoting food chain organisation, including processing and marketing of agricultural products, animal welfare and risk management in agriculture, with a focus on the following areas:

3A: improving competitiveness of primary producers by better integrating them into the agri-food chain through quality schemes, adding value to agricultural products, promotion in local markets and short supply chains, producer groups and organisations and inter-branch organisations;

3B: supporting farm risk prevention and management.

Priority 4: Restoring, preserving and enhancing ecosystems related to agriculture and forestry, with a focus on the following areas:

4A: restoring, preserving and enhancing biodiversity, including in Natura 2000 areas, areas facing natural or other specific constraints and high nature value farming, and the state of European landscapes;

4B: improving water management, including fertiliser and pesticide management;

4C: preventing soil erosion and improving soil management.

Priority 5: promoting resource efficiency and supporting the shift towards a low carbon and climate resilient economy in agriculture, food and forestry sectors, with a focus on the following areas:

5A: increasing efficiency in water use by agriculture;

5B: increasing efficiency in energy use in agriculture and food processing;

5C: facilitating the supply and use of renewable sources of energy, of by-products, wastes, residues and other food raw material for purposes of the bio-economy;

5D: reducing greenhouse gas and ammonia emissions from agriculture

5E: fostering carbon conservation and sequestration in agriculture and forestry.

Priority 6: promoting social inclusion, poverty reduction and economic development in rural areas:

6A: facilitating diversification, creation and development of small enterprises and job creation;

6B: fostering local development in rural areas;

6C: enhancing accessibility to, use and quality of information and communication technologies (ICT) in rural areas.

To fulfil these priorities the regulation outlines 'measures' that EU Member States can use in the design of their domestic Rural Development Programmes. Member States can chose from a "menu" of measures but they must spend at least 30% of their funding on measures to protect and enhance the environment and at least 5% through the local delivery mechanism known as the LEADER approach.

The measures are voluntary, with the exception of the agri-environment and climate measure, and the LEADER approach. It is unlikely that all measures will be used in the next Rural Development Programme, as they will not all be required to achieve the objectives of the Programme. The menu of measures includes:

Agri-environment and Climate: Land management that protects and enhances the natural environment (including in some cases climate change mitigation). Member States must include this measure in their Rural Development Programmes. Five to seven year agreements should be the norm although short extensions will be permissible. An explicit link has been made to training and information. Support will be available to land managers other than farmers, and to groups of farmers.

Measures can also support farmers to convert to **organic farming**, and for implementation of **Natura 2000 and Water Framework Directive** where there is a substantial change in farm management.

Forestry: The Regulation contains a suite of forestry measures. This includes support for: woodland creation and management; prevention and restoration of damage to woodlands caused by pests and diseases; and for the processing and marketing of forest products. There is also a measure to support **forest environmental and climate services**.

Areas of Natural Constraint: Enhanced subsidy for land less suitable for agricultural use (eg uplands in England). This tightens up the previous less favoured areas (LFA) categorisation which was criticised by the European Court of Auditors on grounds of value for money. There is a new delimitation for Areas with Natural Constraints (ANC) — with effect from 2018 at the latest — based on 8 biophysical criteria.

Innovation and Knowledge Transfer: A new 'European Innovation Partnership on agricultural productivity and sustainability (EIP)' is being established at the EU level with the aim of promoting resource efficiency, productivity, resilience and low emissions in agriculture and forestry. The EIP is expected to foster innovation and translation of research in European agriculture by bringing together researchers and farmers to apply technology on farm and exchange knowledge. Member States may choose whether to support EIP Operational Groups. There is also specific measure on **skills and knowledge transfer**. This could work closely with the EIP as well as supporting the provision of skills to farmers and small rural businesses. In addition, programmes are required to show how they contribute to the cross cutting objective of innovation.

Information and Advisory Services: support could include funding for the setting up of the Farm Advisory System which is a mandatory requirement under the Horizontal regulations. This does not have to be funded from the Rural Development Programme, but must be funded as part of implementation of the CAP. Advice could also be provided for Rural Development related environmental issues, climate change mitigation and adaptation linked to environmental challenges and information and advice linked to farming and land-based sectors.

Co-operation: an enhanced co-operation measure has been introduced to fund a range of activities undertaken in co-operation with others.

Farm Business Development and **Investment in Physical Assets:** allows for support to farmers, including young farmers and small farmers, and rural business to boost their economic and environmental sustainability and competitiveness.

Basic services and village renewal measure allows support for the development of rural areas, including provision of small scale infrastructure, broadband and tourism.

Quality Schemes for agricultural products and foodstuffs: providing support to farmers for new participation in quality schemes;

Setting up Producer Groups: to facilitate the setting up of new producer groups in agriculture and forestry;

Animal Welfare: provides payment to farmers that voluntarily undertake animal welfare commitments;

Risk Management toolkit: covering financial contributions to certain insurance premiums, and contributions to mutual funds, to compensate farmers for economic loss causes by adverse climate events of outbreaks of animal or plant diseases, pest infestation or an environmental incident. There is also an **income stabilisation tool**, and a measure to **restore agricultural production** after natural disasters.

LEADER: this forms part of the wider community-led local development approach for European Structural and Investment Funds. A minimum of 5% of the EU funds must be spent on LEADER.

Our assessment of need for the new Rural Development Programme

Where should Defra focus funding under the new Rural Development Programme?

To support the development of the new Rural Development Programme we need to ensure we set out clearly those areas where there is a real need for investment. We want to focus the new programme on activities that provide good value for money for the UK taxpayer.

For the new Rural Development Programme we need to provide an assessment of the main development needs of rural England. This is undertaken via a “SWOT” analysis whereby the Strengths, Weaknesses, Opportunities and Threats to rural England are analysed and an assessment made of where best to focus Rural Development funding.

We have also undertaken a Value for Money assessment of potential activities under the new Rural Development programme, to help inform how funding could be prioritised to maximise both the strategic case for investment and the impacts of the programme. Details of the methodology used in this assessment are included below under Section 3.

A summary of our initial needs assessment and our analysis of the Value for Money of particular objectives and activities is set out below. We will undertake a revised SWOT analysis and needs assessment as part of the final Programme Document we submit to the Commission in early 2014.

We are also required to undertake a Strategic Environmental Assessment of the environment impact of the new programme. To support this we are consulting on the scope of this assessment in parallel with this consultation.

Priorities for support under the Rural Development Programme

Our preliminary analysis has led us to identify three main priorities for support. These are:

- Environment: restoring, preserving and enhancing our natural environment
- Productivity: increasing the competitiveness and efficiency of our farming, forestry and land-based sectors
- Growth: delivering rural economic growth

However we also see two other themes as important but which could help to support delivery of these priorities:

- Innovation: promoting knowledge transfer, cooperation and sharing of best practice
- Advice and skills: promoting growth, productivity and improving environmental performance

In the needs assessment below we have looked at these three themes under the productivity section, but will consider how they fit within the three priorities of Environment, Productivity and Growth as we develop the programme further. We will work closely with interested parties following the consultation period to aid us in this process.

We do not see a rationale for intervention in a number of areas either because they offer very poor value for money or would be better supported through the market:

- Measures in the Risk Management Toolkit, including the income stabilisation tool, support for crop, animal and plant insurance, and mutual funds for adverse events, animal and plant diseases, pest infestations and environmental incidents;
- Payments to farmers eligible for the direct payment small farmers scheme;
- Payments to farmers for meeting legal requirements;
- Areas facing Natural Constraints payments.

Our approach to Areas of Natural Constraint is set out in chapter 2.

Environment: Restoring, preserving and enhancing the natural environment

Agriculture occupies around 70% of land use in England and most of the English countryside can be described as semi-natural, requiring some human activity to maintain it. Woodland coverage is low at 9.9 % of land use compared with EU averages (37% for the EU-27), but woodland area has been steadily increasing from an historic low of 5% in 1914.[8]

Farmers and land managers play a vital role as food suppliers and as the stewards of our countryside. Agriculture created many of England's rural landscapes. But since the 1940s agricultural mechanisation and intensification has compromised other aspects of the countryside, particularly biodiversity and air, soil and water quality.

Biodiversity (variety of life) is important for its intrinsic value, but also as the building block of our 'ecosystems', the natural processes that underpin health, well-being and the economy by providing goods and services like food, fresh water and clean air, but also less obvious services such as regulation of our climate, and water purification and crop pollination.

[8] National Forestry Inventory, 2010

Birds are commonly used as a barometer for the health of the natural environment and the farmland bird index shows that, whilst 21% of priority species are increasing 27%, are declining. The National Ecosystem Assessment notes that over 40% of priority habitats and 30% of priority species are in decline. 60% of England's flowering plants predominantly species of nutrient-poor areas are declining with 29% decreasing strongly. In woodland, management for wood and timber production was once a common activity, but its decline has led to shadier, more closed and less structurally diverse woodlands with significant impacts on the wildlife they support.

Increasing pressures on land use and changing management practices have led to losses in landscape character (eg field pattern and scale) and to our cultural heritage, such as traditional farm buildings. Parklands and archaeological sites. Fertiliser use, particularly nitrogen and phosphorus, has adversely affected aquatic ecosystems through runoff. Environment Agency data shows that pollution from agriculture is cited as the likely cause in 33% of known failures to achieve Good Ecological Status for water bodies in England. Agriculture is responsible for over 80% of ammonia emissions and evidence suggests that atmospheric nitrogen deposition is leading to changes in the natural environment.[9] Levels of phosphate in rivers and lakes, and nitrates in coastal sites, some open waters as well as groundwater-fed wetland SSSIs continue to be a concern as do pesticides.

However some progress has been made. For example there is good evidence that farmers are using fertilisers and manures more efficiently and effectively particularly on grasslands (arable remains little changed). Targeting of conservation schemes have meant some species have recovered or are recovering, for example cirl bunting and stone curlew. Around 96% of Sites of Special Scientific Interest (SSSI) are now in favourable or unfavourable recovering condition.[10] Agri-environment schemes have had especially good uptake in protected landscapes helping to maintain their character. Awareness of water pollution from agriculture encouraging voluntary action by farmers has also increased.

The natural environment is also an important cultural and economic asset. The public goods supplied by landscape and the historic environment in rural areas provide a major contribution towards the rural business economy, through tourism and recreation, people's health and well-being and personal development and fulfilment. They also create local distinctiveness and cultural identity. In 2000 it was estimated that UK habitats received 3.2 billion visits estimated at over £10 billion.[11]

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[9] http://naei.defra.gov.uk/overview/pollutants?pollutant_id=21. Stevens et al. (2011), Collation of evidence of nitrogen impacts on vegetation in relation to UK biodiversity objectives, JNCC Report 447, ISSN 0963–8091

[10] As of 1st August 2013 http://www.sssi.naturalengland.org.uk/Special/sssi/reportAction.cfm?Report=sdrt15&Category=N&Reference=0

[11] Duke et al. GHK, London, 2012, *Opportunities for UK Business that Value and/or Protect Nature's Services; Elaboration of Proposals for Potential Business Opportunities. Attachment 1 to Final Report to the Ecosystem Markets Task Force and Valuing Nature Network*.

SSSI management costs are estimated at £111m annually (from public sources), but the benefits have been estimated in order of £956m annually through a range of public benefits.[12] In Yorkshire's National Parks a survey found that over two-thirds of businesses believed that high landscape quality had a positive impact on their performance. Visitors to the National Parks in Yorkshire spend £660 million, which is estimated to support around 12,000 jobs and to generate further indirect economic activity.[13]

In 2010 the Foresight report gave a broad and overarching look at the future of UK land use over the next 50 years. It noted that in the UK, as elsewhere, few landscapes remain natural, and that the productive capacity of that land and the character of landscapes were important factors that contribute to the UK economy.[14] England's predominantly semi-natural habitats require continued support to ensure the continuation of activities to protect and enhance biodiversity and habitats for the public good. Investment to retain environmental land use and to manage and enhance the natural environment, alongside voluntary action by farmers, can help England to meet the ambitions of the Natural Environment White Paper, Biodiversity 2020 and European environmental directives, as well as making a clear contribution to the EU 2020 sustainable growth agenda.

How this fits with the Rural Development regulation

The proposed new Environmental Land Management scheme would help contribute to the following focus areas under Rural Development:

Priority 4: Restoring, preserving and enhancing ecosystems related to agriculture and forestry:

4A: restoring, preserving and enhancing biodiversity, including in Natura 2000 areas, areas facing natural or other specific constraints and high nature value farming, and the state of European landscapes;

4B: improving water management, including fertiliser and pesticide management;

4C: preventing soil erosion and improving soil management.

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[12] GHK, 2011, *Benefits of SSSIs in England and Wales. A report to Defra.*

[13] Council for National Parks, 2006, *The economic impact of National Parks in the Yorkshire and Humber region*.

[14] The Government Office for Science, London, *Foresight Land Use Futures Project: Executive Summary*

Priority 5: promoting resource efficiency and supporting the shift towards a low carbon and climate resilient economy in agriculture, food and forestry sectors:

5D: reducing green house gas and ammonia emissions from agriculture

5E: fostering carbon conservation and sequestration in agriculture and forestry.

The principle measures to be used would be:

- **Agri-environment and Climate:** Land management that protects and enhances the natural environment (including in some cases climate change mitigation).
- **Forestry:** support for woodland creation; forest management; prevention and restoration of damage to forestry caused by pests and diseases; and for the processing and marketing of forest products.
- **Investment in Physical Assets:** support to land managers to improve their environmental sustainability and competitiveness.
- **Co-operation:** to bring together farmers at a landscape scale

The focus of support could thus be on:

- the conservation of natural wildlife and promotion of biodiversity on farmland, both in protected areas and the wider countryside;
- natural resource protection and improvement, focusing on the management of soil and water;
- the maintenance of landscape quality and character, including heritage;;
- overarching climate change mitigation and adaption contribution, including improving air quality;
- the improvement and promotion of public access and understanding of the countryside;
- flood management — where it contributes to wetland and coastal habitat management;
- genetic conservation;
- woodland creation and woodland management — to protect and expand woodlands and increase their environmental, social and economic value.

The productivity and competitiveness of farming, forestry and land-based sectors

Agriculture generates £8.7 bn in gross value added. This represents 0.7 % of national GDP. The sector employs 440,000 people, 1.5% of total employment.[15] These figures suggest that average labour productivity in agriculture is lower than the

[15] Defra, 2012, *Agriculture in the UK* statistics for 2011

rest of the UK economy. Agricultural productivity and outputs, however, vary substantially across the industry, not only between sectors, but within sectors themselves with one third of agricultural businesses providing 95% of the output and value added of the entire sector.[16] This is due to a range of factors including geography, but it may also reflect farm size, training and skills, and the degree of uptake of new and existing innovative technologies.

Between and within sectors, there is considerable variation in income distributions. In the cattle, sheep, specialist pigs and poultry sectors more than 10% of farmers make losses and more than 40% of farmers make business income of less than £25,000.[17]

There is also a need for up-skilling, bench-marking and support for business development and planning within the agricultural sector. The age profile of the sector has remained high, with a large proportion of older farmers and the relatively small numbers of younger people entering the sector.

Through targeted interventions aimed at business and resource efficiency, the next Rural Development Programme could improve the economic and environmental performance of the agricultural sector, allowing the industry to be more competitive and generate an increased contribution to more sustainable national growth.

The Government's Natural Environment White Paper makes clear that sustainable use of our natural capital is integral to our economy and rural businesses. Inefficient use or degradation of natural capital assets (such as degraded soils, declines in pollinators or polluted or scarce water) will act as a break on business competitive and long term sustainability and could lead to missed opportunities, as well as increasing their environmental footprint.

Against this background it is important for agricultural businesses to use their natural resources efficiently and sustainably. The Government's report, *The Further Benefits of Business Resource Efficiency*, concluded that UK businesses could save around £23 billion per year by reducing waste and minimising resource use, including £84m from water saving measures in agriculture.[18] Farmers and land managers could also be supported to manage land efficiently and sustainably, particularly in areas of England where there is a risk of drought or poor drainage, and could work together cooperatively to support better collective water or other storage facilities and improve energy efficiency. Enhancements in soil management and the storage and handling of manures could improve efficiency and reduce emissions of powerful greenhouse gases, methane and nitrous oxide. Farmers in priority water catchment areas could also be supported through on-farm infrastructure improvements to help avoid deterioration in water quality from diffuse agricultural production.

[16] Defra analysis based on Farm Business Survey (FBS).
[17] Defra analysis based on Farm Business Survey (FBS) 2012
[18] The Further Benefits of Resource Efficiency, Defra 2009

In the UK in 2011, forestry contributed £238m[19] in gross value added and employed 14,000 people with another 29,000 in primary processing. The UK imports almost 80% of its wood requirements yet in England only about 40% of annual increment is harvested.[20] Much of the under-utilised resource is broadleaved timber which is characteristically of low quality (primarily due to lack of management over the last 60 years). With the development of renewable energy, particularly wood fuel, there is now a secure market for this type of material. There is however a need for improvements in productivity if domestically produced material is to compete with imports or with alternative fuels.

In the forestry sector, an increase in the use of un-utilised resources would not only improve the performance of the sector but would also help to achieve the public good co-benefits, particularly biodiversity enhancement, that come with active management and in the long run reduce the need for government support. The new Rural Development Programme could help to improve performance through helping increase the level of mechanisation and health and safety in the industry, provide access for the removal of wood as well as encouraging complementary rural businesses, such as venison.

Innovation has been highlighted by the OECD as a key driver for growth in productivity, alongside the adoption of new technologies by businesses and cost reductions as a result of economies of scale[21]. The UK has a strong research and development base, but there has been a decline in the UK infrastructure for the application of research in productivity related topics in the last 30 years, and the performance of applied and translational research in the UK, as measured by patents in the agri-food sector, does not match that of its major competitors.

Driving innovation, including through supporting applied and translational research, to optimise food production at the same time as protecting the environment is a priority of this Government. The implementation of the UK Agricultural Technologies strategy (UK Government, 2013) will seek to address this.

The Rural Development Programme could also provide support to underpin this activity by bringing farmers and businesses together to influence the research agenda and enable better interaction with applied researchers and institutions. This could be addressed through the supporting Operational Groups under the European Innovation Partnership (EIP) approach or through activity that promotes cooperation and sharing of best practice.

Innovation can also be facilitated through advice to farmers and targeted support to improve workforce skills and management capability. LANTRA analysis of the 2009 National Employer Skills Survey shows that the most common reason for job

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[19] ONS Annual Business Survey

[20]

[21] OECD, *Fostering Competitiveness and Innovation in Agriculture*, 2011

vacancies in the land based and environment sector was skills shortages. Statistics from the DEFRA Farm Business Survey (FBS) indicate that 99% of farmers accessed some form of technical advice in the year 2011–12, suggesting that there is a strong appetite for advice in the sector.[22]

Advice and training could thus help farmers and foresters to improve their economic viability, environmental performance and meet new legislative requirements, for example, such as those linked to the Water Framework Directive.

Advice will however need to be targeted and clearly linked to other advice channels. The Review of Advice and Partnership Approaches published in March 2013 highlighted the key principles for advice. These included that government advice needs to be clearly targeted and linked to that provided by other advice providers (rather than duplicating advice streams and creating confusion for the intended audience). Integrated advice could thus lead to significant cost-savings.

How this fits with the Rural Development regulation

This evidence suggests that the new Rural Development Programme could help increase the productivity and competitiveness of the farming and forestry sectors and help them improve their environmental performance, resilience and efficiency. It could also enable innovation in both sectors and aid the translation of ideas into farming and forestry practice.

This would help deliver Priorities 1, 2 and 3 under the new Rural Development regulation, and Focus areas 5A, B, C and E of Priority 5. The scope of these focus areas is quite broad, so we may not want to deliver every aspect of them:

Priority 1: Fostering knowledge transfer and innovation in agriculture, forestry and rural areas, with a focus on the following areas:

1A: fostering innovation, cooperation and the development of the knowledge base in rural areas;

1B: strengthening the links between agriculture, food production and forestry and research and innovation, including for the purpose of improved environment management and performance;

1C: fostering lifelong learning and vocational training in the agricultural and forestry sectors.

[22] Farm Business Survey, 2012

Priority 2: Enhancing farm viability and competitiveness of all types of agriculture in all regions and promoting innovative farm technologies and sustainable management of forests, with a focus on the following areas:

2A: improving the economic performance of all farms and facilitating farm restructuring and modernisation, notably with a view to increase market participation and orientation as well as agricultural diversification;

2B: facilitating entry of adequately skilled farmers into the agricultural sector and in particular generational renewal.

Priority 3: Promoting food chain organisation, including processing and marketing of agricultural products, animal welfare and risk management in agriculture, with a focus on the following areas:

3A: improving competitiveness of primary producers by better integrating them into the agri-food chain through quality schemes, adding value to agricultural products, promotion in local markets and short supply chains, producer groups and organisations and inter-branch organisations;

3B: supporting farm risk prevention and management.

Priority 5: promoting resource efficiency and supporting the shift towards a low carbon and climate resilient economy in agriculture, food and forestry sectors, with a focus on the following areas:

5A: increasing efficiency in water use by agriculture;

5B: increasing efficiency in energy use in agriculture and food processing;

5C: facilitating the supply and use of renewable sources of energy, of by-products, wastes, residues and other food raw material for purposes of the bio-economy;

5D: reducing greenhouse gas and ammonia emissions from agriculture.

The principle measures to be used could be:

- **Innovation:** we would look to implement the European Innovation Partnership (EIP) approach in England and use other measures to help foster and promote innovation, cooperation and knowledge transfer.
- **Skills and knowledge transfer:** provide support to translate research into practice, and share good practice within the industry, and potentially support skills and training to improve farming and forestry competitiveness.
- **Co-operation:** to bring together groups of producers or particular sectors through collaboration and cooperation.

- **Farm Business Development** and **Investment in Physical Assets:** provide support to farmers, including young farmers, and rural business to boost their economic and environmental sustainability and competitiveness.
- **Information and Advisory Services:** we could use this measure to support advice for farmers or other land-based sectors. We could also include funding to support the setting up of the farming advice system and other advice relating to climate change mitigation and adaptation and environmental challenges. Any advisory services we offered would need to follow the key principles for advice set out in the Review of Advice and Partnership Approaches.

The focus of support could thus be on all or some of the following activities:

- Encouraging innovation, both through the use of new technology and practices through better collaboration between land managers, supply chains and research institutions;
- Encouraging knowledge exchange, through seminars, workshops and demonstration activity, along with informal knowledge transfer activities;
- Supporting cooperation and collaboration between land owners, primary producers and businesses in the supply chain to provide efficiencies of scale and other benefits that collaborative working brings;
- Supporting improved business management practice, including leadership skills, project management, people management and negotiating skills and support to better understand financial planning and market opportunities;
- Supporting professional and continued development skills in both sectors;
- Supporting businesses to see the benefits of benchmarking, to encourage those with potential for greater productivity to learn from high performers;
- Improving standards of animal and plant health and animal welfare;
- Improving the efficiency and effective operation of supply chains;
- Supporting the woodland enterprise supply chain and venison supply chain to increase the area and benefits of woodland management;
- Supporting improvements in the efficiency and use of natural resources such as water and soils and reducing emission of nitrous oxides and methane from agriculture;
- Driving a shift to a lower carbon economy through supporting improvements in energy efficiency in food production and initiatives for sustainable wood fuel and anaerobic digestion;
- Providing advice to farmers to support environmental performance, including meeting Water Framework Directive or other legislative requirements. This could potentially include the Farm Advisory System.
- Supporting greater resilience, potentially both through supporting risk management activities and through encouraging projects that make businesses more resilient to climate change and other extreme weather events eg supporting high-flow water reservoirs;

- Supporting effective succession of businesses and support for new entrants in building their businesses successfully in the early years. This will include consideration of the recommendations in the recent Future of Farming review.

Growth: delivering rural economic growth

19% of the population — 9.8 million people –— live in rural areas in England[23]. Rural England performs relatively well on many socio-economic indicators, with lower levels of unemployment and poverty. Businesses in rural areas make a substantial contribution to the national economy. In England they generate around 22% of employment and 19% of gross value added[24].

However, rural communities and businesses face some specific barriers to growth, including lack of access to high speed internet connections, a lack of access to a skilled workforce and distance to markets. Rural populations face disadvantages including higher house prices, higher fuel poverty and lack of access to key services and local amenities.

Small and micro-enterprise businesses play a relatively strong role in rural areas, accounting for over half of employment in rural areas compared with around a quarter of employment in urban areas compared with over half in rural areas. An evidence review by the Centre for Rural Economy suggests the growth ambitions of small and medium rural firms are most challenged by difficulties in recruiting skilled staff, and lack of space.[25]

It has been estimated that tourism is worth £96.7bn to England´s economy, taking into account direct and indirect impacts, and supports 2.2 million jobs[26]. Employment in tourism-related businesses in rural areas is 443,000, which represents 14% of total employment in rural areas. Deloitte research[27] identified a number of barriers to growth in the tourism sector, including; a lack of joined up marketing to promote places to attract visitors and a lack of investment in staff training. The Rural Development Programme could address these barriers through providing support for more joined up coordination of destination marketing activity and preserving and enhancing tourist attractions such as heritage sites.

Research also identifies lack of access to a skilled workforce as a barrier to growth for rural firms. The OECD Rural Policy Review of England found rural areas on

[23] Statistical Digest for rural England. Defra. 2013

[24] Statistical Digest for rural England. Defra. 2013

[25] Centre for Rural Economy, *Rural Economies: Incubators and Catalysts for Growth*, 2011.

[26] The Economic Contribution of the Visitor Economy. Deloitte. 2010

[27] The Economic Case for the Visitor Economy. Deloitte 2008

average have a work force that has a higher proportion of individuals with lower levels of skills, both in terms of formal education and in work-related training.[28]

According to Department for Business, Innovation and Skills statistics, the renewable energy sector is worth £37bn[29]. Rural communities, particularly those in remote and upland areas that are not on the mains gas supply and are often blighted by volatile prices from supply of other essential fuel sources such as bottled gas and heating oil. This often leads to problems of fuel poverty. A major barrier that restricts the growth in rural community renewable energy projects is access to finance. Communities need support to address the costs of feasibility studies and securing planning permission.

According to the Department of Transport's measure of accessibility of services, a range of key services are less accessible in rural areas on average than in urban areas, as well as transport these include schools, hospitals, GP practices, employment services and access to shopping centres'[30]. Alternative methods and models of service delivery (such as broadband, for example) continue to be important to meet the needs of rural communities.

How this fits with the Rural Development regulation

This evidence suggests that targeted interventions the new Rural Development Programme could help drive forward strong economic growth in rural areas, supporting job creation and business development. Support to help rural communities to access services and utilise other sources of energy is also important.

This would help deliver Priority 6 under the new Rural Development regulation, and would include delivery against all three Focus areas:

Priority 6: promoting social inclusion, poverty reduction and economic development in rural areas:

6A: facilitating diversification, creation and development of small enterprises and job creation;

6B: fostering local development in rural areas;

6C: enhancing accessibility to, use and quality of information and communication technologies (ICT) in rural areas.

It could also help deliver Focus Area 5C:

[28] OECD, *Rural Policy Review of England*. 2011.

[29] Department for Business, Innovation and Skills, *Low Carbon Environmental Goods and Services Report*, 2012

[30] Statistical Digest of rural England. Defra 2013

Priority 5: promoting resource efficiency and supporting the shift towards a low carbon and climate resilient economy in agriculture, food and forestry sectors:

5C: facilitating the supply and use of renewable sources of energy, of by-products, wastes, residues and other food raw material for purposes of the bio-economy;

Key measures to be used under this Priority could thus be:

- **Investment in physical assets:** this allows for support for rural businesses to boost their economic sustainability and competitiveness;
- **Basic services:** this would mean a focus on access to services, broadband investment, tourism and potentially on supporting renewable energy and village infrastructure projects;
- **The LEADER approach:** by using LEADER to focus more on job creation and business development in rural areas, including supporting basic services linked to growth and sustainable communities, as outlined above;
- **Cooperation:** to bring together groups of producers or particular sectors or supply chains through collaboration and cooperation, including potentially through the LEADER approach;
- **Skills and knowledge transfer:** potentially provide support to translate research into practice, and share good practice, and support for skills and training in rural areas.

The mechanisms for delivery of Priority 6 would be either through the LEADER approach or through investment identified in Local Enterprise Partnership investment strategies.

The focus for Priority 6B relates specifically to the LEADER approach. We see merit in using LEADER to drive forward Growth in local areas, with Local Action Groups focussing their efforts on creating and safeguarding jobs and on business development across all sectors, including tourism. This will need to be done in a way which fits the LEADER model of 'bottom up' decision making and will need to complement the actions of the Local Enterprise Partnership. Where linked to growth and jobs, LEADER can also be used to support local services in order to achieve and maintain sustainable rural communities.

Our assessment of the Value for Money of different activities

To help the overall assessment of value for money, a multi-criteria approach has been used to evaluate 70 activities using the following high level criteria and sub-criteria:

- Strategic alignment (including rationale for intervention, strength of policy driver and suitability of funding);
- Environmental, economic and social impacts;
- Deliverability risk;
- Contribution to cross-cutting themes (in particular climate change adaptation and mitigation).

The high-level criteria were split into a range of sub-criteria, and activities we assessed based on the evidence available and on professional judgement. The exception was the quantitative assessment of economic and environmental impacts. These were scored separately using performance information on current projects contained in monitoring databases for the current Rural Development Programme, and benefit-cost ratios information from valuation studies. This information provides an assessment of economic and environmental impacts.

The returns from this scoring activity were validated to ensure consistency across teams, and activities grouped into high, medium and low VfM categories. This grouping was achieved by consolidating four different approaches to grouping:

- A bottom-up approach — in which activities were ranked by relative performance within particular activity groups — Farming competitiveness, Environment, Growth, Rural Communities and Forestry;
- A top-down approach — in which the entire range of activities were grouped using a performance matrix with defined high, medium and low VfM boundaries;
- A systematic examination approach — in which the detailed justifications for scores were re-examined and rated qualitatively,
- An aggregated method, in which strategic scores were plotted against overall impact scores, averaged across both qualitative and quantitative environmental, economic and social scores.

We are continuing to use this method to help us look at where best to focus Rural Development funding. The first round of results suggest that, based on this analysis alone, a new programme could:

- target **Environmental** schemes and **Forestry** support more effectively, in particular by targeting interventions aimed at improving biodiversity and air quality, and improving **Forestry** management skills and to developing wood fuel markets;
- give a specific focus to supporting **Farming Competitiveness**, in particular improving resource efficiency and encouraging precision farming, and increasing the uptake of new and innovative practices and technology;
- give a specific focus to supporting **Growth**, in particular providing support to small-to-medium enterprises; supporting tourism, and super-fast broadband;
- focus activities related to **Rural Communities** on developing multi-use community hubs to provide key services to remote communities; improving infrastructure to support tourism, and supporting renewable energy infrastructure and initiatives.

This VfM assessment is now being used to inform how individual schemes might be structured most effectively. We will work with interested parties to further develop the use of this method as we continue to develop the new Rural Development Programme.

Annex D1: Current GAEC framework

ANNEX III		
Good agricultural and environmental condition referred to in Article 6		
Issue	**Compulsory standards**	**Optional standards**
Soil erosion: Protect soil through appropriate measures	— Minimum soil cover	— Retain terraces
	GAEC 1	N/A
	— Minimum land management reflecting site-specific conditions	
	GAECs 1 & 9	
Soil organic matter: Maintain soil organic matter levels through appropriate practices	— Arable stubble management	— Standards for crop rotations
	GAEC 1	GAEC 1
Soil structure: Maintain soil structure through appropriate measures		— Appropriate machinery use
		GAEC 1
Minimum level of maintenance: Ensure a minimum level of maintenance and avoid the deterioration of habitats	— Retention of landscape features, including, where appropriate, hedges, ponds, ditches trees in line, in group or isolated and field margins	— Minimum livestock stocking rates or/and appropriate regimes
	GAECs 5, 6, 7, 8, 9, 10, 11, 13, 14, 15, 16 & 17	GAECs 9 & 12
		— Establishment and/or retention of habitats
		Not specifically implemented, though many standards have elements which protect habitats
	— Avoiding the encroachment of unwanted vegetation on agricultural land	— Prohibition of the grubbing up of olive trees
	GAECs 11 & 12	N/A
	— Protection of permanent pasture	— Maintenance of olive groves and vines in good vegetative condition
	GAECs 5 & 9	N/A
Protection and management of water: Protect water against pollution and run-off, and manage the use of water	— Establishment of buffer strips along water courses (1)	
	GAEC 19	
	— Where use of water for irrigation is subject to authorisation, compliance with authorisation procedures	
	GAEC 18	
(1) Note: The GAEC buffer strips must respect, both within and outside vulnerable zones designated pursuant to Article 3(2) of Directive 91/676/EEC, at least the requirements relating to the conditions for land application of fertiliser near water courses, referred to in point A.4 of Annex II to Directive 91/676/EEC to be applied in accordance with the action programmes of Member States established under Article 5(4) of Directive 91/676/EEC.		

Annex D2: GAEC framework under CAP 2015

New CAP Issue	New Cap GAEC No.
Establishment of buffer strips along water courses	1
Where use of water for irrigation is subject to authorisation, compliance with authorisation procedures	2
Protection of ground water against pollution:prohibition of direct discharge into groundwater and measures to prevent indirect pollution of groundwater through discharge on the ground and percolation through the soil of dangerous substances, as listed in the Annex to the Directive 80/68/EEC	3
Minimum soil cover	4
Minimum land management reflecting site specific conditions to limit erosion	5
Maintenance of soil organic matter level through appropriate practices including ban on burning arable stubble, except for plant health reasons	6
Retention of landscape features, including where appropriate, hedges, ponds, ditches, trees in line, in group or isolated, field margins and terraces, and including a ban on cutting hedges and trees during the bird breeding and rearing season and, as an option, measures for avoiding invasive plant species	7

Footnotes

GAEC1

[1] The GAEC buffer strips must respect, both within and outside vulnerable zones designated pursuant to Article 3(2) of Directive 91/676/EEC, at least the requirements relating to the conditions for land application of fertiliser near water courses, referred to in point A.4 of Annex II to Directive 91/676/EEC to be applied in accordance with the action programmes of Member States established under Article 5(4) of Directive 91/676/EEC.

GAEC6

[2] The requirement can be limited to a general ban on burning arable stubble, but a Member State may decide to prescribe further requirements