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for Environment
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Consultation on the implementation of CAP reform in England

Summary of responses and government response

December 2013

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http://www.gov.uk/defra

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1. Introduction

1.1 On 31 October 2013 the Government issued a consultation on the implementation of CAP reform in England. The consultation paper and supporting documents are available at https://consult.defra.gov.uk/agricultural-policy/cap-consultation/consult_view

1.2 Many elements of the next CAP are set out in European Regulations and we have little flexibility in how we implement them. However there are a number of aspects where we do have choices at a national level. Prior to consultation, in some areas the Government already had a clear view on the way forward, or had 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 consultation document set out what we had decided. In other areas views were sought in order to make the best informed choices.

1.3 When the consultation was released the allocation for CAP funds between UK countries had not been decided. For the purpose of illustrating the impact of the new CAP in the consultation we assumed direct payment (Pillar 1) shares based on current regional shares and rural development shares (Pillar 2) based on the historic allocation for the current rural development programme. It was confirmed on 8 November that the shares allocated to England, Northern Ireland, Scotland and Wales will remain the same for the next funding period, details at https://www.gov.uk/government/news/uk-cap-allocations-announced

1.4 The consultation closed on 28 November 2013. In total we received 4,928 responses. 767 of these were received on-line, and 4,161 by email and post. Of these responses 3,797 were from an organised RSPB campaign and 36 were from a Soil Association campaign. A breakdown of the responses received, including a list of all the organisations that responded are at Annexes A and B.

1.5 During the consultation period we also hosted 10 stakeholder events across England in Ardingly, Bridgwater, Bromsgrove, Cambridge, Hexham, Leeds, Melton Mowbray, Penrith, Nantwich and Truro. These were attended by approximately 720 people. The themes that emerged at the stakeholder events reflected those in written responses and have been considered alongside them.

1.6 We also hosted two twitter discussions, on 21 November via Agrichat and on 26 November the Parliamentary Under Secretary of State for farming, food and marine environment, George Eustice, hosted a discussion.

1.7 On 3 December the House of Commons Environment, Food and Rural Affairs Committee (the EFRA Committee) published its report on the Implementation of the Common Agricultural Policy in England 2014-2020. The Government will respond to the Committee in early 2014, but where relevant we have referred to their views in this response to the consultation.

Government Response

1.8 We will implement the new CAP in England in a way that supports a resilient and competitive English farming sector while also strengthening how it delivers outcomes for the public good, primarily through rural development funds targeted at improving the environment and growing the rural economy. Our policy choices also need to consider ease of implementation for farmers and other CAP customers, as well as Defra and its delivery network. This will be the best way to ensure we do not repeat the implementation problems encountered in 2005. This approach has underpinned our consideration of the consultation responses and the overall impact of the decisions we are taking strikes a balance that is fair to taxpayers, farmers and rural communities and deliver improved value for money.

1.9 In this report we have set out the Government's response in respect of the inter-pillar transfer, some aspects of the Rural Development Programme, Greening and cross-compliance. We will issue a further response in early 2014 covering the young farmers scheme, further detail on the Rural Development Programme, Ecological Focus Areas and market management measures.

Inter-Pillar Transfer, Growth Programme and Rural Development Programme

1.10 Our consultation shows strong support for making the best use of CAP money for the benefit of the environment, farmers, taxpayers and rural businesses. There is a widespread desire among the public to use the Rural Development Programme to deliver the environmental and public goods that direct payments cannot.

1.11 Throughout the negotiations on the new CAP we fought hard to maximise the benefits from CAP money and for the flexibility to transfer funds from direct payments to rural development. We need to overcome our historically low Pillar 2 allocation.

Environment

1.12 We want to improve the farmed environment. We are committed to enhancing the environment and meeting our key environmental commitments including farmland biodiversity and addressing agricultural pollution causing problems in rivers, lakes and other water bodies.

1.13 The new CAP will make a difference on the environment in way that it has not done before. Greening of direct payments will make payment of direct subsidies conditional on farmers undertaking activities that do some good for the environment. Through new, targeted rural development environmental management schemes taxpayers money will be working harder. Our new environmental scheme will focus on maintaining and improving our most valuable sites and making landscape scale improvements in the wider countryside. We are replacing the basic entry level scheme with a scheme which will target improvements and maintain landscapes that underpin rural tourism; help to provide resources for farmland birds and pollinators; and tackle at source water pollution that would otherwise add costs to water companies and water bills.

1.14 We are refocusing spending within the rural development programme towards the environment. We will plan to spend around 87% on this compared with 83% in the current programme.

Growth

1.15 With the remaining 13% of the new programme we will be putting a much stronger focus on jobs and growth, with a meaningful role for Local Enterprise Partnerships (LEPs).

1.16 **We will make 5% of the new Programme directly available to Local Enterprise Partnerships through the Growth Programme**. Through their investment strategies LEPs will set out how they want this spent in their rural areas to build knowledge and skills, support new and developing micro and small rural business, invest in small scale renewable and broadband investments and support tourism activities.

1.17 We will allocate this Growth Programme funding to individual LEPs in a fair and equitable way using rural population as the underlying basis, with adjustments to help target the economic challenges in rural areas. We are publishing these allocations and Defra officials are writing to LEPs to confirm them. LEPs will now use these allocations to complete their EU fund investment strategies.

1.18 We will focus spending on farming and forestry competitiveness where it will have a tangible impact on farm business performance, for example helping farmers applying innovation, uptake of technology and knowledge transfer we will help them achieve impact. This will make up 4% of the new programme.

1.19 We will strengthen the contribution that funds invested through LEADER make to delivering jobs and growth in rural areas. Funding for LEADER will be about 4% of the new programme in line with the EU requirement to put at least 5% of the EU funding element through LEADER.

1.20 A new National Delivery Framework for LEADER will clearly set out the policy priorities, measures and types of projects we expect LEADER groups' Local Development Strategies to be based on. At the local level, every LEADER project will need to demonstrate that it contributes to the local economy before it can be approved and LEADER group will need to have links with their LEPs.

1.21 We will involve LEPs in the development of the new programme and the decision making process for farming competitiveness, providing local advice at the scheme development stage and advise on local conditions, needs and opportunities

Inter-pillar Transfer

1.22 We welcome the strong endorsement by many consultation respondents that rural development spending should be used to deliver the environmental and public goods that direct payments cannot and that it can deliver worthwhile and valuable outcomes for society and contribute to rural economic growth and enhance the environment.

1.23 We will be introducing a range of new schemes in the new Rural Development Programme. We will want to assess the effectiveness of and demand for these once they are in operation. We will also not be spending money on new schemes immediately. The first payments to farmers under the new environmental scheme will not be made until 2016.

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

1.25 With this rate of transfer we will be spending over £3.5bn on the next Rural Development Programme. This would rise to around £3.65bn with an increased transfer rate of 15% from 2018. We will be spending nearly £3.1bn on the environment over the life of the new programme. This will rise to nearly £3.2bn, the amount we spend in the current programme, if the transfer rate rises to 15% in the last 2 years. With a 12% transfer, we plan to invest £177m through the Growth Programme1, and around £140m in farming / forestry competitiveness and around £140m in LEADER.

1.26 We believe that this represents the best balance between using rural development money to deliver public goods and meet our obligations, helping the farming industry become more productive and competitive, generating jobs and growth, assessing the demand for the new programme as we deliver it and enabling farmers to make a smooth transition to the new direct payment budget.

[1] Assuming an exchange rate of €1= £0.8

Direct Payments

1.27 The consultation also sought views on a range of issues relating to direct payments. On a number of key decisions we have listened to respondents and opted for the simplest choice.

1.28 **We have decided to Equalise direct payments rates for the uplands and lowlands.** We recognise that farmers in the uplands face particular challenges, but play 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 no longer consider the present discrimination in favour of the lowland region to be fair. Equalisation will result in only a modest decrease in the lowland rate. We will make a decision on the moorland rate in the first half of 2014 after further modelling of the impact of the new CAP.

1.29 **To apply the minimum 5% level of reductions on basic payments over €150,000. We will not apply the option to offset salary costs.** We have consistently argued that the direct payments system should not provide disincentives to farms from expanding where that is the right decision to enable them to be competitive in the market place. Nor should be we create unnecessary incentives for larger farms to split. Salary mitigation would be an unnecessary complication and the cost of applying it would be disproportionate.

1.30 **We will not extend the list of ineligible activities under the active farmer test.** This will keep the administration of the negative list as simple as possible and avoid imposing additional administrative burdens on both farmers and the Rural Payments Agency.

1.31 **We will adhere to the standard EU measures on Greening.** This approach will balance the environmental benefit with our pledge not to impose unnecessary burdens on farmers. We will not introduce a National Certification Scheme as we maintain our view that any additional potential benefits would be outweighed by the additional delivery risks and complexity for farmers and enforcement agencies. We will apply the requirement to control permanent grassland at national level. Decisions over further designations of environmentally sensitive grassland will be taken following further discussion with stakeholders. We will hold further discussions with stakeholders on options which should be included in the Ecological Focus Areas.

1.32 We also sought views on our approach to cross compliance and the continuation of Good Agricultural and Environmental Conditions (GAECs) in the new CAP and **we will continue to work with stakeholders on the details of the requirements in 2014.**

1.33 These decisions will mean we implement the new CAP in the most straightforward way possible. It will minimise burdens on farmers and reduce the risk of disallowance from the EU. We are investing in a much more efficient, customer friendly, online system ready to support farmers and other rural businesses. This will ensure we do not see another failed implementation of CAP in England.

1.34 Overall these decisions mean that we can maximise the benefits of CAP funds, spending them efficiently in the right places where they add the greatest value for money.

2. Direct Payments: Changes in the new regime

2.1 Many of the rules about the distribution of direct payments are set by EU regulations, but there are a number of important areas in which the Government has discretion to design the scheme to fit our national circumstances. The consultation set out a number of areas in which decisions had already been made to help farmers and the delivery bodies to plan – in general, stakeholder organisations welcomed the early certainty which this has given. We also sought views on a number of important decisions where options were offered, and our assessment of the views expressed and our decisions are set out in this Chapter.

Regional Distribution of Direct Payments

2.2 Currently, there are three regions within England, and a different rate of Single Payment is paid per hectare in each. These regions are lowland, land in the Severely Disadvantaged Area (SDA) other than moorland (often described as the upland region), and SDA moorland. The consultation announced the Government's decision that we would neither create any new regions nor amend the existing regional boundaries, in order to avoid unnecessary complexity in the transition to the new system. The Government must now decide how the direct payment budget for England should be divided between the three regions. We asked:

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

Option 3 : Another option

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

Summary of responses, for those who addressed this issue	
Supporting option 1	255
Supporting option 2	294
Supporting another option	93

2.3 There was slightly higher support for option 2 than option 1, with a smaller number of respondents proposing alternatives. A significant minority wanted to see direct payments, or an uplift in upland payments, contingent on the delivery of public goods (such as environmental outcomes). A smaller minority (irrespective of the option selected) argued that the 84% increase in the moorland rate proposed in option 2 was too generous; some suggested that this would be an unjustified subsidy to large moorland estates on which relatively little agricultural activity took place. A handful of respondents proposed alternatively that the moorland rate should be pitched even higher; that the SDA rate should be raised above the lowland rate; that there should be a general reduction in direct payments; that a decision should be deferred pending further analysis; and that upland farms should be supported instead through an enhanced greening package.

2.4 Many of those who supported an increase in upland rates noted that beneficiary farms are important for maintaining the characteristics of the uplands, that they face particular challenges, and that many are more economically marginal than farms in other areas; however, others noted recent data which showed lowland livestock farming to be still less profitable than that in upland areas. Some respondents also noted that with farms gradually exiting the Uplands Entry Level Scheme (Uplands ELS — a replacement for former specific hill farming subsidies), these farmers might in future not receive as much support from the new environmental land management scheme, while a few observed that similar constraints would apply to lowland farms exiting ELS. Others thought it right to have a more equal distribution of payments in the interests of fairness.

2.5 Some respondents pointed out that there are also farms in the lowland region which face economic pressures and that it would therefore be fairer to maintain the current distribution of resources – that is, option 1, which would help promote food production and security in the most productive areas. They also suggested that increasing support for upland farms would simply be supporting uneconomic businesses, or would discourage participation in future upland agri-environment schemes.

2.6 The majority of those who took part in the regional workshops favoured Defra's proposal to rebalance the regional payments structure, while around a quarter of respondents favoured retaining the current system. There was generally agreement on the difficulties of farming in the uplands and appreciation of the environmental value of such farming but a number of respondents queried the level of moorland payment under option 2 preferring for example a smaller percentage uplift or suggesting that uplands support be directed through Pillar 2 instead. The strongest voice for retaining the current arrangements was in Cambridge.

2.7 The National Farmers Union was not opposed to a rebalancing of direct payments, but argued that no decision should be made without a fuller analysis of the impact of the new CAP as a whole on the incomes of different types of farm and on different regions, and in particular that evidence should be reviewed about the profitability of different types of farm, particularly in relation to the proposed increase in the moorland rate. It noted that upland farms would incur lower costs in complying with the greening requirements, and that farm business income among lowland livestock farms was below those in the uplands in 2012–13.

2.8 The Moorland Association feared that if targeted upland subsidies ceased, very few upland farms would survive, and therefore supported option 2, but with a further uplift; it also called for outcome focused payments to be available to upland farms under Pillar 2. The National Trust also supported option 2, but it too wished to see support provided through Pillar 2; it also adduced modelling of Trust upland estate farms which suggested that the benefits from option 2 would be outweighed by the loss of Uplands ELS income. The Country Land and Business Association supported option 2, and noted that, as upland farms should in consequence not need to subscribe to agri-environment agreements as a necessity, this would increase flexibility in Pillar 2. The British Institute of Agricultural Consultants supported a realignment of the SDA rate towards the lowland rate, but preferred to maintain some separation. The Tenant Farmers Association reiterated its wish to see a merged lowland and SDA region, but wanted to keep the moorland rate at proportionately the same level, but with support targeted under Pillar 2. The House of Commons Environment, Food, and Rural Affairs Committee (the EFRA Committee) also recommended in its report of 3 December on the Implementation of the Common Agricultural Policy in England 2014-2020, that the lowland and upland rates should be aligned, and recommended that while the moorland rate should remain lower it should be uplifted by the same cash amount per hectare as the upland rate.

2.9 The RSPB, in common with other major stakeholders, identified a range of factors challenging profitability in the uplands, including market access barriers, competition from more intensive production systems, poor prices and the failure of the CAP and wider public policy to reward adequately the delivery of environmental public goods. While broadly supportive of option 2, the RSPB was concerned about the lack of environmental conditionality attached to the increased payments, particularly in relation to moorland sporting estates, and questioned any significant uplift in the moorland rate without assurance of improved land management. The Campaign to Protect Rural England supported option 2, but was concerned that an uplift could lead to overgrazing on some hill farms. The Central Association of Agricultural Valuers noted that increasing the moorland rate would highlight tensions in arrangements for payments on upland commons.

2.10 In the consultation, option 2 proposed that the upland (non-moorland) rate should be raised to equal the lowland rate. Significant numbers of respondents sought to ensure that a rebalancing of direct payments should be tied to specific objectives, notably the delivery of public goods (such as biodiversity and retention of carbon-rich soils). Defra’s Uplands Policy Review explained that: “the Government wants to see new opportunities open up to better capture [the value of ecosystems services] and return it as income to those who manage the land on which these assets are found.” However, direct payments are conditional only on farmers meeting the eligibility and cross compliance requirements and we have no discretion (whether in the lowlands or uplands) to make payments only as a reward for delivery of ecosystems services. Moreover, the more targeted nature of agri-environment funding under the new environmental land management scheme in Pillar 2 will no longer provide a near universal source of support for upland farms.

2.11 Many respondents were concerned that an uplift in the upland or moorland rate would lead to higher rents demanded from farming tenants. Direct payments generally do, in the longer term, lead to higher rents and higher land prices. If direct payments are wholly reflected in land prices then tenant farmers in both the uplands and lowlands would be unaffected by the change and indeed by direct payments more generally. Lowland landowners will lose slightly and upland landowners will gain slightly with an overall nil net effect.

2.12 Option 2 also proposed that the moorland rate should be uplifted by the same cash amount as the upland rate (an uplift of 84% compared with option 1). Respondents adopted differing views on this element of the proposal (regardless of support for option 2). Some opposed any increase, or the scale of increase proposed, because it was expected mainly to benefit landlords and sporting estate owners. However, most payments above the moorland line are claimed by tenants or commoning graziers, rather than owners with an interest in management of sporting rights — even of the top 20 moorland claimants, most are upland graziers and all of them still account for less than 7% of the moorland area.

2.13 Others simply thought the increase in the moorland rate excessive compared with the present rate. We recognise that many upland farms have significant areas of rough moorland grazing (often grazed in common or shared), and that for many, this is essential to the viability of the holding. We therefore had proposed to raise the moorland rate so as broadly to achieve the same uplift in farm subsidy for such a farm compared with a farm wholly in the upland region. However, we accept the NFU's and others' suggestion that this will require further research and consultation with key stakeholders before a decision can be reached.

2.14 The current distribution of SPS funds between the regions reflects the historic pattern of subsidies linked to production under earlier regimes. That link is no longer part of the direct payment system in England. Nor would it be right to re-establish a direct link between direct payments and the profitability of different types of farms in different regions or potential gains and losses due to changes in other parts of the CAP system, since otherwise we would move away from the aim of a more market oriented sector or undermine the decisions being taken on other issues. Nevertheless, the SDA is intended to recognise the permanent natural handicaps associated with farming land in the designated area, yet under the SPS, the SDA is applied to diminish the subsidies available to those farming in that area. We no longer regard that approach as fair in relation to farming in the uplands.

2.15 **We have therefore decided that that the rate paid per hectare in the non-moorland SDA region should be set at the same level as the lowlands**[2]. This will result in only a modest decrease in the lowland rate. Accordingly, we will consider whether the non-moorland SDA and lowland regions should be merged, having regard in particular to the impact of any implementing legislation which may be made by the European Commission and the impact on trading in entitlements.

2.16 We see a case for an uplift in the rate paid in the moorland region, but recognise concern about the scale of uplift merited. We will undertake further analysis and continue consultation with stakeholder organisations before reaching a decision on the appropriate rate before the end of July 2014. We will also consider whether the increase should be phased in beyond 2015.

Reductions and redistributive payments

2.17 The EU regulation requires either that we reduce basic payments by at least 5% of any amount above €150,000, or that a system of redistribution should be used to top up the payment rate on a maximum of 54 hectares in any claim, funded by reducing the basic payment rate. The regulation also provides the option of operating both schemes simultaneously, but we announced that if we adopted the system of reductions, we would not also implement redistributive payments. We asked:

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.

Summary of responses, for those who addressed this issue	
We should apply the minimum level of reduction possible (5% on receipts over €150,000).	325

[2] The precise payments rates in each region will depend, amongst other things, on the number of entitlements which farmers activate in 2015.

We should apply a higher rate of reduction but less than 100% (please explain what reduction you favour).	58
We should make €150,000 the most any farmer can receive — this is the maximum reduction possible.	278

2.18 The written responses were evenly split between those favouring the minimum reduction and those supporting a higher level. About 10% favoured a point some way in between the minimum and maximum, the preponderance of these responses favouring a cap in the lower quartile. A few respondents suggested some kind of progressive cap.

2.19 Those at the regional consultation workshops overwhelmingly supported the minimum reduction rate (of 5% on €150,000) coupled with no salary mitigation. (The exception was Truro where respondents were evenly split for and against the Government proposal.) They argued that reductions would penalise the most successful farms, and create disincentives for farms to expand.

2.20 Only a small minority of those at the workshops expressed any preference for a 100% reduction rate or reductions of more than of 5%, though a number of commentators did moot a number of options centred on a scale of graduated reductions. Many of those supporting a 100% cap said small farmers were more deserving of support than large businesses. They suggested that large businesses enjoyed economies of scale, and that no business should require an annual subsidy or more than €150,000.

2.21 The Country Land and Business Association, the National Farmers Union and the Moorland Association said the minimum level of reduction should be applied. The Central Association of Agricultural Valuers agreed, and were concerned about the incentive a higher reduction rate could give to distorting farm structures. The RSPB and National Trust also agreed, the latter pointing out that a cap on their receipts would hinder their ability to carry out wider conservation, public access and engagement work.

2.22 The EFRA Committee agreed that setting a ceiling at a certain level might discourage businesses from expanding and might simply lead to those affected finding a way around it. However, the Committee also recommended that the rate of reduction for those receiving more than €300,000 in basic payments should be increased above 5%, and concluded that this would not necessarily unduly affect the largest claimants, nor prompt them to seek to reorganise their holdings. It would, in the Committee's view, provide extra funding to help deliver the Government's rural development policy objectives.

2.23 The Tenant Farmers Association accepted that payments above €150,000 should be reduced by 5% but asked that payments above €300,000 be scaled back by 100%

so long as the money saved was transferred into Pillar 2 and a lower rate of inter-pillar transfer was applied. They suggested that mitigating the amount of the inter-pillar transfer could be of significant, individual benefit to the 80% of claimants who receive less than €25,000.

2.24 The consultation responses did not show much interest in a middle ground. The issue appears to be one of principle: whether to apply a maximum cap on direct payments of €150,000, in order to restrict subsidies to those who are unlikely to need them, or to apply the minimum reductions possible, on the principle that successful, growing farms should not be penalised.

2.25 We have consistently argued that the direct payments system should not provide disincentives to farms from expanding if that is appropriate commercially for them to become competitive in the marketplace. Nor should we create unnecessary incentives for larger farms to split (which would also pose a challenge for the Rural Payments Agency to enforce the rules on artificiality). The EU regulation requires that we reduce basic payments above €150,000: we cannot make further or alternative reductions at a higher threshold such as €300,000.

2.26 On the basis of the arguments we have heard during the consultation, we have decided to operate the reduction scheme with the minimum level set out in the regulation – that is, 5% on basic payment amounts above €150,000.

Salary mitigation

2.27 We asked:

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.

Summary of responses, for those who addressed this issue	
We should not adopt salary mitigation.	328
We should not adopt salary mitigation, provided that the rate of reduction is applied at the minimum rate of 5%	48

Salary mitigation should be allowed.	200

2.28 The EU Direct Payment regulation offers the possibility of farmers providing information about salaries paid to workers engaged in agricultural activities and for these amounts to be left out of account before the amount of any reduction is calculated.

2.29 Two-thirds of respondents who expressed a preference said that we should not offer the option of salary mitigation, particularly if the rate of reductions is no greater than 5%. The same view was taken in the regional consultation workshops, where the complexity for farmers and for the Rural Payments Agency was recognised. Generally it was felt that the cost of applying and administering salary mitigation outweighed any potential benefit,

2.30 The Tenant Farmers Association and the Moorland Association did not support salary mitigation, owing to the administrative complexity. The Central Association of Agricultural Valuers accepted that the option of mitigation should not be offered if the reduction rate is set at the minimum as the amounts involved would generally be small and it would provide an incentive to distort farm structures. The RSPB and the National Trust also supported the option of not implementing salary mitigation, the latter only in the case that the rate of reduction is applied at the minimum.

2.31 The Country Land and Business Association was in favour of allowing mitigation, but suggested that the decision should not be made until more detailed implementing rules were available from the European Commission. The National Farmers Union, while recognising the administrative challenges, supported salary mitigation. They set out a possible scheme proposing that farmers requesting mitigation should make a declaration of their salaries related to agriculture in the preceding year. The British Institute of Agricultural Consultants argued that calculating and proving the salaries relevant to a farm business would not be problematic for the Rural Payments Agency or farm businesses, particularly on the grounds that real time information reporting provides the up-to-date cost of all salaries and wages for every business and these can be verified by HM Revenue & Customs. The Soil Association pointed out that organic farms requiring relatively large numbers of employees would benefit from salary mitigation.

2.32 We believe that there would be significant challenges in operating salary mitigation. Income tax records alone may not provide sufficient evidence that the salary costs are related to agricultural activity, and this could be particularly challenging where the businesses involved are reasonably substantial. It seems likely that contract labour would not be included, nor would family labour, adding to the challenge of classifying salary costs as eligible or ineligible. A control regime, including inspection of farm salary records, would be necessary to satisfy the European requirements, and to ensure that no ‘artificial’ arrangements had been created.

2.33 In view of the decision to fix the rate of reduction at the minimum allowed, and the widespread recognition of stakeholders that salary mitigation is an unnecessary complication at this rate, **we have concluded that we should not offer the option of salary mitigation**.

Redistributive payments

2.34 We asked:

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.

Summary of responses, for those who addressed this issue	
No to redistributive payments	382
Yes to redistributive payments	201

2.35 Of those who responded, 65% did not wish to implement redistributive payments. Common reasons given were that redistribution would artificially distort the market and would penalise efficient businesses, and would be bureaucratic as every basic payment would be affected. Some also argued that, unlike the system of payment reductions, this approach would not provide additional money for the rural development programme.

2.36 Those who favoured redistributive payments argued that support was necessary for small, often family-run businesses and this view also emerged in some of the regional consultation meetings. Respondents cited environmental and landscape value, challenging market conditions, and value to the uplands and to National Parks in particular as reasons to justify this support. Other respondents approved of recycling funds within Pillar 1 (in contrast, reductions transfer funds into Pillar 2). A small number of respondents wanted the Government to implement both reductions and redistributive payments (although our consultation ruled out this option).

2.37 Stakeholder organisations including the National Farmers Union, the Tenant Farmers Association, the RSPB, the Central Association of Agricultural Valuers, the British Institute of Agricultural Consultants, the Country Land and Business Association and the Moorland Association rejected redistribution for many of the reasons stated above, as did the EFRA Committee. The exception was National Parks England who felt there was a case for redistributive payments in national parks where over 70% of all holdings are under 50 hectares in size. They argued that redistribution would redress the likely loss of the Uplands Entry Level Scheme and subsequent likely overall reduction in payments. In their view, redistribution needed to be focused on active farmers and those who actively manage the land for conservation.

2.38 We made it clear in the consultation that we would not implement both a system of reductions and the redistributive payment, as being duplicative and too complex. Reductions will be simpler to implement (as far fewer farmers will be involved). In the light of the majority of responses, and particularly those of major stakeholders, **we have concluded that we should operate the reduction system, and not the redistributive payment**.

Active farmer test

2.39 The EU regulation introduces a new 'active farmer test', one part of which concerns the nature of the land (in particular, focusing on land which is 'naturally kept'), and one which prevents direct payments (and some Rural Development grants) being paid to businesses which operate any of the activities set out in a 'negative list'. The regulation specifies six activities in the negative list, but we have the option to add further activities.

2.40 We asked:

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.

Summary of responses, for those who addressed this issue	
The negative list should not be extended	368
The negative list should be extended	263

2.41 In total 631 respondents gave an opinion on this question. Many acknowledged the importance of, and conversely the risk of not, having clarity about the definition of the active farmer test, notably on the provisions on ‘naturally kept land’ and the minimum agricultural activity to be undertaken on such land.

2.42 A majority (368) of respondents favoured making no additions to the list. The main reason given was not to complicate further CAP bureaucracy. A number of stakeholder organisations including the National Farmers Union, the Country Land and Business Association, the RSPB, the Central Association of Agricultural Valuers, Federation of Young Farmers, and the Federation of Small Businesses took this position. Consultation responses also stressed the importance of giving farmers early clarity about how the active farmer test will work. Respondents (including the EFRA Committee) drew attention to the risk that some genuine farmers who had diversified their businesses might be caught by any extension, notably but not exclusively under provision of ‘real estate services’. The Wildlife Trusts were concerned that the test should not exclude those who farm land which requires extensive farming systems, to secure appropriate management of priority habitats and designated sites.

2.43 A minority of respondents (263) argued for additions to the list, and discussions in the regional workshops produced the greatest number of proposals. A number of suggestions were aimed at ensuring that only those who are genuinely engaged in agriculture – for example by producing food, or alternatively are delivering public goods such as environmental benefit – should receive direct payments. However, it is not clear that these objectives could be legally achieved given that the list must be based on specific negative activities. Some argued that charitable organisations should be excluded (the National Trust and the RSPB were among those mentioned by several respondents), but we see no reason why public subsidy should be restricted to for-profit farming businesses.

2.44 The Tenant Farmers Association argued that the test should be used to ensure payments can be received only by those who are in occupation of the land, in close management control of all activities on the land, and bear the entrepreneurial risk. This approach was supported by the EFRA Committee who made a similar recommendation. There was a parallel theme within the regional workshops that tenants farming the land of negative listed entities should remain eligible for direct payments. The EU regulation already provides elsewhere that in order to be the basis of a claim, a parcel of land must be ‘at the farmer’s disposal’ and this means, for example, that where there is a landlord-tenant relationship it is the tenant who is eligible to claim payment. We do not believe that the active farmer test as set out in the EU regulation could be used to introduce a test of ‘bearing the entrepreneurial risk’ – and that it would overlap with the ‘at the farmer’s disposal’ rule.

2.45 The EFRA Committee also recommended that the negative list should be kept annually under review, and extended to include any business type for which agriculture is not a significant activity and which receives direct payments.

2.46 Among the specific eligible suggestions were that the negative list should be extended to exclude energy and other utility companies and equine activities (for example ‘pony paddocks’, stud farms, and race courses).

2.47 The active farmer test is likely to be one of the more problematic parts of the new scheme to implement, and will impose additional administrative burdens on both farmers and the Rural Payments Agency. It is therefore important to keep it as simple as possible. **We have concluded that in the light of the views expressed in the consultation we should not make any addition to the activities set out in the negative list.** We will hold further discussions with stakeholder organisations on the administration of the active farmer test once the European delegated and implementing acts have been published.

Other decisions

2.48 In the consultation document we announced:

- We will use the option of 'rolling forward' Single Payment Scheme Entitlements into the new direct payments system;
- We will not use the 'Areas facing Natural Constraints' designation at the present time for the purposes of targeting direct payments;
- We will not reintroduce any system of coupled support;
- We will set the minimum claim size at five hectares;
- We will not operate the small farmers scheme.

2.49 Although the consultation document did not invite views about these issues, some comments were received. In general, stakeholder organisations welcomed the early certainty we have given, and either supported or did not oppose the decisions themselves.

2.50 The greatest number of comments concerned the decision to set the minimum claim size at five hectares. This was welcomed by the Tenant Farmers Association, the Central Association of Agricultural Valuers and Dairy UK among others. The National Farmers Union did not oppose it, though some members were concerned and NFU requested clear communications with those affected. The EFRA Committee also supported the decision. Nearly 40 written responses, mainly from individual claimants, environmental, heritage and rare breeds organisations expressed concern or opposed the change. The RSPB argued that holdings in the range one to five hectares were environmentally important and that removing access to a direct payment, and from the requirements of cross compliance, would result in these no longer being managed in environmentally sensitive ways. However, direct payments under pillar 1 are not designed primarily as a mechanism to deliver environmental benefits. Holdings will still be eligible for support under environmental land management schemes under pillar 2.

Further consultation

2.51 There are some important issues on which we could not develop proposals until the delegated and implementing acts had been published by the European Commission.

They were therefore not included in the consultation document. We will be discussing these issues with stakeholder organisations in the first quarter of 2014, and announcing further decision in due course. These issues include the way in which direct payments will be made for common land, the use of the national reserve, and further details of the ‘active farmer test’ including guidance about ‘naturally kept’ land and about the conditions under which claimants who potentially will be excluded by the negative list will be able to demonstrate that their agricultural activities are significant enough to justify readmission to direct payments.

3. Direct Payments: Greening

3.1 The rules concerning the new greening requirements are set by EU regulations. There are three elements: Crop Diversification; the maintenance of Permanent Grassland; and the need to establish Ecological Focus Areas on 5% of arable land. The consultation document explained that the Government had decided in principle that the broad approach to greening in England should be to adhere closely to the measures set out in the Direct Payments Regulation and not to enhance these measures through a National Certification Scheme (NCS). However, there is some flexibility in the Regulations where the Government has discretion over the detail of implementation. We sought views on how we could exercise those options. Our assessment of the views expressed and our decisions are set out in this Chapter.

3.2 The Government has discretion to implement greening through an NCS containing additional, equivalent measures. We 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. It was also likely to give rise to an increased risk of disallowance.

3.3 We asked:

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?

	Agree with suggested Government approach not to implement a National Certification Scheme	**Do not agree with suggested Government approach**	**Reply did not state whether agreed or disagreed, but contained other information**
Number	286	103	224

3.4 We received 611 responses. The majority of those that expressed a view agreed that the Government should not introduce an NCS. Of those who offered some additional comment, they argued in favour of the proposed approach because it is simple; un-bureaucratic and avoids unnecessary burden and red tape. Of those who did not support the Government approach, 69 appear to have been part of a campaign, writing along similar lines. About one tenth of respondents expressed a range of views about the implementation of greening more generally or expressed their opposition to it. A number of responses did not appear to have fully understood the limited nature of an NCS, expressing a belief that it could offer more flexibility than the EU rules allow.

3.5 Farmers who attended were generally supportive of a simple approach, but expressed a wide range of individual concerns about the greening measures. The Permanent Grassland measure was of concern to livestock farmers, in particular to those who did not realise that the Single Payment Scheme (SPS) was already operating with a control for permanent pasture. In addition, many livestock farmers thought that temporary grassland should not be classified as arable – again not appreciating that this was already the case under SPS.

3.6 Almost all those who supported the proposed approach did so with reservations over the impact and value of the greening practices. The Central Association of Agricultural Valuers recognised that there was no practical alternative to applying the default measures however little they offered. The National Farmers Union and Country Land and Business Association could see some advantage in an alternative approach if an NCS was simpler and more flexible. The National Farmers Union in particular had hoped an NCS could offer a way to address their concerns over the Crop Diversification measure. However, in light of discussions with Defra and the European Commission, and further reconsideration of NCS requirements, they had come to the conclusion that an NCS would be more complex and demanding. In addition the National Farmers Union were concerned that an NCS might be used as a mechanism for gold-plating.

3.7 Those who were advocating an NCS approach, fell into two distinct categories. Those who saw the NCS as an opportunity to make greening simpler and more straight-forward for farmers and those who viewed an NCS as an opportunity to increase the environmental benefits delivered by greening and thereby increase the value for money achieved by CAP funding.

3.8 The Tenant Farmers Association believed that the UK, having negotiated hard to secure the flexibility offered by an NCS, should then take advantage of that flexibility. They considered it would be possible to achieve both simplicity and improved benefits under an NCS approach; in particular they considered that it would give us the flexibility to offer ‘crop rotation’ as an alternative to ‘crop diversification’; noting that this would require the reintroduction of crop codes.

3.9 RSPB, Plantlife, Wildlife Link & Countryside and Wildlife Trusts were all supportive of an NCS, pointing out that the proposed approach would not deliver significant environmental benefits whilst an NCS could be tailored to environmental needs and thereby improve the environmental profile of farms. An example of the specific and focussed benefits that could arise from an NCS approach was provided by both Plantlife and RSPB who recognised that a NCS could make an important contribution to pollinators.

3.10 Advocates of an NCS approach accepted that there were concerns about gold-plating but felt that the potential benefits out-weighed this concern.

3.11 Most organisations and individuals who supported NCS also failed to account for the fact that an NCS would almost certainly have to offer the basic measures alongside any alternative ones. Providing more environmentally beneficial options through an NCS would have substantial cost and risk implications; with no guarantee that there would be significant uptake by farmers. In effect they may have over-estimated the actual level of benefits that would arise.

The right balance

3.12 We asked:

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?

	Agree that suggested approach strikes the right balance between environmental benefit and administrative cost	**Disagree**
Number	279	204

3.13 The majority of respondents simply agreed that this was the right balance between environmental benefits and administrative costs and did not add anything over-and-above their comments regarding taking the simple approach to greening.

3.14 Those that disagreed tended to focus on two issues. First, that the proposal to adopt a simple approach (no NCS) took insufficient account of the potential environmental benefits. All the main environmental stakeholders were concerned about this. Second that the costs of running an NCS would be no higher than those that arise from implementing the EU measures. Environmental stakeholders were unconvinced by Defra’s assessment of the costs of running an NCS. The RSPB, for example, believed that Defra’s approach to greening wilfully prioritises cost efficiency over cost effectiveness.

3.15 On the basis of the arguments we have heard during the consultation, we see no reason to change the approach we have taken. It is important that greening is implemented in a way that is achievable and manageable. While we recognise the potential environmental value of an NCS scheme, flexibility to introduce different measures is highly limited. Moreover, while it is possible to introduce wholly new equivalent measures with the Commission's consent, farmers have told us clearly that what they want in the short term is certainty, to enable them to plan ahead. Even if we were to introduce additional measures through an NCS, farmers would still be able to choose between the basic measures and equivalents. Conversely we would still have to ensure all the measures in an NCS could be controlled and monitored. Overall, **we see no compelling argument to abandon the approach set out in the consultation paper and reconfirm our decision not to introduce greening though an NCS in England**. The House of Commons EFRA Committee's Report on the Implementation of the Common Agricultural Policy in England 2014-2020 supported the Government's conclusion that the disallowance risk of implementing greening through the NCS approach is too great.

3.16 Although not directly a part of this consultation, a number of comments were received about the individual measures, as below.

Crop Diversification

3.17 The crop diversification measure (requiring farmers to grow a certain number of crops dependent on their size) attracted particular criticism because of the adverse impact on small farms and for those who used contractors. Those opposed to the measure tended to express a preference for increased thresholds. A significant number of individuals who were using contractors argued that the additional crop requirement would increase costs to farmers and force a restructuring of businesses to accommodate the new rules. Few could identify environmental benefits to be derived from this requirement. These views were largely reflected in the the House of Commons EFRA Committee's Report on the Implementation of the Common Agricultural Policy in England 2014-2020 and invited the Government to seek a review of the EU requirement at the earliest opportunity.

3.18 At the stakeholder events, the crop diversification measure was of most concern to arable farmers, particularly in relation to specialist croppers, those who grew continuous wheat and those who used contractors for all their arable operations. Arable farmers were also concerned about the lack of clarity regarding the definition of EFA options.

3.19 In particular the National Farmers Union and Country Land and Business Association have challenged Defra's analysis on the impact of the crop diversification requirement, asserting that we underestimated the number of farmers affected. Our assessment was wholly based on the cropping patterns recorded by farmers as part of

Defra's June 2010 agricultural census. The 2010 census collected data on the cropping patterns of 73% of commercial English farms3. As our assessment covers all commercial farm businesses, it will be more reliable than considering the impact on individual organisations' membership, which is likely to be the basis of stakeholders analysis. It may be the case; however, that cropping patterns have become less varied compared to 2010, and continue to do so in future. More recent data, for example, from the 2013 June survey, was not used as 2012 was considered to be a very atypical year owing to the exceptional weather. Also, more recent surveys only sampled around 30% of farms, much lower than the 2010 census.

3.20 The European Commission has made clear that it is not possible to replace the crop diversification requirement with an option to undertake an additional Ecological Focus Area requirement, a way forward favoured by the NFU and some individual respondents. Our conclusion is that, whilst there may be differing views over the number of farmers who may find this measure challenging, there is no alternative way forward.

Permanent grassland

3.21 Concerns were expressed about the permanent grassland measure, which prevents the conversion or ploughing up of designated environmentally sensitive grasslands in Natura 2000 sites. There was a clear preference for this measure to be implemented at the national (rather than farm) scale by those who commented, including in the House of Commons EFRA Committee's Report on the Implementation of the Common Agricultural Policy in England 2014-2020. The environmental-focus organisations do not contest this. A major concern throughout the discussion on greening has been the risk of farmers ploughing up their grasslands for fear of new restrictions at farm level. **Therefore we are taking the opportunity to announce now that this measure will be implemented at the national level**.

3.22 Opinion is more divided as to whether the Government should further designate sensitive grasslands. More work needs to be carried out to assess the merits and the costs of such designation. We will therefore postpone a decision to allow further discussion with stakeholders and delivery bodies.

Ecological Focus Area (EFA)

3.23 The Government has some discretion about the range of options farmers can choose from to establish Ecological Focus Areas on 5% of arable land. It can chose to

[3] The cropping patterns for the remaining 27% were estimated based on previous survey returns and changes recorded on farms of similar types and sizes.

allow all of the options set out in the Direct Payments Regulation, or select a reduced number of those options.

3.24 We asked:

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?

3.25 The majority of respondents were in favour of allowing either the maximum number of options for EFA or a large number of them. Where views were expressed about the options to be included it is not always clear that these would be to the exclusion of others or whether these were ones the respondent preferred either because they could personally fulfil them or believed they were particularly beneficial.

3.26 Those who felt that the balance between environment and administrative cost was right (primarily farmers and industry stakeholders) also tended to want the greatest flexibility and choice over EFA options. This view was also evident from farmers at the grass-root consultation meetings. The National Farmers Union, Country Land and Business Association and Central Association of Agricultural Valuers were clear that English farmers should have access to the same range of EFA options that would be available to other European farmers. English Heritage were in favour of the inclusion of landscape features – provided that the broadest definition was applied to this category. There were also some suggestions for additional EFA options that do not appear in the Direct Payments Regulation. The House of Commons EFRA Committee's Report on the Implementation of the Common Agricultural Policy in England 2014-2020 draws attention to the need for accurate mapping to support correct implementation of the EFA requirement.

3.27 An alternative view was expressed by those who felt that the proposed balance between environmental gain and administrative cost was wrong. They tended to prefer a more restricted list of options, determined by environmental benefit. Areas with nitrogen fixing crops, areas with catch crops or green cover, afforested areas, and short rotation coppice were seen as having less environmental merit. Both the RSPB and the Wildlife Trusts emphasised the link between additional management for environmental benefit. Wildlife Link & Countryside and the Wildlife Trust advocated the use of the more precise and targeted options included in the annex of equivalent EFA options.

3.28 A key area for debate was around the inclusion or otherwise of nitrogen fixing crops. Farming interests were very keen to retain this as an option, to ensure that they were treated on a par with other European farmers and to give them a “cropping” alternative that meets the EFA standard. The RSPB, and others, consider that the mass flowering of agricultural plants such as nitrogen-fixers makes a contribution to pollinators during the flowering period but that the rest of the growing season is more important to pollinator success.

3.29 As part of our consideration of the EFA options we are reviewing our estimates of the biodiversity benefits of EFAs and the constituent options. Our initial estimates, reported in the CAP evidence paper published alongside the consultation, we believe are likely to have overestimated the value of biodiversity benefits arising from the EFA requirement.

3.30 We are reviewing alternative evidence on the biodiversity benefits of set aside/field margins to see if we can improve our understanding of EFA benefits on biodiversity.

Pollinators

3.31 The House of Commons Environment, Food and Rural Affairs Committee (the EFRA Committee) in its Report of 3 December on the Implementation of the Common Agricultural Policy in England 2014-2020 invited the Government to seek ways to use greening to address the decline in pollinators by encouraging the growing of pollinator-friendly crops, but notes that this must not be to the detriment of options available under Pillar 2 Agri-Environment Schemes.

3.32 The majority of suggestions for easily-adopted EFA options with a high likelihood of uptake and which are beneficial to pollinators included the following: buffer strips, nitrogen-fixing crops, fallow land, agro-forestry, management of landscape features. The most popular suggestion was buffer strips. However, the Wildlife Trusts and RSPB felt that the basic EFA options were inadequate for pollinators unless there was a guarantee of enhanced management – which, they felt, could best be achieved under an NCS or with involvement of Campaign for the Farmed Environment (CFE).

3.33 There does appear to be a degree of consensus that the EFA measure could deliver higher benefits if advice resulted in better choices and additional voluntary actions. This action could be directed to benefit pollinators. The National Farmers Union in particular promoted the capacity of the CFE to support farmers to maximise environmental gain by supporting the best alignment of greening, NELMS and voluntary environmental measures.

3.34 We are proposing therefore to make the selection of the full list of EFA options after further discussions with stakeholders and further analysis to determine whether advice and voluntary actions will provide sufficient benefits to allow Government to select a full list of EFA options and how pollinators could be included in that.

4. Cross compliance

4.1 The term ‘cross compliance’ refers to the requirement for farmers to comply with a set of a 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 We asked:

> **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?**

and

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

4.3 The first question focussed on GAECs as a whole, asking if any of the current measures should not be carried forward in the new CAP. The question was intended to be broad in scope, in order to enable respondents to articulate their views and opinions. We received 322 responses, of which 213 said that they thought current GAECs should be carried forward and included from 2015. The second question focussed on elements within current GAECs, asking if any of the current measures should or could be changed or implemented better in the new CAP. Again, the question was intended to be broad in scope, in order to enable respondents to articulate their views and opinions. We received 382 responses, of which 119 said that they thought elements within current GAECs should be carried forward and included from 2015. For the two questions a total of 372 responses commented on other aspects of GAECs. The regional consultation workshops did not focus on the cross compliance questions.

4.4 In many cases there was a contrast of views in the responses to both questions. Farming organisations tended to support discontinuing or reducing GAEC requirements in order to reduce burdens on farmers. Environmental and heritage organisations supported retaining or strengthening these GAECs to increase environmental or societal benefits. In particular strong views were raised supporting and opposing the Soil Protection Review (SPR), Public Rights of Way, Hedgerow Cutting and Environmental Impact Assessments. There were a number of comments from members of the general public both supporting and opposing various GAECs.

4.5 On the use of GAECs in the new CAP, the majority of the responses thought that existing GAECs should be carried forward. However, even when generally supportive of the GAECs, there were some respondents expressing the view that the measures were too bureaucratic, difficult to implement and that they needed to be simplified.

Some respondents suggested new GAEC requirements were needed, for example to encourage pollinators.

4.6 A number of respondents also argued that in some cases GAECs were covered in law and they did not need to be included in cross compliance as well. The National Farmers Union considered that the following GAECs should not be carried forward: control of weeds, felling of trees, tree preservation orders, scheduled monuments, public rights of way and Environmental Impact Assessment (EIA). A minority of respondents considered that GAECs should be scrapped in their entirety.

4.7 Of the 372 responses which commented on particular aspects of the GAECs, 50 responses related to the Soil Protection Review (SPR). The majority of these questioned the value of the SPR GAEC. Responses questioned why it needs updating each year as it rarely changes, and noted that many see it merely as a paper based exercise with little impact.

4.8 A total of 42 (out of 372) responses were concerned about hedgerows and woodlands. Views were divided. The Country Land and Business Association and National Farmers Union said that there should be no changes in respect to the hedgerow GAEC, in particular no changes to trimming dates. Others noted that hedgerows are protected by legislation and questioned why they should be covered by GAECs. The RSPB noted that a change to the hedgerow GAEC trimming dates needs to be extended to be in line with the English bird breeding and rearing season. The National Trust supported this view. Some felt that there were too many badly cut hedges and that the protection and enhancement of woodlands and hedgerows should be specifically incorporated into GAECs.

4.9 Thirty (out of 372) responses commented on the current GAEC 13 (Public Rights of Way). Most of the responses favoured continuation and many comments highlighted that farmers must continue to ensure public rights of way are maintained, kept in good condition, and re-instated quickly. Additionally, the point was made that farmers must abide by the CROW Act 2000 and this should be inspected more rigorously. A number of organisations, such as the Cornwall, Hampshire, Sussex and Leicestershire Countryside Access Forums, and The Ramblers were in support of the public rights of way GAEC. There was also significant support for this from members of the public. The National Farmers Union and Country Land and Business Association considered that this should not be carried forward.

4.10 Views were also divided in respect of the scheduled monuments GAEC. The National Trust and English Heritage noted that they would support an extension to the current requirements, to include undesignated but nationally important archaeological landscape features. 10 responses were received from groups such as the Dartmoor National Park Authority, National Parks England, Devon County Council, and the Association of Local Government Archaeological Officers highlighting the necessity and importance of adding in high importance nationally important undesignated archaeological sites. The National Farmers Union opposed this.

4.11 The National Farmers Union and Country Land and Business Association also did not support the carrying forward of the Environmental Impact Assessment (EIA) GAEC. The Moorland Association and the Royal Society for the Protection of Birds (RSPB) both considered that the EIA GAEC should be carried forward. Many respondents were of the view that the 2 hectare minimum currently applied should be lowered to 1 hectare or that there should be no minimum size restriction on the grounds that at present it is not sufficiently beneficial for habitats and wildlife.

4.12 A number of responses were received in relation to other GAECs and cross compliance in general. We will consider these responses carefully and in more detail as we develop our position on cross compliance. We will therefore consult further with stakeholders and organisations on GAECs early next year. These further detailed discussions will cover each GAEC in more detail, assessing which requirements we will keep, which requirements need to be amended, what each requirement will cover. This will include an assessment of the impact of potential changes to cross compliance GAECs in 2015, assessing tensions and trade-offs between regulatory and administrative burden on farmers and inspection agencies, and environmental and societal benefits. Alongside this we will run a consultation specifically on the Soil Protection Review looking at potential new processes for implementing the requirement from 2015.

5. Rural Development Programme

5.1 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.

5.2 We asked for views on the new Rural Development programme which are summarised below. We have provided a substantive response where we can at this stage. We will respond on other points as part of the further Government response in early 2014.

Lessons Learned from the Current Rural Development Programme

5.3 We asked:

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

5.4 We received 642 specific responses to this question. Other responses did not explicitly address this question, but made general points linked to it. We have incorporated these responses, and those received from the regional consultation workshops, into the analysis below.

5.5 A number of respondents highlighted the environmental land management and Catchment Sensitive Farming schemes as being particularly successful. In particular, both the Entry Level Scheme (ELS) and Higher Level Scheme (HLS) were seen as important for farmers as ELS was an "open to all" scheme and incentivised farmers to improve the natural environment, and HLS provided an effective and targeted approach to delivering biodiversity and other environmental priorities. The English Woodland Grant Scheme was also generally well regarded. The importance of good quality advice in supporting environmental land management schemes was also highlighted to help ensure environmental outcomes were understood and land managed effectively.

5.6 There were mixed views on the success of newer socio-economic schemes, implemented following the move from delivery via Regional Development Agencies (RDA) to Defra. There was significant interest in, and uptake of, the small and large grant schemes, the Farm and Forestry Improvement Scheme (FFIS) and Rural Economy Grant (REG). Demand for these schemes was high and they provided a nationally consistent approach. Smaller grants to improve farm holdings and larger grants to encourage lower water and energy use were highlighted as good examples of this kind of support. Others, however, considered that it sometimes lost local relevance and did not target specific areas adequately. There were also concerns over delays in approval. A number of the RDA schemes, in particular the South West Healthy Livestock Initiative, were seen as good practice exemplars on which to build.

5.7 It was considered that the skills framework was built on a clear evidence of need as set by the Agri-Skills forum, but there was some criticism that the way the framework was delivered was confusing and resulted in overlap between lots so that it was difficult to know where to go to find appropriate training.

5.8 There had been difficulties in implementing the Rural Community Broadband Fund, in part due to complexity and the focus on fibre-optic networks, rather than other potential ways in which broadband could be delivered, such as via satellite and wi-fi, but also in identifying "not" spots.

5.9 There were also mixed views on the success of the LEADER approach:

- Some felt that LEADER has helped generate new ideas to help businesses and rural communities and develop multi-functional resources and services to enable communities to both interact and grow. Many LEADER groups noted that they were already delivering jobs and growth;
- Where LEADER has had a role in delivering support to the farming and forestry sector (particularly in the North West) this has been well received;
- Others, however, felt that spend, particularly on cultural and social activity was not the best use of public funding;

5.10 There were a number of practical suggestions for improving the way the programme has been delivered:

- Improve the application process, both in terms of the time taken to apply for and consider applications, and the simplicity of processes and guidance;
- Engage closely with stakeholders and potential applicants on the design of new schemes or grants;
- Retain, in particular, trusted advice and expertise to support the programme within Defra and its delivery bodies, and balance this when deciding on the level of administrative resources required to deliver schemes;
- Ensure continuity between programmes so that expertise and good practice developed under the current programme is not lost;
- Build on local and sub-regional approaches that have worked well, in particular the Rural Growth Network approach;
- Ensure that there is a clear balance between national consistency and local delivery through the new Local Enterprise Partnership (LEP) approach, building on the lessons learned from regional delivery via the RDAs and national delivery via schemes like REG and FFIS.

5.11 We will issue a response to these issues in early 2014. As we develop the schemes, and our approach to both LEADER and the ESIF Growth Programme

over the next year, we will want to test their implementation out with both interested parties and potential applicants.

Evidence and assessment of need for the new Rural Development Programme

5.12 We asked:

> **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?**

5.13 We received 535 responses and 339 responses to these questions respectively. Some respondents provided responses which relate to the handling of evidence when answering other questions in the consultation. We have incorporated these views here.

5.14 Overall responses varied. Around 21% of those who answered the question were satisfied with the assessment we provided. Others focused on the need for the scheme to provide greater support for particular activities to support Environment, Growth or Farming and Forestry Competitiveness and / or LEADER delivery without providing specific comments on the needs assessment.

5.15 The lack of funding available for, and challenges faced by, high nature value farming (HNV), particularly in Upland areas, was a particular focus for the National Farmers Union, Wildlife Trusts, the National Trust and others. The need for crop, animal and plant insurance due to the impact adverse events can have on productivity, profitability, and sustainability was also highlighted by other respondents.

5.16 Some responses questioned the inclusion of particular areas. The National Farmers Union were not convinced the case for funding woodland supply chain activity was strong enough and should be left to the market. The RSPB and others were not convinced that public funding to support innovation was justified, where private sector funding and other public funding available through the Agri-tech Strategy were sufficient to support this activity. The Country Land and Business Association, the National Farmers Union and others also questioned the need for investment in broadband where other incentives or public funding sources, including European Regional Development Funds (ERDF) existed.

5.17 Overall only a few responses made substantial referrals to pieces of economic, social and environmental evidence that they felt were not already covered in the analysis. These included detailed consideration of the Energy Crops scheme, forestry sector support and projects to support grain storage. In general, responses tended to provide a high level description of issues in rural areas that should be supported without providing additional evidence to support this.

5.18 There were two broad themes running through the responses:

- The need to ensure rural proofing and broader coverage of socio-economic issues such as the need to support social housing, broadband, transport, and rural service provision;
- A call for greater use of sub-national and local level data sets / evidence through sources such as ACRE to incorporate more spatially specific analysis.

5.19 A number of key issues were raised regarding evidence gaps in the need to support RDPE and the Impact Assessment. These high level issues are outlined below:

- A general lack of evidence on HNV benefits;
- A lack of robust data for the monitoring and evaluation of current farming and forestry competitiveness and socio-economic schemes;
- Questions over how the costs of applications for RPDE grants have been calculated;
- Several references to a broader body of evidence on the benefits of agri-environment schemes, including socio-economic benefits;

5.20 The responses we have received confirm our view that the current Rural Development Programme has delivered good value for money overall and the new programme has the potential to improve this through better targeting.

5.21 The Rural Development Programme is a complex programme and evaluation is inevitably challenging. We were very upfront in the Impact Assessment in recognising that the evidence of impact is more robust for some parts of RDPE than for others. For agri-environment and LEADER in particular we have had good evidence for quite some time that RDPE has delivered good value for money.

5.22 Newer farming and forestry competitiveness schemes were only introduced from 2010, so evaluation evidence is inevitably thin. The benefits associated with key farming productivity and socio-economic interventions can also be hard to assess because of the difficulty in separating the effect of spending from background factors. However the evidence keeps improving as more evidence becomes available. For example DCMS have recently published better estimates on the impact of rural broadband.

5.23 We also have broader evidence on the impacts of farming competitiveness interventions which makes us confident that significant benefits could be achieved through support for farming innovation and knowledge exchange (helping embed the potential benefits from the Agri-Tech strategy), supporting business, marketing and technical skills , cooperation between businesses and across the supply chain, farm resource efficiency and animal health and welfare. There is also a case for supporting woodland supply chain, helping bring more woodland into management while delivering a range of public goods.

5.24 Overall the evidence available is sufficient for us to make an informed high-level decision on the size and shape of the programme. However, we also commit to:

- **continue to improve the evaluation evidence of the current scheme and ensure that it keeps feeding into the design of the new programme, including through a major Axis 1 and 3 beneficiary survey recently commissioned to consultants Ekos which will report back in the new year;**
- **reflect additional evidence – including from consultation responses – in a revised Impact Assessment, setting out specific schemes and the rationale for intervention in specific areas in more detail in spring 2014;**
- **develop an improved monitoring and evaluation framework for the new Programme;**
- **look at how the new Programme might address the environmental benefits that High Nature Value farming systems and High Nature farmland can provide. We will also be developing an indicator to be able to measure more fully the impact of the new Rural Development Programme on High Nature Value farmland.**

Prioritising investment through the Rural Development Programme

5.25 We asked:

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

5.26 We received 533 responses to this question. 46% of respondents felt that the areas outlined were the right ones, with around 20% of respondents agreeing and around 26% broadly supportive. Of the latter, some respondents answered that they were generally content but added caveats or set out areas where it was really important to focus funding. These included placing more on: energy production; water and soil protection; and quality of life in rural areas to help addressing disparity between urban and rural areas.

5.27 Around 6% of the respondents considered that the areas set out were not right. They either felt we should focus only on the Environment, Productivity or Growth or felt variously that CAP funding should only go to farmers or that the CAP should be scrapped. 21% of respondents suggested that some areas were the right ones but others were not. These included a number of respondents who felt that the programme should be focused only on specific priorities. Around 25% of respondents did not answer the question directly, but did offer some suggestions for priorities for the programme. 3% of respondents were either not sure or their response was that they had no comment, no opinion or did not know.

5.28 Other respondents suggested that it was important or more important to focus funding on areas they felt had not been included in the areas that had been set out:

- native breeds and farm animal genetic resources;
- access, landscape and historic environment activity;
- more or better rates of funding for Upland, young and organic farmers;
- basic services and local infrastructure for rural communities;
- support for villages to set up their own energy generation;
- food supply chain activity linked to agriculture;

5.29 A few respondents felt that the following should not be priorities including: innovation, knowledge transfer and advice which could be left to the market to intervene; sharing of good practice which could be better achieved via collective action, membership groups and bringing rural businesses together; broadband; and rural tourism, where there was a concern that support had led to saturation in certain areas.

5.30 The responses we have received suggest that the areas for focus we have developed for the new Rural Development Programme are the right ones. Within this Chapter we respond in more detail on the focus for these three areas: Environment, Growth and Productivity. Chapter 6 sets out in more detail how we propose to break down funding between Environment, Productivity, the Growth Programme and supporting the LEADER approach.

Targeting investment to gain the maximum value for money

5.31 We asked:

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

5.32 We received 543 responses to this question. Respondents put forward a number of suggestions which we have captured below:

Suggestions for areas in which to target investment:

Farming competitiveness and forestry productivity

- Strengthening of skills, for knowledge transfer and information;
- Advice to help compliance with regulations;
- Research looking at boosting food production;
- On-farm improvements and agri-technology to support the farming sector;
- Capital grants for agricultural production facilities or equipment to improve efficiency and precision farming;
- Strengthening of food chains, with a focus on short supply chains and local markets and on cooperation between the food, retail and tourism sectors;
- Woodland enterprise supply chain and deer management and venison supply chain activity

- New or diversified crop development that takes into account climate change;
- Targeted support for smaller farming units;
- Adoption of innovation and best practice on farms or woodland areas;
- Support for young farmers or for farmers to retire;
- Investment in water resources and infrastructure to help the wider rural economy;

Environment
- Better targeting to support wildlife and the environment;
- Resource protection, including soil erosion and water quality and addressing Water Framework Directive requirements;
- Increased woodland creation and management;
- Organic farming;
- Support for Upland dairy, beef and sheep farmers;
- Effective pest and predator management;
- More open access land, particularly for horse riders and walkers;
- Native breeds and farm animal genetic resources;

Growth
- Business support, both for start-ups and to existing businesses to support growth, particularly for SMEs and social enterprises;
- Provision of workspace or of incubation space for start-ups;
- Diversification in rural areas, including adding value to farm products to help increase the on-farm workforce;
- Marketing to support the use of locally grown produce in local towns;
- Opportunities and training for young people in rural areas, including apprenticeship schemes on-farm;
- Outreach of broadband to all rural communities;
- Community hubs in rural areas to enhance inclusion in rural areas;
- Social activities accessible to a wide socio-economic range in rural areas.

5.33 Some respondents provided suggestions for better join up to help ensure better targeting of investment. These included:

- Ensure there is good alignment or synergy between farming productivity and competitiveness and growth in local areas delivered through LEPs. Consider using LEPs to deliver both;
- Use other Growth Programme funding alongside Rural Development Programme funding to support business creation, improvement, skills and business incubation space and rural services and infrastructure;
- Strengthen the links between the environment and economy by better linking other local or sub-regional partnerships (Local Nature Partnerships, Rural and Farming Networks, Rural Growth Networks, AONB partnerships and Rural Community Councils), local, district and parish councils and LEADER groups;
- Utilising expertise from non-governmental organisations.

5.34 Some respondents provided suggestions for ensuring better Value for Money is delivered through the programme. These included:

- Allocate funds only where there is a public good or market failure rationale;
- Undertake cost-benefit analyses of the schemes that are put in place;

- Build demonstration of Value for Money into scheme design, including where that extends beyond the main beneficiary;
- Only fund activity for businesses that have clear business cases; or where such an approach or idea could be shared more widely; and support job creation only where it creates good quality employment opportunities;
- Ensure applicants can demonstrate where funding can reduce deadweight and displacement;
- Put in place better monitoring and evaluation of the programme.

5.35 Some respondents provided suggestions that relate to how the scheme is administered under this question. We have tried to capture these points under these questions.

5.36 We cover this issue as part of our responses on individual parts of the Programme in this Chapter and in Chapter 6.

Simplification, bureaucracy and accountability

5.37 We asked:

> **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?**

5.38 We received 533 responses and 461 responses to these two questions. In general respondents were keen to re-emphasise the need for simplifying the schemes and the application process as a whole. Many respondents also said that they would like decisions to be made more quickly, particularly for current REG and FFIS schemes. Catchment Sensitive Farming capital grants were generally seen as good practice in this respect, as were other non-EU funds such as Awards for All, the Key Fund, the Heritage Lottery Fund and Arts Council schemes. The need for a simpler (or common) application process, with information provided in Plain English and guidelines that are simple and easy to follow was also set out. Linked to this was the need for a good awareness of what is available across the programme.

5.39 A good quality IT system for applicants to use was seen as important, in particular a good quality GIS system integrated into the rural land register to help digitise land and a common platform setting out funding opportunities available for all to apply for.

5.40 A small minority advocated simplification through online only methods. However, there were clear views that not all services could be digital only, particularly in rural areas with very poor broadband and mobile phone coverage.

5.41 As noted in the lessons learned response, a number of respondents highlighted the importance of getting good advice to support applicants throughout the application process particularly for woodland and agri-environment schemes. Agents or consultants could also be provided with guidance to help applicant and drop in sessions could be set up in rural areas to help beneficiaries without IT skills to complete the application process.

5.42 We received a wide range of suggestions for simplifying the process and reducing bureaucracy. We have listed below a selection of these areas to illustrate the views of respondents:

Suggestions for simplification:

- Provide clear guidance, step by step instructions, rules and flow charts for applicants to help them navigate the process;
- Set out a clear timescale for the application process to show when applications will be processed or further information required;
- Put in place a staged application process with a pre-application or Expression of Interest phase and a more detailed full application;
- Ensure there is a balance between the application process and the resources required by potential applicants to apply;
- Reduce the number of prescriptive requirements for multi-annual agreements;
- Simplify or reduce the number of options available for applications to a more manageable level for environmental land management schemes;
- Use photography for monitoring or inspection of land management schemes;
- Only approve payment when work has been completed;
- Be proportionate in asking beneficiaries for monitoring data;
- Make schemes open only to one entity, not to one business operating under multiple names or farms;
- Set the threshold for three competitive quotes at a higher level (e.g. £10,000) for capital items or reducing the number of quotes required;
- Remove checks and counter checks before LEADER grants are approved.

5.43 Some respondents considered that it was important to retain the need for a business plan, farm environmental or forest management plan as they believed that the plans were essential for driving forward the work required and ensuing the relevant outputs and outcomes were achieved.

5.44 Some thought that the accountability arrangements were fine currently as they were and reemphasised the importance of maintaining accountability. A number of local authorities felt that they could perform the accountable body role for all or part of the RDP programme, but a number also cautioned against placing too stringent accountability requirements on them.

5.45 Suggestions for how we ensure clear accountability of funds included:

- More transparency: publishing information on what had been funded or who had received funding, and projects that had been rejected and reasons why;
- A rigorous audit trail that is integrated into the system with regular independent auditing;
- Making beneficiaries personally responsible for incorrect spend and ensuring they have to pay back any funding that has been incorrectly spent;

- Putting in place very clear deterrents for fraudulent applicants;
- Putting in place a short but effective appeals process;
- Ensuring that the three quote tender process is robust and not open to abuse;
- Making it clear how long paperwork must be kept by beneficiaries;
- Via inspection and random checks
- Establish clear eligibility and selection criteria.

5.46 Finally a number of practical suggestions were made to help maintain a balance between accountability and simplification:

- Remove the need for paper copies of receipts, invoices or paperwork;
- Do not require receipted invoices or bank statements and look at other ways of demonstrating actual spend, e.g. photographs of completed work;
- Provide clear templates for those applying for funding and clearer details and definitions of the evidence required for claims;
- Relate the frequency and level of audit to the levels of grant funding;
- Put trust in accountability over the application and claim process in local authorities and LEADER groups.

5.47 We will take the opportunity to simplify processes where EU legislation allows and will aim to make processes as simple, effective and affordable as possible while minimising disallowance. We are grateful for the suggestions received and will consider whether we can implement a number of them whilst recognising the need to minimise disallowance.

5.48 One of the tenets of the new CAP Delivery IT system is that it applicant information will be common across the CAP and this should save applicants having to provide duplicate information, and enable them to use scanned copies of invoices and bank statements. The CAP Delivery system will implement a 'digital by default' approach, with the design principle being that the customer or applicant is in control of their information. This should mean streamlining the application process and making payment of claims simpler. We are also implementing an assisted digital offer to ensure those who do not have access to broadband or IT can be supported to apply. We are already testing out the new IT system with beneficiaries to help get ensure customers find it easy to access and use.

5.49 As we develop schemes further we will want to work with our key interested parties and indeed with potential applicants to test out the approaches to application and the scheme requirements we put in place, including reporting and monitoring requirements.

The role of loans

5.50 We asked:

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

5.51 We received 386 responses to this question. Views on the introduction of financial instruments were split among respondents. A number of respondents clear support for financial instruments or loans. This was because it was considered that:

- They offer a way to provide funding in areas of investment less well served by conventional resources or for riskier projects that tested out new approaches;
- They could provide a means to help farmers who may not have significant levels of capital but where investment could help them to expand or diversify;
- They could help reduce reliance on grants and focus businesses on the long-term sustainability of their business(es), and increase the applicant's sense of ownership of and responsibility for making the project work;
- There was a gap in the offer banks were currently providing to communities;
- Setting up financial instrument or loan schemes could also help to make Rural Development funding go further, through recycling of funds, and lower uptake with those firms willing to take a risk or invest in change, and greater freedom and flexibility in the use of funds than more traditional grant routes.
- They could build on good practice elsewhere, including for example the Fresh Start Loan Fund model in Cornwall. Applicants to this fund had to demonstrate that traditional lenders had refused to support their applications.

5.52 A similar number expressed some concern or resolute opposition to the idea of using loans. This was because it was felt that:

- There was not a gap in the offer banks currently provide to farmers, and farmers generally were unlikely to consider taking them up;
- Those considering loans should look to private sector investment;
- Loans could lead to default and financial failure and could waste public funding unnecessarily;
- Loans are too complicated to administer and too costly to manage;
- Grants are preferable, as some level of "match" is still needed to show ownership and willingness to commit to the project.

5.53 Those who expressed concern for introducing loans set out the steps that would be required prior to implementing them. They would need to be carefully researched, administered and monitored through potentially complex financial systems. Appropriate interest rates would need to be set out and the constraints and guidelines set out clearly to ensure funding was spent wisely.

5.54 A number of suggestions for what financial instruments might be used for were provided. Potential areas included:

- Support for start-ups and businesses wanting to change and grow;
- Support for new entrants to help encourage younger and tenant farmers to work in agriculture;
- Business ventures that require initial capital in order to deliver long-term benefits (e.g. for building an on-farm reservoir) or to improve infrastructure;

- The establishment of nature focus areas;
- Buying and maintaining land or equipment, including second-hand equipment;
- Community ownership models to support renewable energy or electricity generation, infrastructure or resources (pubs, shops or multi-use buildings);
- Help to alleviate short-term cash-flow issues or pump-prime investment.

5.55 Potential conditions of use or flexibilities linked to this included:

- Start with a trial or small incentive based on business plans;
- Encourage mutuals and banks to have agricultural experts who understand the issues confronting the community;
- Apply similar principles to those for first time home buyers or student loans;
- Offer a low or 0% interest rate or lower rates linked to green business plans;
- Offer flexibility in terms of repayment holidays, deferred payment in seasons with abnormally low production, or longer pay back periods.

5.56 We recognise the potential benefits of introducing loans or other financial instruments alongside more traditional grants. We will continue to look at the benefits of introducing a loan and will consult informally with relevant experts and stakeholders before coming to a final view.

5.57 Other EU funding programmes (e.g. the European Regional Development Fund), are also considering how to provide loan support based on their experience of their current programmes. Therefore, we will ensure that there is a co-ordinated and consistent offer to target businesses that works alongside those provided by the EU funds.

Environment: Restoring, preserving and enhancing our natural environment

5.58 As part of the consultation, Defra asked about proposals for a new environmental land management scheme to address our environmental priorities. The new scheme would, from 2015, bring together a number of existing schemes into a single integrated scheme, building on and enhancing the current Environmental Stewardship (ES), English Woodland Grant Scheme (EWGS) and Catchment Sensitive Farming (CSF).

5.59 The new scheme would contribute to meeting our Biodiversity 2020 goals, and give greater priority to soil and water management, in particular the Water Framework Directive, compared to the current Environmental schemes. The scheme would also continue to support options for investment in the historic environment, on-farm education, genetic conservation and would look to promote landscape scale change. There would be no separate strands for organic production or uplands, but management options appropriate for these farming systems would be included in the scheme.

Proposed structure for the new environmental land management scheme

5.60 Due to existing commitments under Environmental Stewardship and the English Woodland Grant Scheme that will stretch well into the next Programme, the budget headroom to pay for agreements in the new environmental land management scheme will increase only gradually in this period, as existing agreements expire. We therefore need to look for maximum opportunities to achieve multiple benefits through the same investment, or through landscape scale projects that deliver multiple benefits. Through such an ‘ecosystem’ approach, the new scheme would be focussed on areas that offer better opportunities to secure these outcomes.

5.61 We asked:

> **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?**

Scheme structure

5.62 We received 593 responses to this question. It elicited a wide range of narrative responses. The table below outlines the number of responses received and how they have been categorised:

	Positive or supportive	Negative or unsupportive	Unclear/ undecided/other
Number of responses	329	112	152

5.63 There was a mix of general responses on the proposed new structure, but the majority included views on the specific topic of the landscape scale approach. There was a majority in favour of the overall outline for the new scheme. There were a number of positive references to the proposed new scheme’s ability to support the Lawton Principles. There was general support for the single scheme concept (often described by respondents as “merging the schemes”) making things simpler.

5.64 On the other hand some respondents did not feel able to make a fuller response because they felt there was a lack of information in the public domain about how the new scheme was intended to operate in practice.

5.65 A lot of respondents whether for or against the change expressed concerns on various aspects in particular the risk of complexity in the mid-tier and the challenge that would be posed in trying to coordinate farmers into groups. A number of respondents argued in favour of using targeting as a means to direct option choice for individual agreements in an area rather than trying to encourage coordination among farmers. A number of others suggested that coordinated agreements should focus on delivery of those options which need to be delivered at a sufficient scale such as for diffuse pollution; farmland birds or habitat restoration rather than simply seeking to bring together adjacent farms.

5.66 Some respondents saw designated and protected areas and Nature Improvement Areas as good places to target the new scheme. Conversely others were concerned that these areas would receive disproportionate amounts of funding from the scheme.

5.67 A number of responses raised the question of the relative prioritisation of the scheme objectives. There was concern expressed at the potential tension between Water Framework Directive and Biodiversity objectives which the consultation document referred to as the two main priorities. There was also concern that these two objectives would predominate in a targeted scheme to the detriment of objectives which are more dispersed across the countryside such as the historic environment, landscape, woodland and organics.

5.68 Important issues for many respondents revolved around aspects of simplicity and flexibility and the potential loss of past environmental gains and investment or lack of agreement continuity, under both HLS and ELS, through a more tightly targeted and focussed scheme. The potential reduction in land covered by the new scheme was also a concern.

5.69 A number of responses expressed opposition or disappointment that ELS specifically was being “replaced by greening” or because the design of the new scheme did not include a similar entry level tier, in part because of the consequential loss of access to funds transferred from Pillar 1.

5.70 At the grassroots events the proposed structure of the new scheme was positively received by some and seen as a good way of securing benefits. A number of examples where this approach was already providing benefits and good outcomes were cited. There were some consistent themes over potential complexity and the challenge of farmers working together.

5.71 It was opposed by others for a variety of reason these included concerns over:

- take-up and reinventing the wheel;

- the fate of a coordinated group if one member fails or withdraws;
- the risk of missed opportunities in too targeted and rigid an approach;
- how legacy agreements will fit into the new structure and in particular how end dates would be managed; and
- areas currently under environmental management would go back into production and environmental benefits diminish.

5.72 There were a number of suggestions made including:

- the idea of capped payments to allow for more applicants within a constrained budget;
- the need for an integrated approach in the new Rural Development Programme across all areas and objectives;
- making forestry "fit" with the possibility of a ring fenced budget for this sector; and
- the importance of monitoring and evaluation to judge success of approach.

5.73 The National Farmers Union made extensive and detailed comments about the structure of the new scheme. They accepted there would be a need for targeting if the inter-pillar transfer was at 9%. At 15% they anticipated having a continuing "broad and shallow" scheme. On the whole they welcomed the integration of land management schemes although they expressed some doubt about the value of a continuing woodland grant scheme even as an integrated element of the new scheme, were supportive of a continuing CSF and concerned about the consequences for access for upland areas to the new scheme. As with others, they saw the new "mid-tier" as the most innovative element although potentially at risk of complexity, particularly if coordination was made the main entry route for access to this part of the scheme.

5.74 The Country Land and Business Association and the Central Association of Agricultural Valuers also thought it imperative to allow single applications in the "mid-tier". In the Country Land and Business Association's view this would maximise uptake and ensure a truly landscape scale approach. It also emphasised that not all Defra biodiversity commitments will be met through agri-environment schemes, and therefore proposals must be relevant to the farming community, whose sources of funding are almost entirely restricted to CAP.

5.75 The Game and Wildlife Conservation Trust was broadly supportive of the approach setting out its principled approach to the new scheme. The Natural Capital Committee especially welcomed these proposals given the current status and trends of our natural assets.

5.76 The RSPB are supportive of Defra's approach to developing a new scheme, and believe that the proposed structure goes some way to addressing the flaws associated with Environmental Stewardship. The Wildlife Trust was similarly supportive as long as it was coherent as a scheme and coordinated with greening requirements. The Wildlife

Trust was particularly supportive of the landscape approach which should be driven by the Lawton principles.

Prescription and group formation

5.77 We received 500 responses to this question. The large majority of respondents agreed that we should not be prescriptive. The table below outlines the number of responses received and how they have been categorised:

	Agree	Disagree	Unclear/No comment
Number of responses	373	52	75

5.78 In general a less prescriptive approach was favoured for reasons such as:

- The importance of flexibility to enable local solutions and reflect local conditions;
- The need for advice, guidance and assistance in making groups work, rather than prescription;
- Farmers are the best people to lead such groups because of their practical knowledge of what is workable;
- Prescribe the outcome, not the method. Allow for innovation;
- That commons might need special treatment;
- Persuasion is better than coercion.

5.79 Those against a less prescriptive approach noted:

- Prescription was important to ensure maximum environmental benefit.
- The need for clear ground rules, direction and leadership (ideally from existing partnerships of Defra network bodies).
- Farmers don't work well together (or lack of evidence to the contrary).

5.80 The main stakeholders agreed that there should be no prescription. The Country Land and Business Association and National Farmers Union wanted more clarification about how this element was intended to operate. Broadly speaking, they both favoured simplicity and therefore coordination brought about through local targeting, ensuring that the options implemented are relevant to the local area and neighbouring farmers.

5.81 The RSPB agreed that there should be no set template for how groups of farmers could come together, but would encourage Defra to provide a set of minimum standards for those applications requiring funding for facilitation. They emphasised that the scale of delivery proposed by a group of farmers or land managers had to be sufficient to deliver the stated outcome. The Wildlife Trust also wanted no prescription but financial support for such groups and flexibility over the area covered. National Parks England also agreed and felt that local interest and circumstances should act as the catalyst for this.

Facilitation

5.82 There were 511 responses and a range of views were received about how we could facilitate landscape-scale approaches in the new scheme. A large proportion of responses highlighted the potential for Natural England to lead, facilitate or support landscape scale approaches in some way. Environmental organisations were also suggested as good sources for support, local knowledge and facilitation. For example, a number of responses suggested the Wildlife Trusts were well placed to do so. Some others flagged the potential of AONBs and National Parks to offer support.

5.83 The grassroots events gave rise to a number of comments and suggestion. A common one was the need to build out from the success of existing projects like Dartmoor Farming Futures or Catchment Sensitive Farming or use geographically identifiable areas such as National Parks and Areas of Outstanding Natural Beauty. Again there was much support for bottom up approaches drawing on the expertise and experience of local, trusted advisers. At the same time it would be important to safeguard value and delivery of existing landscape projects through a transition plan.

5.84 There was support for the facilitation role to be undertaken by Natural England or the Forestry Commission rather than rely on programme funds as well as a potential role for environmental groups, although caution was also expressed about the independence of their role. Equally others saw a role for industry bodies to be consulted and involved in particular Campaign for the Farmed Environment. The scope to fund and manage facilitation through LEADER came up at a number of events.

5.85 In terms of implementation it would be

- useful to have a template or model to follow;
- necessary to ensure adequate incentives, financial or through a scoring mechanism, to encourage participation; and
- important to have clarity and transparency about the objectives and targets in each area.

5.86 The National Farmers Union argued that it should not be assumed that every collective bid needs external facilitation. In their view coordination can be achieved through other routes particularly by responding to the local targets and priorities identified for the area. It would be difficult in those circumstances to demonstrate how facilitation has added value to those agreements. Additionally, costs should be kept to a minimum and capped. Facilitation support should end once the collective bid has been made.

5.87 The Country Land and Business Association believed that if facilitation was necessary it should be undertaken via trusted professionals and decisions left in the hands of the applicants and not facilitators accessing a pot of money separately. CFE, in its view did not have the capacity for this role but would be able to offer advice and sign-posting. The Tenant Farmer's Association considered that project officers would

5.88 The Game and Wildlife Conservation Trust favoured a process where a group of potential applicants work with a trusted adviser to put forward proposals to submit a set of coordinated applications, which if approved, could be developed and funded to completion. They were against a central facilitation fund with an associated bidding process. The Central Association of Agricultural Valuers wanted to encourage making better use of third party professional advisers who have built up long-standing and trusted relationships with their clients.

5.89 RSPB envisaged a combination of a competitive facilitation fund within the RDPE (a slimmed down version of the Nature Improvement Area (NIA)) approach and a small payment to individual agreement holders to 'buy-in' facilitation to assist with the application process and coordination between agreements. Local Natural England teams would fund a farmer or third party who has secured the buy-in of a group of farmers to work to expand the project.

5.90 The Wildlife Trusts thought facilitation could be helped by the provision of criteria which reflect the Lawton principles and theme based targeting to deliver multiple outcomes at the landscape scale. It noted that Natural England and Wildlife Trust projects were already active locally and the new scheme should develop and build on work already in hand to deliver facilitated, landscape scale projects.

5.91 National Parks England agreed that facilitation should not be prescriptive. The key will be to use local experienced advisers or facilitators with existing relationships to help develop these groups.

5.92 The Natural Capital Committee recommended that decisions should not be left exclusively to groups of land managers. But agreed for some additional targeting which could help yield substantial efficiency gains.

Government response

5.93 Agri-environment schemes in England have received a great deal of independent scientific scrutiny over recent years. This includes the mid-term evaluation of the current programme in 2011, Defra's commissioned review of environmental stewardship as part of the evidence base for designing the next generation of schemes and a range of academic studies as well as Prof John Lawton's independent review of wildlife sites and ecological networks in England.

5.94 Among other things, and for ELS in particular, the evidence base has highlighted the need for improved spatial targeting; delivery of a more effective ecological network; more directed choice of options given to ELS applicants to ensure the uptake of the right combination of options; and enhanced coordination by land managers. The design outlined in the consultation document seeks to address this evidence to improve the cost effectiveness of the schemes.

5.95 While there is a general acceptance of the idea of a more targeted scheme, we recognise concerns about how the scheme will operate in practice and in particular the challenge of getting farmers and other land managers to act in concert at the landscape scale. There was a concern that this might militate against the attempts to make the new scheme simpler and more effective. Targeting and more directed option choices might achieve similar outcomes in a more straightforward way. There was a clear majority that we should not be prescriptive over how we bring such groups together and a recurring theme that facilitation should be undertaken by "trusted advisers".

5.96 As a number of responses acknowledge, we have sought to work closely and informally with key interests to develop our approach and explain our thinking. We recognise these concerns and will continue to develop our proposals on implementation of the new scheme in discussion and continuing partnership with stakeholders which takes account of the views expressed and will set out firm proposals for implementing a targeted scheme in the New Year.

Grant provision

5.97 We received 488 responses to this question. The majority of respondents agreed that we should offer a small scale, universally available capital grant. The table below outlines the number of responses received and how they have been categorised:

	Yes	No	Unclear/ undecided
Number of responses	369	62	55

5.98 A number of those in favour of a capital-only element thought that it would enable all farmers to be able to achieve some environmental benefit even if not individually eligible for the new scheme, but also warned that funding would need to be strictly controlled.

5.99 There are a range of reasons given in the responses against a capital-only scheme including concerns about these being only 'one-off' payments, and that it would make the scheme more complicated. Several respondents commented that any capital-only provisions should not be available at the expense of 'more modulation'. The principal comment associated with a negative response was that there is a need for both capital and revenue support, for example that the biggest challenge for farmers and environmental organisations is often funding the on-going maintenance and management of environmental projects. Capital and annual revenue payments are therefore equally important.

5.100 Most of the main stakeholders favoured the idea of a capital-only grant scheme. The National Farmers Union and the Country Land and Business Association both welcomed the possibility but the application process would have to be clear, simple and transparent. The Wildlife Trusts thought that, subject to certain safeguards, these grants could provide multiple benefits to habitat and species management, soil management and water quality. The Game and Wildlife Conservation Trust also favoured such grants but not as an alternative to an "open to all" multi-annual scheme.

5.101 National Parks England favoured a simple capital grant scheme relating to farming, landscapes, biodiversity, access, and community needs and benefits and which, given their proven track record, could be delivered by National Park Authorities. A national scheme could be delivered locally based on national guidelines but with flexibility to respond to local priorities, traditions and styles.

5.102 The RSPB, however, was sceptical of the benefits of a stand-alone capital grant scheme, that advice would be necessary and believe that the available budget would be better deployed as part of multi-annual agreements.

5.103 The consultation did not reveal any compelling arguments against the introduction of a small scale capital grant scheme. **We will continue to work up the details for such a scheme in consultation with stakeholders and interested parties as part of our scheme design**.

Five year agreements

5.104 We asked:

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

5.105 We received 591 responses to this question. The table below outlines the number of responses received and how they have been categorised:

	Yes	No	Unclear/ undecided
Number of responses	352	134	104

5.106 Although the majority of respondents did not disagree with the principle of five years there was general acknowledgement on the need for exceptions and flexibility in favour of longer agreements if necessary to secure particular environmental benefits. Some of those who answered firmly yes saw five years as fitting into business and tenancy arrangements and allowing for change in the medium term.

5.107 Of those who answered no the majority favoured longer agreements, usually of ten years although some favoured alternatives such as 7, 15 or even 20 years. The main reason given was invariably because five years was too short a period to realise environmental benefits or to ensure stability for and commitment from the farmer.

5.108 However, a number of respondents favoured shorter periods of between 1 and 3 years to reflect shorter term tenancies and business needs. Many respondents proposed the use of either roll-over arrangements in the case of short agreement periods or suitable break clauses in the case of longer ones. The possibility of an 18 month review point, to assess whether the agreement was working and should continue, was also suggested by a couple of respondents.

5.109 The Country Land and Business Association favoured 5 year agreements. The National Farmers Union noted that rolling five year agreements had been popular but noted similar issues over short terms tenancies as other respondents. However, it favoured a range of agreement lengths matched to the complexity and nature of the environmental outcome. English Heritage too believes that five year agreements are acceptable as a rule, but that there should be exceptions, based principally upon the length of time required to effect an appropriate environmental outcome. In particular they were strongly of the opinion that agreements relating to Scheduled Monuments on the Heritage at Risk Register due to arable cultivation should be treated as exceptions to the 5 year norm (these needed at least 6 years).

5.110 In the main, environmental groups were opposed to 5 years as the norm, for example the RSPB stating that the length of the agreement should fit the environmental outcomes. The Wildlife Trusts also disagreed and thought ten years should be the default with an option of 20 year agreements where radical land use changes are prescribed. National Parks England could not support a blanket five years and identified certain exceptions such as restoration or creation of key habitats or significant changes to grazing by livestock which should be up to ten years.

5.111 National Parks England emphasised that agreements on common land should be ten years: the effort in securing agreement with common rights holders and the owners of the land is often complex and time consuming. This was a view shared by respondents with commoning interests such as the Foundation for Common Land and the Dartmoor Commoners’ Council. Common land delivers a significant range of ecosystem services including a high number designated for their exceptional ecological value. Having to re-negotiate agreements after only a few years would act as a severe deterrent to those seeking to secure agreements.

5.112 In its report of 3 December the EFRA Committee considered 10-year agreements with the option of a five-year break clause to have considerable merit because these offer farmers and landowners security to initiate long-term projects. It recommended the option of a 10-year agreement be retained for agreements with specific long-term ambitions.

5.113 The arguments expressed reflect the widespread view that different environmental benefits can be expected to be realised at different rates. Balanced against this is the need to administer the scheme and manage spending within Programme rules. **We will continue to develop proposals which strike the balance between the two and identify clear exceptions to the standard five year agreement period as well as explore the scope for roll-over arrangements at the end of the agreement period.**

How to target the new environmental land management scheme

5.114 We asked:

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

5.115 The question was not framed in a way that invited a yes or no answer. We received 508 responses. There were a wide range of views about how targeting should be done. A significant minority argued in favour of using widely available data from environmental organisations to identify and target appropriate areas.

5.116 A number of responses were concerned about the process for targeting. Some respondents were in favour of using local knowledge from farmers, local industry and environmental groups (including increased use of non-farming environmental groups e.g. Local Nature Partnerships). Some suggestions were quite specific, for example using the UK BAP with subsequent professional and local input. The targeting approach also had to be clear and well-publicised.

5.117 Others suggested sticking to current methodology used for HLS and applied more broadly. However a number of respondents proposed the scheme should respond more closely to the Ecosystem Services approach; coupling it with the Catchment Based Approach or drawing on the Lawton principles.

5.118 A small proportion of respondents were explicitly against the use of ‘hard’ boundaries to ensure greater flexibility or wanted to continue an ‘open to all’ scheme. Yet others wanted to see more regulation, arguing that the voluntary approach had failed.

5.119 There was an equally wide range of views as to where the scheme should be targeted. Some wanted targeting to focus on areas of greatest opportunity although they did not go on to say how these might be identified. Others suggested the type of areas which should be targeted, such as species enrichment and restoration of high value landscape; areas associated with restoring biodiversity and carbon capture and in areas under pressure such as urban fringes.

5.120 One or two responses offered suggestions which are incompatible with the rules, such as abandoning the use of income forgone payment rates or suggested subjective grounds for eligibility such as “proven stewards of the countryside” or not allowing “those who do not support wildlife” to apply.

5.121 The Country Land and Business Association was not in favour of a targeting approach which drew ‘hard’ boundaries. Rather they wanted to see a farm specific methodology where management options are directed in a way which makes them most relevant to that particular farm.

5.122 The National Farmers Union accepted there would be a need for targeting if the inter-pillar transfer was at 9%. At 15% they anticipated having a continuing “broad and shallow” scheme. Targeting should be based on evidenced environmental opportunities. For the National Farmers Union, the main challenge would be to develop a simple, clear and transparent targeting framework which draws together national and local environmental opportunities. They were clear that development of the priorities would need to include local consultation before the new scheme starts.

5.123 The Game and Wildlife Conservation Trust did not believe that targeting should be developed by using geographically defined and mapped areas which create ‘hard’ boundaries; this reflects their view that the new scheme mid-tier must be “open to all”. Close identification with county priorities would be important.

5.124 The RSPB proposed a combination of geographically discrete target areas and target themes. The scheme would then be available everywhere, but on a competitive basis with more directed option choice. In their view this would address the flaws of ELS and negate the need for a universal capital grant scheme. The Wildlife Trusts were also disposed towards this view but in addition wanted priority to be given to designated sites and local wildlife sites; HLS agreements which had been working particularly effectively; and, at the landscape scale, reliance on the Lawton principles.

5.125 National Parks England considered that National Parks needed to be one of the key national priorities given their richness in environmental assets, ecosystem services, public goods; and the potential for further environmental enhancement, business growth and delivery of value for money for the public funds.

5.126 In its recommendations the EFRA Committee also believed those who have successfully implemented HLS agreements and shown the most interest in delivering environmental benefits should be first in the queue.

5.127 We have been clear that the new environment land management scheme will be a significant contributor to meeting the Government's environmental objectives and in particular our binding legal obligations. We said that meeting that biodiversity and water quality goals would be particularly important objectives. It must also deliver greater value for money for the taxpayer. This will mean having a more targeted and focused scheme. On the balance of the arguments we have heard in the consultation we do not see a strong case for introducing hard targeting boundaries.

5.128 There is a wide range of views about how and where targeting should take place. We are currently developing a targeting framework which we will discuss further with stakeholders. **Nonetheless we recognise the value of local input and refinement of this targeting framework. This is already envisaged in our implementation planning and we will take this forward early in 2014.**

Advice

5.129 We asked:

> **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?**

5.130 We received 550 responses to this question. The table below outlines the number of responses received and how they have been categorised:

	Yes, or broadly in favour	No, or broadly against	Unclear/ undecided
Number of responses	375	121	54

5.131 There was almost universal support for the idea that advice can enhance outcomes. Although there was a majority broadly in favour of online or third party advice and support for the mid-tier, a large proportion of respondents indicated that any move to more on-line guidance should still be accompanied by some form of support/advice with the presumption that this should be delivered by those with environmental expertise, usually either Natural England or environmental bodies. However, there was some distrust expressed by some about the bias of third party organisations in providing advice.

5.132 Some responses, even if supportive, expressed concern that broadband roll-out could be a limiting factor. Additionally on-line advice was seen as having limitations, was often not read and not particularly targeted. Equally the greater use of third party advice risked distancing applicants from engaging with their agreement

5.133 There were also some innovative ideas; for example using the online system as a digital forum or using Skype to speak with advisers. 5 respondents mentioned making better use of Natural England technical advice notes. Other suggestions included ensuring the delivery bodies were integrating their advice on the ground and that advice could be delegated to bodies such as National Parks; AONBs and others.

5.134 Local authorities and archaeological and historical bodies were concerned to ensure that there was an appropriate consultation process as agreements were set up. The Country Land and Business Association welcomed advice and aftercare being designed into the scheme from the outset. They noted that Defra envisaged that advice would not be available for the area specific strand; however current proposals will certainly require advice from third parties. Defra should therefore focus on the aim for simplification of this strand, if they want application to be affordable.

5.135 The National Farmers Union believed that the mid-tier should be a simple scheme, with clearly written options and prescriptions. As such it should not require additional advice, beyond on-line advice. It added that if advice is to be delivered through third parties, it should be through advisers with suitable credentials and trusted by the agreement holder. It should be for the agreement holder to appoint the adviser, not have a third party adviser imposed on them.

5.136 For the Game and Wildlife Conservation Trust the real key to successful delivery of agri-environment measures was through on the ground practical and trusted advice. In their extensive comments on this point they saw a close linkage between this and the delivery of coordinated agreements at the landscape scale.

5.137 RSPB stressed that they see advice as a crucial part of the success (or otherwise) of current and future agri-environment schemes. Therefore the quality of advice should be good as well and that Natural England should also remain responsible for the implementation of the scheme in its entirety.

5.138 The EFRA Committee supported the proposal to use trusted conservation organisations to provide expert advice to farmers but that reductions in administrative costs could hinder the ability of Natural England to optimise environmental spend in Pillar 2. Expert advice was a cost but rather an essential component of securing maximum environmental benefit from Pillar 2 schemes.

5.139 A significant majority of respondents agree with the proposition that advice should be provided online and, to a great extent, via trusted third parties. We will continue to develop approaches to the provision of advice in the new scheme which reflects the potential for delivery via the digital medium and the private sector in consultation with stakeholders. Concerns over broadband rollout are recognised and an assisted digital strategy is under development.

Scheme entry requirements

5.140 We asked:

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

5.141 There were 413 responses to the question. The table below outlines the number of responses received and how they have been categorised:

	At or above the legal baseline	Below the legal baseline	Unclear/ undecided
Number of responses	297	12	99

5.142 The majority of respondents were in favour of the scheme entry requirements being set at either the same level as now or higher. However, many respondents made a clear link between the level at which the baseline was set and the degree to which farmers would be able to access the scheme. A few responses therefore proposed a low or as low as possible baseline partly concerned to ensure as much and as widespread an uptake as possible. Many of the respondents who wanted to see it set at the legal baseline thought that Entry Level Stewardship entry requirements were a good basis and should be retained.

5.143 A range of responses sought to differentiate within the baseline. Reflecting local variations was seen as important by a number of respondents. One respondent for example while content to see the baseline set at or above the legal minimum saw a case for a lower baseline for protected areas to maximise uptake of schemes there. Another proposed that baselines should differentiate between multi-annual and capital options because the latter would be more attractive.

5.144 Some other responses made a variety of suggestions which are not compatible with the scheme rules. For example one suggested entry requirements based on walls and hedges and other natural areas and another on the objectives for the landscape or river catchment area.

5.145 Some respondents including the Campaign to Protect Rural England and the Game and Wildlife Conservation Trust could not comment specifically as the greening and cross compliance standards had not been set.

5.146 The Country Land and Business Association agreed that the new scheme can only pay for measures which go beyond the legal requirement baseline. In order for the scheme to be maintained as ‘open’ as possible and to ensure that there is sufficient uptake, They believed that whilst good environmental practice should be maintained over the total land area, that the goal posts should not be moved subsequently and the baseline written into agreements.

5.147 The National Farmers Union would like to see the legal minimum requirements as the baseline for the scheme. This includes cross compliance, and other relevant mandatory requirements. They are concerned that the consultation says scheme entry requirements would need to be set above where ‘environmental good farming practice’ is judged to rest’, but did not define it. As cross compliance includes the need to meet Good Agricultural and Environmental Condition (GAEC) there should not be a new requirement introduced beyond the existing legal requirements.

5.148 RSPB considered that the baseline for the new scheme should not just comprise cross-compliance, Pillar I greening and other regulatory standards, but also many elements of good farm practice and therefore above the current baseline for ES.

5.149 A significant majority of respondents agree with the proposition that the scheme entry requirements should be set above the legal baseline. We will take forward further work to determine exactly the level at which it should be set. This will aim to ensure consistency with cross-compliance and greening; ensuring we secure value for money in the new scheme balanced with the need to ensure accessibility to the scheme and sufficient uptake.

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

5.150 We asked:

> **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?**

5.151 We received 433 and 411 responses respectively to these two questions. 45% of respondents felt that our proposals were right or broadly correct, 24% were not in favour of the proposals, and 31% were unclear or undecided. The table below outlines the number of responses received and how they have been categorised:

	Yes, or broadly correct	No, or broadly incorrect	Unclear/ undecided

Number of responses	194	103	136

5.152 88% of respondents offered suggestions on which activities offered best value for money. 4% did not think the programme should support productivity, and 8% were unclear or undecided. A further 74 responses were received which did not explicitly answer either question but referred to productivity. We have incorporated these answers into the analysis.

5.153 Across all answers to the question, both those which supported the proposed approach and those that did not, the following themes emerged regularly:

- the need for productivity and environmental gains to go hand-in-hand, for example, through nutrient management planning or pesticide use;
- the value of effective advice and practical knowledge transfer; and
- the importance of translating research onto the farm.

5.154 We received some notable responses from representative organisations:

- the National Farmers Union felt that activity should build on the successes of the current programme: particularly REG, FFIS and the skills and training offer for farmers. They welcomed the potential flexibility for supporting hire purchase, second hand equipment, and linkages with private sector investment. They highlighted a need to think about how to support investment in reservoirs, anaerobic digestion and meeting Water Framework Directive commitments. They saw less merit in supporting young farmers and woodland enterprise and venison management supply chain activity;
- Wildlife and Countryside Link, the RSPB and other environmental organisations thought we should support productivity where it delivered environmental improvements;
- LANTRA believed that we had broadly outlined the correct areas to target and particularly expressed support for the linking of grant applications to appropriate training courses;
- the Royal Agricultural Society of England stressed the importance of emphasising innovation, advice and skills under the new programme, especially within the context of supporting the Agri-Tech Strategy in translating agricultural research and development onto the farm;
- the Agriculture and Horticulture Development Board also referenced the Agri-Tech Strategy, and thought this could be supported through knowledge transfer. They stressed the importance of skills acquisition, both business management and industry specific;
- Confor and other forestry organisations underlined the importance of supporting the productivity of the forestry sector, and of continuing to grow the wood fuel sector and supply chains that support them.

5.155 A number of other activities were also frequently cited:

- support for low-carbon energy generation;
- assistance to improve resource efficiency;
- inclusion of measures to encourage food production or food security.

5.156 24% of respondents disagreed with the suggestions. Where respondents cited a rationale for their answer, common themes included that there should be no Rural Development Programme at all, either because there should be no CAP or because there should be no inter-pillar transfer or that it should be solely focussed on the environment, or on broader rural economic growth. Concerns were also raised over the rationale for public intervention for innovation.

5.157 Feedback from the consultation events also included the following:

Consultation events

- Activity needs to demonstrate a clear public good or market failure rationale for intervention and value for money;
- Activities to support the broader rural economy, including broadband and infrastructure, could help support productivity in land-based sectors;
- Increased efficiency and productivity of farm businesses to enhance their sustainability could also help support growth as well as delivering environmental gains;
- The following areas were also seen as important:
  - Adding value to food and food processes or increasing production;
  - Support for new entrants, including through apprenticeships;
  - Advice, knowledge transfer and skills development;
  - Energy use and production, particularly low-carbon energy generation;
  - Resource efficiency and management (e.g. frequently water, soil, and energy).

5.158 The responses received suggest that the broad objectives we set out to help improve the competitiveness and efficiency of the farming, forestry and other land-based sectors and the activities within these are the right ones to focus on.

5.159 The evidence on competitiveness backs this up. The UK has performed poorly in recent decades and UK competitiveness has declined relative to our competitors. However there is a mixed picture across the different farming sectors and a wide distribution of performance within the industry, with a sizeable minority of farms not able to recover their costs. Some sectors, notably dairy and cereals, perform on average well in an international comparison, whereas others such as the pig and beef sector perform less well.

5.160 On the basis of the responses and supporting evidence we expect that through RDP funding for productivity in the farming and forestry sectors we particularly want to support:

- innovation, including the application of new technologies and practices, as the strongest driver of increased productivity. This will support the Government's Agri-Tech Strategy, by helping farmers to develop the skills and capacity needed to translate research into tangible benefits at farm level;

- continued development of advanced technical and general business management skills, ensuring that training and grant activities are integrated where possible to maximise the value generated by any spend;
- improved resource efficiency, for example in soil health, nutrient management, water use and pesticide application;
- improved animal health and welfare with an emphasis on tackling endemic disease;
- more active management of English woodlands, with particular focus on developing the market for woodfuel particularly through fostering supply chain clusters and co-operative activities.

5.161 **We will continue to work on the detail of productivity with interested parties and will provide a fuller response in early 2014**. Consideration will need to be given to matching national objectives with local needs. We will seek the involvement of Local Enterprise Partnerships in the scheme design process as well as in later assessment stages to ensure we get the balance between national objectives and local need right.

Advice and Skills

5.162 We asked:

> **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?**

5.163 We received 402 and 295 responses to these questions respectively. Around 80% of respondents made a number of suggestions about how advice and skills could be best supported and better integrated under the new Rural Development Programme. The other 20% of respondents provided responses which did not address the question.

5.164 There were a number of specific and substantive responses focused on skills from representative and industry bodies:

- The Agri-Tech Leadership Council and others recommended better joint up of sources of skills & knowledge exchange provision while also supporting Networks and peer to peer learning. They felt that a sign-posting service should be established and a clear route map for training;
- The Agriculture and Horticulture Development Board suggested that a more bottom up, industry driven approach could be developed to address identified skills needs;
- The National Farmers Union and the Agri-Skills Forum suggested that Rural Development Programme funding to support skills should be aligned to that being

provided through the Agri-tech strategy and innovation centres and supplement or complement it and not substitute for it;

- The National Farmers Union felt that taking businesses and individuals on a 'journey' through a co-ordinated training package will help them progress from operational training to more advanced levels of training and business management skills, which should be a priority for all businesses in the sector;
- The Agri-Skills Forum supported this, feeling that more emphasis should be placed on competitiveness and efficiency and less on the environment;
- The Wildlife Trust and a few others suggested that the current skills offer should be extended into the next Programme and expanded to provide advice on environmental management.
- LANTRA, the Royal Norfolk Agricultural Association and others, including some LEPs called for the integration of local skills support provided through the EU Structural and Investment Funds and also join up of the skills or advice offer provided under the Environmental Land Management scheme;

5.165 Other specific notable responses from other respondents included using the monitor farm programme model currently running in Scotland and provide skills and training for innovative sustainable farming practices.

5.166 There were also a number of specific responses regarding the focus for advice:

- The National Farmers Union, the British Pig Association and others suggested that combining advice and skills with capital grants / incentives could provide a powerful driver to change behaviour on farm;
- The majority of respondents reiterated the need to retain the advice currently provided by Natural England officers and Forestry Commission woodland officers;
- The RSPB and Wildlife Trust specifically called for the integration of environmental land management scheme advice and that provided by industry initiatives such as the Campaign for the Farmed Environment;
- LANTRA and a host of others welcomed the idea of delivering advice and skills increasingly online and sign posting to farmers. However, English Heritage, The Central Association of Agricultural Valuers and a few others expressed concerns, as this would create difficulties due to limited broadband availability.

5.167 In terms of expanding the focus of the current Farm Advice Service, some felt it should be expanded to cover greening and environmental schemes, and be used in conjunction with some funded demonstration farms. However others, including the National Farmers Union, were of the opinion that the service should focus only on cross compliance.

5.168 Other specific suggestions from individual respondents included the following:

- Increase funding / investment for delivery through colleges, training boards and research bodies, as well as for multi-skilled on farm advisers;
- Implement local delivery through experienced locally trusted certified advisers;
- Ensure the role of independent forestry consultants, companies, and other initiatives in offering advice is recognised;
- Utilising the new Sustainable Intensification Platform to link government, NGO and academic partners at farm and landscape scale;
- Include organic specific information in specifications for future advice and skills provision;

5.169 We recognise the importance of skills in rural areas and for the farming and forestry sectors and consider that this should be an important focus for the programme. We will look in more detail at the range of suggestions made by respondents, and in particular consider how and what we deliver in support of improving the skills and knowledge exchange. We will also look further at how advice under the programme can be integrated with that provided by industry, providing a fuller response in the New Year.

Innovation

5.170 We asked:

> **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?**

5.171 A significant number of respondents who answered this question saw innovation as important to help support the productivity of farmers and rural areas. However, a similar number of respondents were sceptical and felt that innovation should either be market driven and not something Government should intervene in. A number felt that innovation should be funded via financial incentives.

5.172 In terms of particular areas for focus, respondents suggested that innovation could be achieved via:

- Funding for research and development and activity which brought researchers and practitioners, including farmers together, potentially through loans;
- Cooperation between farmers or local partners to help innovation to develop;
- Funding to support innovative start-ups or SMEs, including small livestock farms and rural micro businesses;
- Funding for research or incubation centres that support innovation;
- Funding for agri-technology activity;
- Funding to support farm demonstration projects to share good practice and encourage uptake of new methods;

- Funding for new and innovative crop and technology ideas;
- Funding for climate change adaptation and resilience along with pest, pathogen and disease experimentation and control;
- Development of innovative practices to ensure protection of semi natural grasslands and the extensive livestock systems they support;
- Development of models to support moorland restoration;
- Funding to support innovative practice in energy production or generation to make the farming sector more competitive;
- Funding for extension activities that take research into farming practice;

5.173 There was however some debate about how innovation might best be achieved and when public sector funding should be provided to support it. Some respondents felt that innovation needed to focus on funding research and development and not on adoption of that innovation. Others felt that funding should only come at a stage where an idea was at the development stage and could then be introduced to the wider industry. Funding for trial and examination of academic or near market research would be most effective as this could help work through ideas and costs.

5.174 A number of ways to promote innovation were suggested. It was generally felt that good practice should be rewarded, highlighted and promoted more effectively to applicants. Suggestions included regular seminars or briefings to help inform local farmers or communities of new schemes or projects and what is available to them; use of websites, crowd-sourcing, newsletters and online help, and setting up awards for innovation to provide an incentive for bids.

5.175 Respondents provided a number of suggestions for how we might develop proposals for supporting the European Innovation Partnership, about 40% respondents were either sceptical of the concept, did not comment or didn't know.

5.176 Some suggested trialling the approach first to see if it works, while several others advocated the use of existing structures or bodies to undertake roles needed to deliver the EIP, or capitalising on existing partnerships.

5.177 A number of respondents suggested that innovation projects funded under the programme should be advised how to access EU Horizon 2020 funding and national innovation funding sources such as the Catalyst Fund supported by the Leadership Council for the UK Agri-tech Strategy and other relevant Technology Strategy Board (TSB) funds. Government sector bodies and the research and academic sector (colleges, universities, research centres) should work together to support industry access to the European Innovation Partnership and Horizon 2020.

5.178 A number of respondents suggested the key to innovation was communication and knowledge transfer between people. They then went on to suggest a number of approaches to ensuring innovation and knowledge transfer took place:

- work closely with the new Agri-Tech Innovation Centres;
- set up a cross-party group with relevant bodies to help develop proposals;
- use the Sustainable Intensification Platform (SIP) to link statutory agencies with NGOs and academic partners at the farm and landscape scale;
- facilitate a 'bottom up' approach. Create a network for farmers, foresters and rural industries led by them, but with administrative support to help them.
- use the LEADER approach to share good practice and encourage innovation. This could help deliver a coordinated approach to innovation, and ensure a good read-across to other EU funds to support cross-fund innovation activity;
- develop an innovation broker role to bring Operational Groups together;
- fund commercial farms of excellence or experimental farms to practice innovative techniques and share the results with the industry.

5.179 Evidence shows that innovation is a strong driver of improved productivity. Driving innovation (including through supporting applied and translational research) to increase food production at the same time as improving the environment is a priority for the Government. We are already investing £160m of funding in the implementation of the UK Agricultural Technology strategy, to ensure more research flows from laboratories into commercial application in the field, and to help producers become more productive as well as using sustainable practices. We want to bolster this with supporting innovation within the Rural Development Programme, and expect to support Operational Groups to deliver the European Innovation Partnership for Agricultural Productivity and Sustainability in order to help do this.

5.180 We will continue to consider the details of our approach on the EIP Operational Groups in the light of these helpful suggestions, and consider the fit between the Rural Development Programme and existing programmes to support innovation in agriculture.

LEADER

5.181 We asked:

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?

5.182 We received 322 responses to these two questions. Approximately 10% were openly supportive of LEADER and a further 80% accepted the principle of LEADER. Around 10% of respondents felt that the LEADER approach was not a good use of public funding money and in some cases held a wider view that EU funds should not be diverted from Pillar 1 to schemes such as LEADER. This view was in some cases supported in the feedback received from the consultation events with some respondents unaware of the LEADER approach. Those who were aware of LEADER were though generally supportive of it.

5.183 Those who were supportive of LEADER felt that we should build on and promote the successes of LEADER, particularly where it has worked well and is delivering against its agreed objectives. It was also felt that LEADER should cover more than jobs and growth, as social inclusion and quality of life were just as important to the vibrancy of rural areas. Those who were more sceptical of LEADER argued that it was perceived as costly and administratively burdensome, that there were variances in the quality and capacity of LEADER groups and were concerned that it has not delivered for the farming sector

5.184 Practical suggestions for strengthening the approach with regard to jobs and growth included:

- increase coverage or provide full geographical coverage across England;
- broaden LEADER areas to cover market towns and larger villages;
- give LEADER groups clearer objectives
- providing LEADER groups with access to a wider suite of measures including those of a more economic nature;
- increase awareness of the benefits of LEADER at a national and local level;
- provide a better pre-assessment and validation of prospective projects to ensure better selection of projects and tighter project outcomes;
- provide stronger representation from farming and business sectors including set minimum levels for representation;
- learn from other rural community-led local development approaches.

5.185 Suggestions for how LEADER could be more effective and deliver better value for money included:

- simplification in rules, including lighter touch administration and less bureaucracy, all should be proportionate with the grant received;
- strengthening the skills needed to critically assess potential applications;
- better mentoring and training for members of Local Action Groups.
- share more good practice perhaps through the RDPE network;
- look at how LEADER can deliver across the EU Growth Programme through the Community Led Local Development approach;
- ensure closer working with LEPs to drive forward growth.

5.186 We recognise that LEADER spend has in many areas delivered good value for money and provided a good return on investment. However we want to strengthen the contribution funds invested through LEADER make to delivering jobs and growth in rural areas.

5.187 **We will publish a National Delivery Framework for LEADER**. This will clearly set out the policy priorities, measures and types of projects we expect LEADER groups' Local Development Strategies to be based on. At the local level, every LEADER project will need to demonstrate that it contributes to the local economy before it can be approved. Membership of every Local Action Group will need to include appropriate representation of rural economic and agricultural interests, as well as links with their Local Enterprise Partnership(s).

5.188 **Defra will lead a National Panel to select and approve LEADER groups and Local Development Strategies for the next programme**. All successful groups will be required to meet the requirements set out in the National Delivery Framework.

5.189 We will also be creating a single **National Operational Guidance** document. This will allow for a more consistent and efficient administration of LEADER. Local Defra staff will continue to manage and support the delivery of LEADER groups.

5.190 We will also consider the range of other suggestions made by respondents to help LEADER support rural jobs and growth and do so more efficiently.

6. Inter–pillar transfer

6.1 From 2014, we have the facility to transfer up to 15% of the CAP budget from direct payments (Pillar 1) to fund rural development measures (Pillar 2) under the new CAP regulations. We asked:

(a) Should we transfer funding from Pillar 1 to Pillar 2?
(b) If so, should we transfer the maximum 15% or less?
(c) 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**

Should we transfer funding from Pillar 1 to Pillar 2?

6.2 Eight hundred and seventy eight respondents answered this question. Of those that expressed a view, over 84% supported a transfer, with only around 16% stating that there should be no transfer at all. Responses supporting a transfer included 3,797 from an organised RSPB campaign which urged the Government to maintain its commitment to devote the maximum amount of money allowed to funds that help wildlife in the farmed environment, as well as other important parts of the rural economy and communities.

Summary of responses, for those who addressed this issue	
Yes	4,537 - 3,797 RSPB campaign response - 740 other
No	138

6.3 It is clear from the responses that there is majority support for transferring funding from Pillar 1 to Pillar 2 whether the campaign responses are taken into account or not. This view was also reflected at the regional workshops with most of the 720 attendees expressing support for a transfer of funding from Pillar 1 to Pillar 2. Only 3 explicitly advocated no transfer.

6.4 Responses supporting the full 15% were received from agricultural, environmental, and a number of rural business and community interests. Some of the respondents supported a 15% transfer provided that funding was either accessible to farmers or was invested solely in the environment.

Full transfer – Environment focus

6.5 A number of environmental non-government organisations – such as the Campaign to Protect Rural England, Wildlife and Countryside Link, the RSPB - and the National Trust, provided detailed responses to the consultation setting out arguments for a full transfer. They favoured a 15% transfer to support delivery of biodiversity to support Natural Environment White Paper goals and allow for legal obligations set out in the Habitats and Water Framework directives to be met. They believed that Pillar 1 funding is a poor use of public funding and felt that the 15% funding would:

- Ensure existing agri-environment commitments are honoured;
- Allow new agreements to be offered during the 2014-2020 period;
- Rebalance England's disproportionally low EU Pillar 2 allocation;
- Redirect CAP funds towards incentivising farmers to produce goods that the market will not provide;
- Reward the delivery of public goods and get maximum value from CAP spending;
- Enable the Government to help meet its legal obligations and deliver its policy commitments from rural development programme funds;
- Help support rural economic growth and jobs in rural areas;
- Signal a clear Government commitment to the environment in the future.

6.6 The Woodland Trust and Confor, amongst others, also emphasised the ambition for greater woodland management and creation set out in the Forestry and Woodlands Policy Statement, and the need to protect trees, woodland and forests from increasing threats from pests and diseases.

6.7 The Heritage Alliance and English Heritage, amongst others, emphasised the importance of the historic environment and landscape for tourism and the rural economy. The Soil Association, amongst others, emphasised the importance of the transfer to support organic farming.

Full transfer – Growth and LEADER focus

6.8 A number of rural businesses, local authorities and community interests also supported a full 15% transfer to help support rural economic growth given the state of the economy. The Federation of Small Businesses considered that the full 15% transfer was needed to support both the rural economy as well as support for farming and forestry productivity, the environment and the LEADER approach. Local Enterprise

Partnerships who responded to the consultation generally supported an increased focus on growth to enable rural areas to remain resilient to wider economic changes and share in the benefits of economic growth.

6.9 Action with Communities in Rural England (ACRE), Rural Community Councils, The Plunkett Foundation and LEADER groups wanted to see a full 15% transfer to deliver Growth and supported an increase in funding for the LEADER approach, which they argued could deliver both on Farming and forestry productivity and Growth Programme objectives. This would help promote growth in the rural economy and strengthen rural communities.

Arguments for no transfer or a minimum transfer

6.10 Those respondents who recommended no transfer at all or a very small transfer of 1% provided a number of reasons for this:

- Funding should only be transferred to cover ongoing commitments and no additional investment should be provided through Pillar 2;
- Funding should be retained in Pillar 1 to help overcome volatility in farm incomes;
- The transfer would make British agriculture uncompetitive and put farmers at a disadvantage to other EU Member States, some of whom are likely to transfer funding from Pillar 2 into Pillar 1;
- The proposed new Environmental Land Management scheme is no longer likely to be open to all and this would not allow all farmers to access it.

If we transfer funding from Pillar 1 to Pillar 2, should we transfer the maximum 15% or less?

Summary of responses, for those who addressed this issue	
15%	4,392 - 3,797 RSPB campaign - 595 other
Less	217

6.11 We received 812 specific responses to this question with just over 73% stating that we should transfer the maximum 15%, and around 27% stating that it should be less.

6.12 At the regional workshops the majority (around 60%) of participants who supported a transfer also expressed support for transferring the full 15%. The vast majority of those who wanted to transfer less than 15% wanted a 9% transfer and of those most said that the rate should be reviewed in 2017. There were several responses supporting a 15% transfer that were conditional on how the funding would be used such as delivering simpler and more effective schemes or ensuring that funding was readily accessible to farmers

Reasons provided for wanting to transfer less than 15%

6.13 A number of farming sector representatives suggested a lower level of transfer than 15%. The National Farmers Union, Country Land and Business Association and Tenant Farmers Association suggested a phased introduction to transfers with a starting point of 9% transfer, potentially rising to 15% after a review in 2017. It was considered that Defra should not transfer more than 9% without providing more details of what the programme would be delivering in the next few years. They felt that new schemes would take time to be developed and funds would not start to be spent until 2016 or 2017 at the earliest. As the demand for these schemes was not known at this stage, it would be sensible to wait until later on in the programming period to fully roll-out these schemes.

6.14 The EFRA Committee have also recommended that the Government maintain the current 9% rate of inter-pillar transfer. They said the rate of transfer should only rise to 15% in 2017 if it could be demonstrated that additional funds are required and that this change would deliver a clear benefit.

6.15 Other points made by those who considered we should transfer less than 15% for the 2014-2020 period included:

- The impact on farmers of a 15% reduction in Pillar 1 was not yet known: this needed to be more fully understood and more modelling and analysis undertaken to illustrate the effect it would have on farmers;
- A 15% cut in the Pillar 1 budget could see farmers at a competitive disadvantage within the EU, where some countries are moving money in reverse, so from Pillar 2 to Pillar;
- The impact of double funding created by greening would release further funds;
- The impact of expiring ELS agreements in the next two years would also reduce scheme uptake in the later years of the programme;
- The environmental benefits derived from greening would mitigate the need for more funding to support environment land management;
- The voluntary 'Campaign for the Farmed Environment' approach could also play a key role in optimising environmental benefits, particularly in ecological focus areas and further address key environmental challenges.

- The capability of LEPs to deliver funding priorities and direct schemes is untested and such an experimental approach through 39 LEPs could create disjointed delivery, duplication and ineffective use of funds;
- The need for the RDP to fund the roll-out of rural broadband and tourism through the Growth Programme is questioned in the light of the funding already being directed to high-speed broadband from other sources and the developments in broadband technology (satellite becoming faster and cheaper);
- Reducing payments to the very largest recipients receiving over €300,000 would increase funding available to Pillar 2.

What would you want to fund less of if we transferred less than 15%?

Option	Number	%
Environmental land management	65	8.5%
Rural economic growth	73	9.5%
Farming and forestry competitiveness and productivity	45	5.8%
Other	43	5.6%
Not answered	541	70.5%

6.16 For those who did respond to this question there was no clear view on which area should receive less funding should less than 15% be transferred. Reducing funding for rural economic growth was the area which respondents favoured reducing funding (10% of responses), with environmental land management next (9%) and farming and forestry productivity (6%).

6.17 The 'other' category included a number of suggestions for specific areas that we should not fund. These included food packaging and processing, rural growth projects with no environmental benefit, tourism, broadband, training for environmental management training and organic farming. However, these areas were also supported by other respondents as areas which should be included in the programme, with arguments provided on both sides.

6.18 The regional workshops provided very few suggestions for what we should fund less of if we do not transfer the full 15%. Of those attendees that did respond there was a fairly even distribution of activities that should not be supported, with about a third suggesting we fund less on the environment; and others evenly split between growth, competitiveness and Leader.

Priorities for the Rural Development Programme

6.19 We asked:

(a) What priorities should we spend RDP funding on?
(b) What proportion of RDP spend should we apply to:
- **Environment - Agri-environment and forestry**
- **Farming competitiveness and forestry productivity**
- **Growth Programme**
- **LEADER**

6.20 Respondents were divided on the priorities for Rural Development Programme spend. They tended to focus on one of the four main areas we suggested in the question and argued variously for different proportions being spent on one or two of those areas.

6.21 A number of respondents suggested areas which they felt had been missed from the broad priorities we had outlined. These were largely the same as those identified in response to the Question *Are the areas we outline for support under the new Rural Development Programme set out above the right ones*? and included, amongst others, support for:

- Native breeds and farm animal genetic resources;
- Landscape, access and historic environment activity;
- Basic services, local infrastructure and energy generation in rural areas;
- Organic farming.

This is discussed in Chapter 5.

What proportion of RDP spend should we apply to environment; farming competitiveness and forestry productivity; the Growth programme; and LEADER?

	Environment	**Competitiveness**	**Growth**	**Leader**	**Number of responses**
Balance as now	83	5	8	4	28
Environment focus	88	3	5	4	17
Growth focus	78	3	15	4	2

Competitiveness focus	80	8	8	4	1
Other					121

6.22 For this question we set out a number of scenarios highlighted above. A small proportion of respondents used these illustrative scenarios. However, the vast majority did not specify proportions, and around 70% of those who did so chose to give their own preferred proportions of spend. A large number of those who did not specify proportions suggested that the focus of funding should be on the environment or repeated responses provided earlier in response to the inter-Pillar transfer questions.

6.23 A number of respondents who advocated either no transfer or a smaller transfer rate felt that if funding was transferred that funding should be made available to farmers. Some made the point that Growth, Leader and competitiveness should all contribute to the delivery of economic growth. Others, particularly those who advocated increased funding for the environment highlighted the economic benefits of environmental spend. Finally, the synergies and multiple benefits that each area could deliver needed to be more fully recognised and so putting the programme into artificial silos should be avoided.

6.24 Arguments for prioritising spend in particular areas under the new Rural Development Programme are outlined below.

Environment focus

6.25 Around 25% of the 121 “Other” responses suggested that we should spend more than 88% of Rural Development Programme funding on the environment. Respondents who wanted more focus on the environment considered that Defra needed to continue its commitment to the Natural Environment White Paper and place a continued emphasis on environmental goals. To achieve this, they considered that environmental goals in rural areas can largely only be achieved through Pillar 2 funding. They considered that investing in the countryside was important and also brought significant economic benefits to the local economy, including jobs, alongside delivering other Government commitments on water and climate change.

6.26 Respondents highlighted a range of other views and supporting information:

- Some felt that Rural Development Programme investment in improving productivity was less important and should be driven by the industry itself;

- Others highlighted the analysis provided in the Impact Assessment which accompanied the Consultation document, which they felt supported more of an Environment focus.

6.27 The emphasis on particular areas or aspects of support for the Environment focus varied, with some noting in particular the loss of biodiversity over the last 50 years, and other respondents suggesting that the protection of rivers and water resources and the protection and management of soil should be the main priority. However, some environmental non-Governmental Organisations responses did not support using Rural Development Programme funding to address water quality issues as they considered that these should be part of standard industry practice.

6.28 Specific issues such as the landscape and historic environment, organic farming and support for native and rare breeds were also seen as important. Alongside this, a number of those who supported a greater emphasis on the environment noted the opportunity this presented to deliver across the range of environmental objectives.

Growth focus

6.29 Around 35% of the 121 "Other" responses suggested that we should spend more than 8% of Rural Development Programme funding on Growth. Respondents who wanted the programme to focus more on growth highlighted the economic conditions in England and the UK and the need for rural areas to gain the benefits of economic growth and remain resilient to wider economic changes.

6.30 Linked to this, some respondents felt that rural communities were faltering and that businesses and young people in particular were either moving away from rural areas or choosing to re-locate when they should be encouraged to stay to work and to live. To support this, a number of respondents felt that high quality, fast broadband was essential for rural businesses to succeed.

6.31 Tourism was seen as very important to rural areas and efforts to ensure areas were attractive for tourists to visit the countryside and were promoted effectively were crucial for the economic prosperity of most rural areas.

6.32 Some respondents felt that rural economic growth should be prioritised over the environment or farming competitiveness as they believed that more targeting of funding on the environment would yield higher benefits for less resources and that support to improve the competitiveness of the farming sector should be led by the sector themselves. However, responses varied. In particular, there were a number of calls for LEADER and the Growth Programme to work alongside each other to deliver growth in rural areas.

Competitiveness focus

6.33 Around 35% of the "Other" responses suggested that we should spend more than 5% of Rural Development Programme funding on competitiveness. The main reasons provided by respondents for a greater focus on farming competitiveness were that:

- It was important to ensure a viable agricultural sector and a reasonable level of food security;
- A viable agricultural industry will help rural growth;
- Without a viable agricultural industry environmental work will stall;
- England must remain competitive with the rest of the European Union and globally as well as ensuring the development of good local food supply chains;
- The heavy focus on restoring, preserving and enhancing the environment under the current programme needs to be re-balanced

6.34 Those who felt there was a need to put more focus on forestry productivity felt that there was a need to invest in planting new productive woodland and improving access to existing woodlands for timber harvesting, public access and developing supply chain activity.

LEADER focus

6.35 Around 5% of the "Other" responses suggested that we should spend more than 4% of total Rural Development Programme funding on the LEADER approach. Respondents who wanted more focus on supporting LEADER felt that:

- It would give more flexibility towards rural development for the majority who do not work on the land, but live in the country;
- Rural communities are key to ensuring growth in the rural economy. Good transport links, access to services and diverse employment opportunities, are all key to ensuring vibrant rural economies;
- Education and skills training should be delivered as locally as possible to further ensure employment diversity;
- LEADER provides the only real opportunity for rural SMEs to develop and grow. A few need major capital investments over the next few years to achieve permanent, sustainable economic, social and community transformation;
- LEADER is bottom up, based on clearly identified local social and economic needs

6.36 As noted above, some responses did not recognise the distinction between funding for competitiveness, rural economic growth and Leader. They felt they were essentially meeting the same objective.

Balance as now funding

6.37 A number of responses proposed keeping the balance of funding as now. The reasons for this were largely that each part of the Programme plays its part and that the current perceived balance of the programme is broadly right. Those who preferred this balance generally felt that all four areas of focus were important and were closely connected. They need addressing in tandem and simultaneously. The balance helped the farming and forestry sector by making them more competitive and helped protect and enhance the environment, with Growth and LEADER funding helping to support social and economic foundations in rural areas.

Government Response

6.38 Our consultation shows strong support for making the best use of CAP money for the benefit of the environment, farmers, taxpayers and rural businesses. There is a widespread desire among the public to use the Rural Development Programme to deliver the environmental and public goods that direct payments cannot.

6.39 Throughout the negotiations on the new CAP we fought hard to maximise the benefits from CAP money and for the flexibility to transfer funds from direct payments to rural development. We need to overcome our historically low Pillar 2 allocation.

Environment

6.40 We want to improve the farmed environment. We are committed to enhancing the environment and meeting our key environmental commitments including farmland biodiversity and addressing agricultural pollution causing problems in rivers, lakes and other water bodies.

6.41 The new CAP will make a difference on the environment in way that it has not done before. Greening of direct payments will make payment of direct subsidies conditional on farmers undertaking activities that do some good for the environment. Through new, targeted rural development environmental management schemes taxpayers money will be working harder. Our new environmental scheme will focus on maintaining and improving our most valuable sites and making landscape scale improvements in the wider countryside. We are replacing the basic entry level scheme with a scheme which will target improvements and maintain landscapes that underpin rural tourism; help to provide resources for farmland birds and pollinators; and tackle at source water pollution that would otherwise add costs to water companies and water bills.

6.42 We are refocusing spending within the rural development programme towards the environment. We will plan to spend around 87% on this compared with 83% in the current programme.

Growth

6.43 With the remaining 13% of the new programme we will be putting a much stronger focus on jobs and growth, with a meaningful role for Local Enterprise Partnerships (LEPs).

6.44 **We will make 5% of the new Programme directly available to Local Enterprise Partnerships through the Growth Programme.** Through their investment strategies LEPs will set out how they want this spent in their rural areas to build knowledge and skills, support new and developing micro and small rural business, invest in small scale renewable and broadband investments and support tourism activities.

6.45 We will allocate this Growth Programme funding to individual LEPs in a fair and equitable way using rural population as the underlying basis, with adjustments to help target the economic challenges in rural areas. We are publishing these allocations and Defra officials are writing to LEPs to confirm them. LEPs will now use these allocations to complete their EU fund investment strategies.

6.46 We will focus spending on farming and forestry competitiveness where it will have a tangible impact on farm business performance, for example helping farmers applying innovation, uptake of technology and knowledge transfer we will help them achieve impact. This will make up 4% of the new programme.

6.47 We will strengthen the contribution that funds invested through LEADER make to delivering jobs and growth in rural areas. Funding for LEADER will be about 4% of the new programme in line with the EU requirement to put at least 5% of the EU funding element through LEADER.

6.48 A new National Delivery Framework for LEADER will clearly set out the policy priorities, measures and types of projects we expect LEADER groups' Local Development Strategies to be based on. At the local level, every LEADER project will need to demonstrate that it contributes to the local economy before it can be approved and LEADER group will need to have links with their LEPs.

6.49 We will involve LEPs in the development of the new programme and the decision making process for farming competitiveness, providing local advice at the scheme development stage and advise on local conditions, needs and opportunities.

Inter-pillar Transfer

6.50 We welcome the strong endorsement by many consultation respondents that rural development spending should be used to deliver the environmental and public goods that direct payments cannot and that it can deliver worthwhile and valuable outcomes for society and contribute to rural economic growth and enhance the environment.

6.51 We will be introducing a range of new schemes in the new Rural Development Programme. We will want to assess the effectiveness of and demand for these once they are in operation. We will also not be spending money on new schemes immediately. The first payments to farmers under the new environmental scheme will not be made until 2016.

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

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

6.54 We believe that this represents the best balance between using rural development money to deliver public goods and meet our obligations, helping the farming industry become more productive and competitive, generating jobs and growth, assessing the demand for the new programme as we deliver it and enabling farmers to make a smooth transition to the new direct payment budget.

[4] Assuming an exchange rate of €1= £0.8

7. Cumulative impact of decisions

Introduction

7.1 When responding to the consultation some stakeholders argued that it was difficult to assess the aggregate impact of the reforms on different parts of the farming industry. Farmers have also raised concerns about the cumulative impact on farmers, both in the consultation regional workshops and in focus groups that have been run as part of forthcoming research[5].

7.2 This section seeks to address this by presenting initial estimates of the aggregate impact of the changes to Pillar 1 on Farm Business Income (a measure very similar to net profit as described in financial accounts).

7.3 Our view remains that reduced Pillar 1 payments offer the potential for more valuable use of the money elsewhere. However the following analysis is useful in demonstrating the impact of our decisions on farm receipts and costs in response to the concerns raised in the consultation.

7.4 The analysis estimates the contribution of direct payments to farm business income[6], holding all other things constant. It should be noted that direct payments have a number of important impacts that are not captured here:

- This analysis assumes no structural change takes place in farming. In reality, direct payments, by impairing the incentives to respond to market signals, slow down structural change which is an important part of efficiency gains in the sector.
- It has not been possible to capture the reduction in land prices and rents resulting from falling direct payments. If direct payments fall, this will be reflected in lower land prices and rents, thus there will be a reduction in costs for many farmers, albeit with a time lag.
- To the extent that greening results in reduced agricultural output across the EU, there will be upward pressure on some commodity prices. Farm business incomes may even rise if the increase in price outweighs the fall in output.
- We have not taken account of changes to the structure of new environmental land management scheme funding under pillar 2, which will not include a separate upland strand.

[5] Forthcoming research on farmer response to the CAP reforms

[6] In essence Farm Business Income is the same as Net Profit.

7.5 Thus our analysis provides an initial estimate of the receipts that farms sectors get from direct payments. They also include the costs of complying with greening[7], but omit output price, or input cost changes, resulting from the CAP.

7.6 No estimate has been made in this analysis of the change in receipts for farms from pillar 2 under agri-environment schemes and other RDP agreements with pillar 1 claimants. As such it is **not** an estimate of the total impact of changes to CAP on the farming industry.

Methodology

7.7 The Farm Business Survey (FBS) has been inflated to provide an estimate of Farm Business Income (FBI) to 2015 following the implementation of the CAP reforms, and holding everything else constant.

7.8 The analysis below estimates the value of the change in FBI based on the following assumptions:

- 12% is transferred from Pillar 1 to Pillar 2 2014 and 2015; and
- Payment rates for the Severely Disadvantaged Areas (SDA) and lowland regions are equalised; and
- It should be noted that the moorland payment rates are not yet decided and we will make a final decision on this later in 2014. For the purposes of this analysis we have used the payment rates set out in option 2 “increase in upland payment” of the consultation where the moorland rate is uplifted by the same cash amount per hectare as the SDA rate (when compared to 2012 post modulation payment rates); and
- The costs of implementing the Ecological Focus Area (EFA) and Crop Diversification Greening requirements are also included; and
- 2015 payment rates are estimated assuming that 3% of the revised direct payment ceiling is used for the National Reserve and 2% is allocated to a Young Farmers Scheme. The minimum claim size is set at 5 hectares.

7.9 Estimates of FBI are compared to a baseline of 2013 which has been inflated to keep pace with expected price rises and earnings growth in the broader economy. The analysis is therefore considering the impact of changes to CAP on FBI relative to earnings in the broader economy. Further details of the methodology can be found in Annex D.

[7] Only the Ecological Focus and Crop Diversification requirements are included as the Permanent Grassland measure was estimated to have a relatively small impact, and is difficult to ascribe to individual sectors.

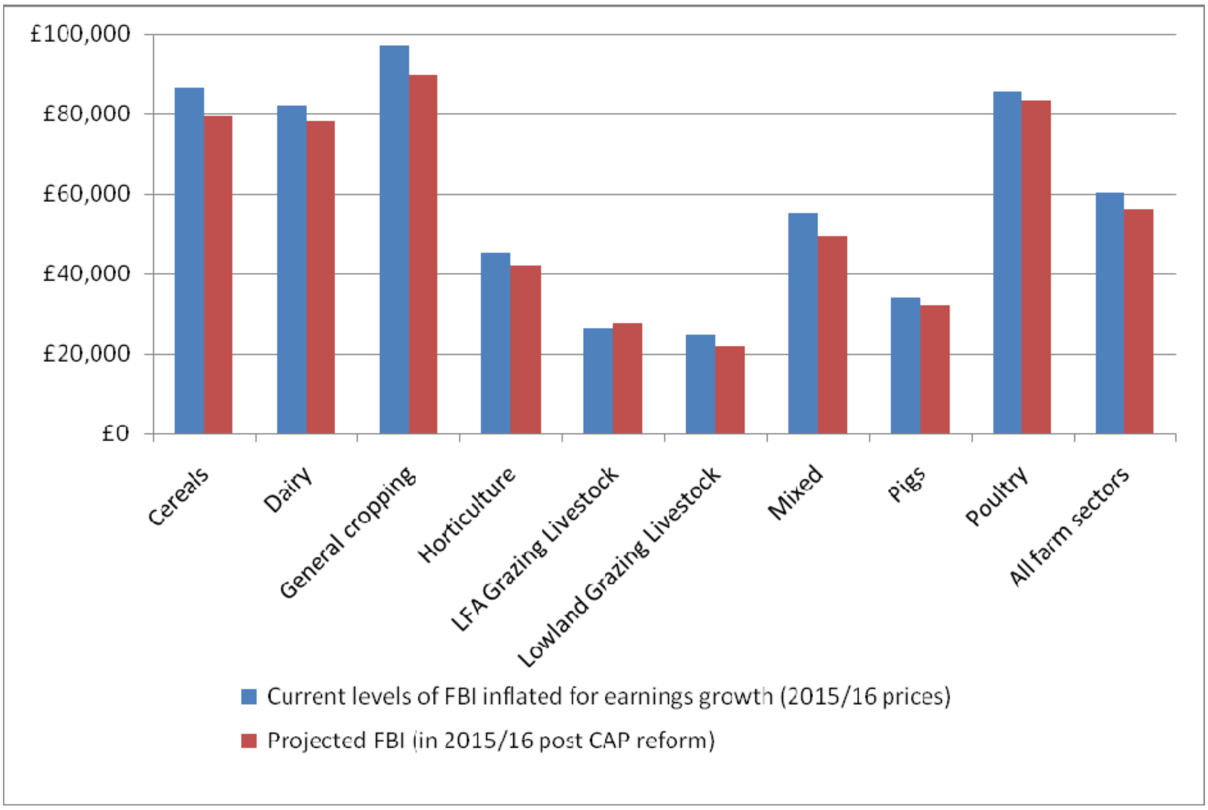
Results

7.10 **CAP budget and policy changes reduce projected Farm Business Income by around 7% by 2015.** Given the assumptions above, FBI falls in real terms as a result of changes to direct payments and greening costs. By 2015, FBI is around 7% lower than a scenario in which current levels of FBI keep pace with earnings in the rest of the economy.

7.11 Average farm receipts inflated to 2015/6 are nearly £300k, so the changes to direct payment and greening costs when expressed as a share of farm receipts are around 1.5%.

7.12 As shown in Chart 1, there is some variation by farm sector, notably Less Favoured Area (LFA) grazing livestock farms see an increase in FBI assuming that money is moved up the hill.

Chart 1: Estimated average Farm Business Income pre (2013) and post changes to CAP pillar 1 (2015) presented in 2015/16 prices



Source: Defra analysis using Farm Business Survey data

7.13 The reduction in direct payments can be split into the different budget and policy changes that are combined in the new CAP. Chart 2 below examines what drives the change in FBI for each farm sector. In order to compare more easily across farm sectors the chart focuses on the composition of the change rather than the magnitude. For each farm sector, the change in FBI has been disaggregated into the component parts and presented as a percentage of the total change in FBI.

7.14 Across all farm sectors the biggest impact arises because the pillar 1 budget does not keep pace with inflation and earnings growth. There are two effects here; firstly the pillar 1 budget is smaller in real terms as inflation is eroding the real value of the payments compared to 2013. Secondly this element of FBI does not grow in line with earnings. Thus as earnings grow over time in the economy, FBI does not keep pace and so falls in relative terms.

7.15 The reduction in average farm income is broken down into:

a. Just over half from the Pillar 1 budget not keeping pace with inflation and earnings growth

b. Around one-fifth is accounted for by moving from a 9% to a 12% transfer

c. Around one-fifth results from the costs incurred from greening

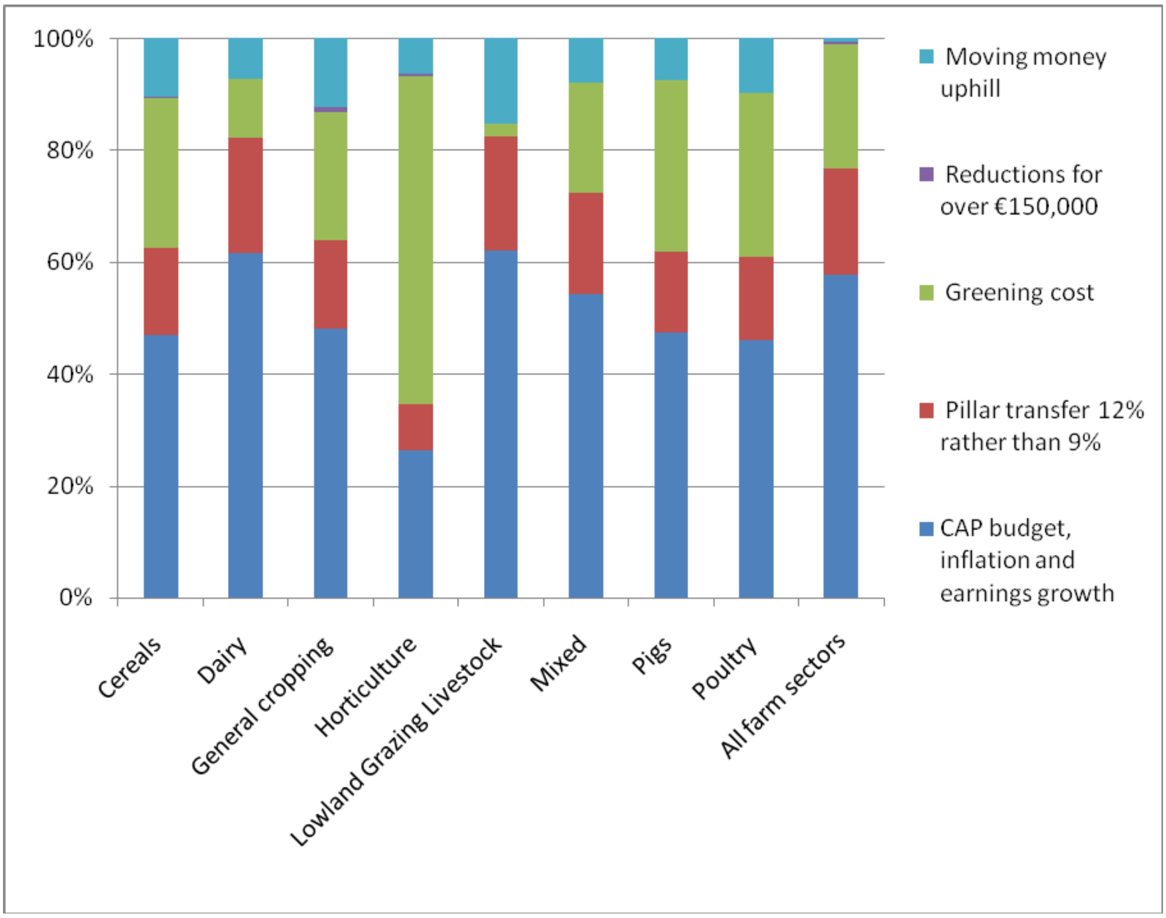
d. Reductions for direct payments over €150,000 does not have a significant impact

e. Moving money uphill has no impact on average but causes some redistribution between lowland and upland farmers[8]

7.16 The bulk of the net FBI change therefore arises from EU-wide budget cuts and new policies on greening and reductions in direct payments, which will also affect farmers in other EU member states.

[8] Chart 2 shows that, across all farm sectors, there is a very slight reduction in FBI is associated with moving money uphill. This is because the sample we have used slightly under-represents upland farmers.

Chart 2: Estimated breakdown of change in farm business income between 2013 and 2015 – Percentage of FBI change due to each of the CAP pillar 1 reforms, presented in 2015/16 prices

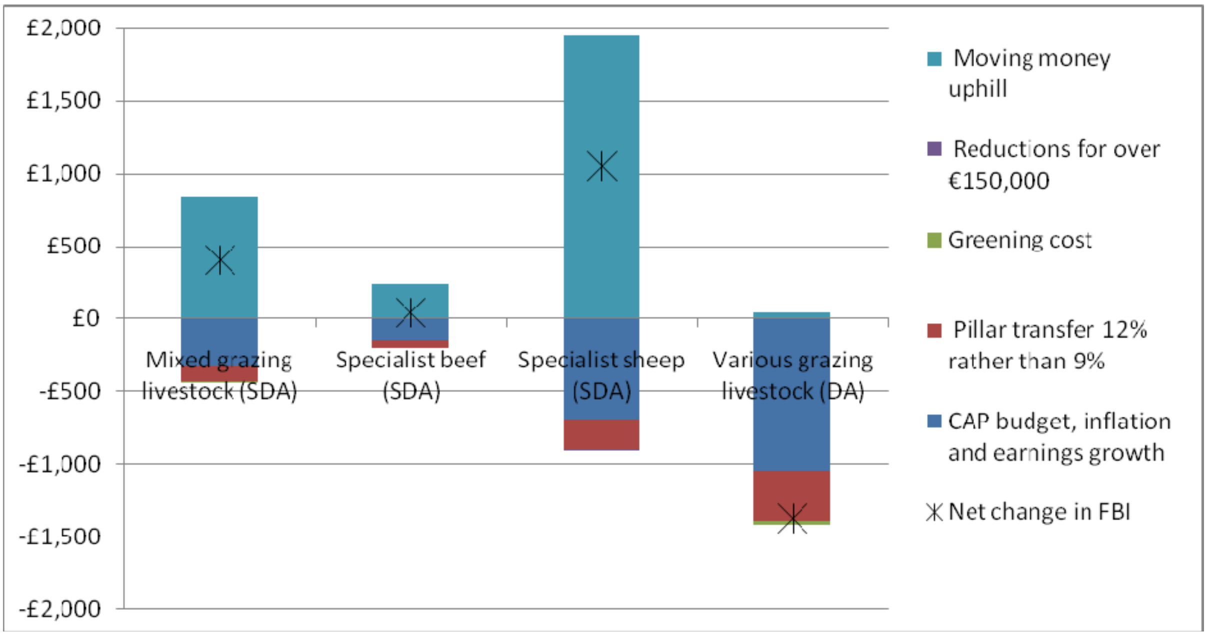


Source: Defra analysis using Farm Business Survey data

7.17 The share of greening in the estimated impact is most significant for the pigs and poultry farm types at around 30% of the impact. This is driven by the high gross margins for these farm types, which mean that any changes in production arising from the EFA requirements will have a significant impact on revenue. The approach to calculating the costs of greening in all farms is explained in Annex D.

7.18 Increasing uplands payments rates (option 2 from the consultation) would mean all sectors seeing a greater loss of pillar 1 CAP receipts, except LFA Grazing Livestock (not shown in chart 2) where net receipts are marginally increased. Chart 3 below shows that for most types of LFA grazing livestock farms, moving money uphill more than compensates for the other changes to CAP and overall FBI is expected to increase slightly from 2013 levels.

Chart 3: Change in Farm Business Income pre (2013) and post changes to CAP pillar 1 (2015) presented in 2015/16 prices and composition of the change



Source: Defra analysis using Farm Business Survey

7.19 **The impact of the new CAP budget not keeping pace with inflation and earnings growth increases over time.** The table below reports projected FBI for the years 2014 and 2015 compared to a scenario in which 2013 FBI keeps pace with earnings growth. It is assumed that 12% is transferred from pillar 1 to pillar 2 in 2014 and 2015.

Estimated impact of changes to CAP in each year, expressed as percentage change from a scenario in which current FBI keeps pace with earnings growth.

Claim Year	2014	2015
% reduction in average farm business income compared to 2013	3.9%	7.1%

Source: Defra analysis using Farm Business Survey data

7.20 The impact in 2014 claim year includes the real terms reduction in the CAP budget and a 12% transfer. It does not include greening costs nor reductions over €150,000 as these will not take place until claim year 2015. The estimates for 2015 also include the CAP policy measures such as greening, reductions in payments over €150,000.

7.21 Beyond 2015 FBI continues to fall in real terms predominantly driven by direct payments failing to keep pace with inflation and earnings growth.

Annex A: Breakdown of responses

Table A1: How responses were received

Response type	Number of responses
Email and written	4161
Of which campaigns:	
RSPB	*3797*
Soil Association	*36*
Wildlife Trusts	*21*
Citizen Space (on-line)	767
	Total: 4928

Table A2 : Classification of respondent

Category	E-mail and Written	Citizen Space	Total
Business	34	46	80
Environmental Organisation	68	53	121
Farming and Horticultural Organisation	35	40	75
Forestry Organisation	8	2	10
Individuals	3,975	523	4,498
Local Authority	15	27	42

Government			
Local Enterprise Partnerships (LEP)	5	3	8
LEADER Local Advisory Groups (LAG)	7	21	28
Non-Farming Organisations	14	52	66
Total			4,928

In some cases respondents self-identified themselves as one of the categories above. In other cases we have classified them. These figures should therefore be considered only as a broad overview.

Approximately 66 responses were received from farmers/farm businesses.

Table A4: Attendance at 10 regional workshops

Venue	**Attendance**
North West (Cumbria) - Penrith	83
West Midlands - Bromsgrove	60
Yorkshire and Humber - Leeds	45
East Midlands - Melton Mowbray	75
South West (Somerset) - Bridgwater	76
South East - Ardingly	100
East of England - Cambridge	92
North West (Cheshire) - Nantwich	49
North East - Hexham	80

South West (Cornwall) - Truro	60
Total	720

These are the approximate numbers of attendance at the regional workshops.

Table A5 Classification of attendees at regional workshops

Category	**Ardingly**	**Bridgwater**	**Bromsgrove**	**Cambridge**	**Hexham**	**Leeds**	**Melton Mowbray**	**Penrith**	**Nantwich**	**Truro**
Business	64	11	23	55	22	14	21	36	33	1
Environmental Organisation	13	17	7	20	8	7	9	9	7	7
Farming & Horticultural	5	21	13	8	10	5	5	15	8	32
Forestry Organisation	3	1	2	1	4	2	1	3	3	2
Individuals	2	-	1	-	9	2	-	1	-	-
Local Authority Government	-	6	-	-	4	9	6	2	6	7
Local Enterprise Partnerships (LEP)	-	-	5	-	-	-	-	-	-	1
LEADER Local Advisory Groups (LAG)	7	1	6	1	3	2	4	2	1	2
Non-Farming Organisations	2	24	-	7	14	3	14	9	1	7

In some cases respondents self-identified themselves as one of the categories above. In other cases we have allocated them to a category. In some cases sufficient information not available. These figures should therefore be considered only as a broad overview.

Annex B List of organisational respondents

- Abbots Ripton Farm co ltd
- AC Hulme & Sons
- Action with Communities in Rural England
- Action with Communities in Rural Kent, the Rural Community Council for Kent & Medway
- ADAS UK Ltd
- Advocates for Rural Enterprise
- Agricultural Engineers Association
- Agricultural Industries Confederation
- Agriculture and Horticulture Development Board
- AgriSkills Forum
- Agri-Tech Leadership Council
- AH Risdale
- AM Borrill & Son
- Andersons
- Arun District Council
- Association of Independent Meat Suppliers
- Association of Local Government Archaeological Officers
- Association of Show and Agricultural Organisations
- Avon Wildlife Trust

- Bedfordia Farms Ltd
- Bedfordshire, Cambridgeshire & Northamptonshire Wildlife Trust
- Bee Farmers Association of the UK
- Berkshire Buckinghamshire and Oxfordshire Wildlife Trust
- Berkshire Local Nature Partnership
- Bignor Park Limited
- Birmingham and Black Country Wildlife Trust
- Bixhall
- Blackdown Hills AONB
- Blacker Sheep Limited
- Blue Grey Cattle Group
- Bolsover District Council
- Bolsover North East Derbyshire Leader Local Action Group
- Bolton Abbey Estate
- Brampton Economic Partnership
- Brecks Local Action Group
- The British Association of Green Crop Driers
- British Association for Shooting and Conservation
- British Beekeepers Association
- British Independent Fruit Growers' Association
- British Institute of Agricultural Consultants
- The British Horse Society
- British Mountaineering Council (BMC)
- British Pig Association
- British Poultry Council
- British Society of Plant Breeders Ltd
- British Wildlife Management
- Britt Vegetation Management
- Broadland Agricultural Water Abstractors Group (BAWAG)
- Brown & Co LLP
- Buglife - The Invertebrate Conservation Trust
- The Bulmer Foundation
- Bumblebee Conservation Trust

- Calderdale Council
- Campaign to Protect Rural England
- Central Association of Agricultural Valuers
- Central Warwickshire Villages Leader Local Action Group
- Centre for Ecology & Hydrology
- Chalk & Cheese Local Action Group
- Cheshire and Warrington LEP
- Cheshire Region Local Nature Partnership
- Cheshire West and Chester Rural Regeneration Board
- Cheshire Wildlife Trust and The Wildlife Trust for Lancashire, Manchester & North Merseyside
- Chiltern Woodlands Project
- Chilterns Conservation Board
- Chris Wait & Associates

- Clay Country and West Cornwall Local Action Groups
- Cleeve Common Board of Conservators
- Collison and Associates Limited
- Community Action Northumberland
- The Community Council for Berkshire
- Community Council for Somerset
- Community Council of Devon
- Community First
- Community First - the Rural Community Council for Wiltshire and Swindon
- Community Futures (Lancashire RCC)
- Community Impact Bucks
- Compassion in World Farming
- Confor
- Cornish Heritage Safaris (Ltd)
- Cornwall Ancient Tree Forum
- Cornwall and Isles of Scilly Local Nature Partnership
- Cornwall AONB Partnership
- Cornwall Council, Cornwall and Isles of Scilly Local Enterprise Partnership
- Cornwall Countryside Access Forum
- Cornwall Ramblers
- Cornwall Rural Community Council
- Cornwall Wildlife Trust
- Cotswold Conservation Board
- Council for British Archaeology
- Country Land & Business Association
- Countryside and Community Research Institute
- Coventry and Warwickshire Local Enterprise Partnership
- Cranborne Chase & West Wiltshire Downs AONB
- Crane & Sons (Farms) Ltd
- Crop Protection Association
- Crops for Energy Ltd[9]

[9] The Crops for Energy response is endorsed by the following organisations: Agri-Food and Biosciences; University of Bath; Centre for Sustainable Energy; Carymoor Environmental Trust;CRL; Dorset County Council; Iggesund Holmen Group; National Farmers' Union; Murray Carter; REGRO; Renewable Energy Technology; rok wood; Roves Farm; Rural Development initiatives; Strawsons Energy; Turton Engineering; TV Bioenergy Coppice; Wiltshire Council.

- Culworth Grounds Farm Partnership
- Cumbria Business Consultancy
- Cumbria Fells and Dales Local Action Group
- Cumbria Rural Housing Trust
- Cumbria Wildlife Trust

- Dairy UK
- Dartmoor Commoners' Council
- The Dartmoor Hill Farm Project
- Dartmoor National Park Authority
- The Deer Initiative Ltd
- Derbyshire Heritage Walks
- Derbyshire Rural and Farming Network
- Derbyshire Wildlife Trust
- Devon Countryside Access Forum
- Devon County Council
- Devon Hedge Group
- Devon Local Nature Partnership
- Devon Wildlife Trust
- Dorset AONB
- Dorset Community Action
- Dorset County Council
- Dorset Local Nature Partnership
- Dorset Urban Heaths Grazing Partnership
- Dorset Wildlife Trust
- DR Company (Rural Regeneration)
- Dry Stone Walling Association
- Duchy College, Rural Business School
- Durham County Council (Rural Working Group, CDEP, REDS)
- Durham Wildlife Trust

- E & K Benton Ltd
- E Buscall & Partners
- East Cornwall Local Action Group
- East Devon AONB Partnership
- East Midlands Regional Advisory Committee, Forestry Commission
- East of England Regional Advisory Committee, Forestry Commission
- East Riding of Yorkshire and Kingston upon Hull Joint Local Access Forum
- East Riding of Yorkshire Council
- Eastrington Village Hall Association

- ECOVAST (UK) European Council for the Village and Small Town
- Emorsgate Seeds
- Energy Technologies Institute
- English Heritage
- Enville and Stalybridge Estates
- Essex and Suffolk Water
- Essex Wildlife Trust
- eurinco
- European Cattle Innovation Partnership
- Euston Estate
- Exmoor National Park Authority

- Family Farmers' Association
- Farm Animal Genetics Resources Committee
- Farm Carbon Cutting Toolkit CIC
- The Farm Consultancy Group
- Farmacy PLC
- FarmCornwall CIC
- Farming and Countryside Education
- Farming and Wildlife Advisory Group South West
- Federation of Cumbria Commoners
- Federation of Small Businesses
- Fens Adventurers
- Fens Adventurers Local Action LEADER Group
- Fens for the Future Partnership
- Flora locale
- Food and Drink Federation
- Food and Education Rural e-network
- Forest Communication Network Ltd
- Forest of Bowland AONB Partnership
- Forest of Dartmoor Commoners Association
- Foundation for Common Land
- Friends of the Earth
- Friends of the Lake District

- G Baker & Son
- G W Balaam and Son
- Game and Wildlife Conservation Trust
- Gidleigh Commoners' Association
- Global Renewables
- Gloucestershire Rural Community Council (GRCC)
- Greater Dartmoor LEAF (Local Action Group)
- Green Resources Ltd
- Growing Local is Going Local CIC

- Hadrian's Wall Trust
- Hallmark Farming Ltd
- Hampshire and Isle of Wight Wildlife Trust
- Hampshire Countryside Access Forum
- Hardknott UK Ltd
- Harefold Ltd
- Harley Farms (South)
- Haycock and Jay Associates Ltd
- Heart of the South West Local Enterprise Partnership (HotSW LEP)
- Heathside Consulting
- Hedgelink
- Herefordshire Council
- Herefordshire Nature Trust
- Herefordshire Rural Hub
- Heritage Alliance
- Heritage Lottery Fund
- High Peak Borough Council
- Honing Estate and Honing Fruit Farms
- Horticultural Trades Association
- Hull and East Yorkshire Local Nature Partnership
- Humber and Wolds Rural Community Council

- Iggesund
- Increment Limited & Inside Track
- Institute for Archaeologists
- Institute of Chartered Foresters
- Institute of Historic Building Conservation
- International Bee Research Association
- Isis Forestry Ltd

- John Rook Manor Farm Ltd
- John Rowsell Ltd
- Joint Response from the Ramblers, the British Mountaineering Council, the Open Spaces Society, the

Outdoor Industries Association and the Sport and Recreation Alliance

- Kent Wildlife Trust
- Kite Consulting LLP
- Knightwood Trust Farms Ltd
- KS Business Park Ltd

- The Lake District Local Access Forum
- Lake District National Park Authority
- Lakes Biomass
- The Land Trust
- The Landscape Institute
- Landforceskills
- Landscape and Biodiversity Research Group, University of Northampton
- Lantra
- LEADER Coast, Wolds, Wetlands & Waterways Local Action Group
- Leicester and Leicestershire Enterprise Partnership and Leicestershire Rural Partnership
- Leicestershire and Rutland Wildlife Trust
- Leicestershire Local Access Forum
- Lincolnshire Wildlife Trust
- Lindsey Action Zone LEADER programme
- Lund Village Hall

- Making it Local - Local Action Group
- Marches Local Enterprise Partnership
- The Marston Vale Trust
- Matfen Area Red Squirrel Group
- The Mersey Forest
- The Micklefield Partnership
- Milton Keynes Parks Trust Ltd
- Miscanthus Growers Ltd
- The Moorland Association

- National Association for Areas of Outstanding Natural Beauty
- The National Diploma in Beekeeping (NDB)
- National Farmers' Union
- National Federation of Young Farmers Clubs
- The National Forest
- National Parks Authority
- National Sheep Association
- National Trust
- Natural Capital Committee
- Netherton Farmers Ltd
- Network Grain UK Ltd
- New Forest Access Forum
- New Forest Commoners Defence Association
- New Forest Local Action Group
- Newcastle Northumberland Uplands LEADER
- Nidderdale Area of Outstanding Natural Beauty
- Norfolk & Suffolk Woodland Working Group
- Norfolk Coast and Broads Local Action Group
- Norfolk County Council
- Norfolk Rural Community Council
- Norfolk Wildlife Trust
- North Devon
- North Pennines AONB Partnership
- North Wessex Downs AONB Partnership
- North Wessex Downs LEADER Local Action Group
- North York Moors National Park Authority
- North Yorkshire County Council
- Northern Farmers & Landowners Group
- Northern Lincolnshire LAG
- Northern Marches LEADER Group
- Northumberland Coast AONB Partnership
- Northumberland Uplands Local Action Group
- Northumberland Wildlife Trust

- O W Wortley & Sons Ltd
- Open Spaces Society
- Organic Growers Alliance
- Organic Research Centre
- Outdoor Industries Association
- Oxfordshire Rural Community Council

- Peak District Land Managers' Forum

- Peak District Local Action Group
- Pennine Prospects (the Southern Pennines Rural Regeneration Company)
- Penvose Farm
- Peter Tavy Commoner's Association
- PlantLife
- Plunkett Foundation
- Plymouth Local Nature Partnership
- Proctor Bros (Long Sutton) Ltd
- Pryor & Rickett Silviculture Ltd

- R Martin Farms
- R & S Buttle
- The Ramblers
- Ramblers' Association (Cornwall Area, Restormel Group)
- Ramblers' Association (Lake District Area)
- Rare Breeds Survival Trust
- Rectory Reserve Ltd
- Red Rose Forest
- Red Squirrels Northern England
- The Reigate Society
- Rex Paterson (Farms) Ltd
- River Chess Association
- The River Restoration Centre
- RJ Bailey Farmers
- Robert Davidson & Son Ltd
- Royal Agricultural Society of England
- Royal Forestry Society
- Royal Institution of Chartered Surveyors
- Royal Norfolk Agricultural Association (RNAA)
- Royal Society for the Protection of Birds
- RT Goddard
- Rural Action Derbyshire
- Rural Action Yorkshire
- Rural Affairs Group of the General Synod of the Church of England
- Rural Community Council of Essex
- The Ruskin Museum

- Savills
- Seven Trent Water
- Shropshire and Marches Campaign for Better Broadband in Rural Areas
- Shropshire Council
- Shropshire Hills AONB Partnership
- Shropshire Wildlife Trust
- Shropshire, Telford & Wrekin Local Nature Partnership
- Small Farms Association
- Small Woods Association
- Soil Association
- Somerset County Council (SCC)
- Somerset Local Nature Partnership
- Somerset Wildlife Trust
- South Devon Coastal LAG (LEADER Group)
- South Downs National Park Authority
- South East Blonde Cattle Club
- South East Essex Organic Gardners
- South East Water
- South East Wood Fuels
- South Lincolnshire and Rutland Local Access Forum
- South Somerset District Council
- South Tynedale Railway Preservation Society
- South West Uplands Federation
- South West Water
- Spalding Horticultural Training Group
- Sport and Recreation Alliance
- SR Bowring and Son
- Staffordshire Local Action Group (LEADER)
- Staffordshire Moorlands District Council
- Strutt and Parker
- Suffolk Wildlife Trust
- Sunnyside Rare Breeds Limited
- Surrey Community Action
- Surrey Heathland Project
- Surrey Wildlife Trust
- Sussex Downs and Low Weald LEADER
- Sussex Wildlife Trust
- Sustrans
- Swaledale Sheep Breeders Association
- Sylva Foundation

- T Brown & Son (Covington) Ltd
- Tamarisk Farm
- Tenant Farmers Association
- Terravesta Ltd
- Thames Water
- Thorne & Hatfield Moors Conservation Forum
- Three Harbours and Coastal Plain Local LEADER Action Group
- Tom Wilkinson & Co

- UK Rural Skills
- United Utilities

- Visit England
- The Voluntary Initiative

- W M Hutchinson & Sons
- Waddesdon Farms
- Walford and North Shropshire College
- Warwickshire Wildlife Trust
- Waveney Valley Local Action Group
- Weardale Estates
- Welland Parochial Church Council
- Welland Rivers Trust
- Wessex Water
- West of England Local Enterprise Partnership
- West of England Nature Partnership
- West of England Rural Network
- West Sussex Local Access Forum
- West Country Rivers Trust
- Western Somerset LAG
- Wigan Local Access Forum
- Wildfowl and Wetlands Trust
- Wildlife and Countryside Link[10]
- The Wildlife Trusts
- Wiltshire Wildlife Trust
- Women in Rural Enterprise (WiRE)
- Woodland Inspirations Ltd
- Woodland Trust
- Worcestershire Local Action Group and Worcestershire County Council
- Worcestershire Wildlife Trust

- Yara International ASA
- York Natural Environment Trust Ltd
- York North Yorkshire and East Riding Enterprise Partnership
- Yorkshire Water
- Yorkshire Wildlife Trust

Plus #agrichat and twitter feeds

[10] The response made by the Wildlife and Countryside Link is supported by the following organisations: Amphibian and Reptile Conservation; Buglife – The Invertebrate Conservation Trust; Bumblebee Conservation Trust; Butterfly Conservation; Campaign to Protect Rural England; Council for British Archaeology; Friends of the Earth England; Freshwater Habitats Trust; National Trust; The Mammal Society; Open Spaces Society; Plantlife; The Rivers Trust; Royal Society for the Protection of Birds; Salmon & Trout Association; Wildfowl & Wetlands Trust; The Wildlife Trusts; Woodland Trust; WWF-UK.

Annex C: Issues on which the Government will respond in early 2014

Direct payments:

1. Additional criteria for entry to Young Farmers Scheme
2. Ceiling on entitlements (between 25–90) under the Young Farmers Scheme

Rural Development Programme:

3. Amount of funding for each scheme and measures
4. Shape of new Environmental Land Management and Productivity schemes, including the approach to innovation and how we will deliver advice
5. Shape and focus of LEADER
6. Whether or not we will use loans under the new programme]

Market management:

7. Confirmation not to agree to a requirement for written contracts, and not to formally recognise producer organisations and inter-branch organisations

Annex D: Methodology and assumptions used in analysing the cumulative impact of decisions

Data and Inputs

The Farm Business Survey (FBS) has been used to estimate Farm Business Income (FBI) at the individual farm level under different policy scenarios. There are four components that make up FBI, which is very similar to net profit as described in financial accounts.

Table 1: Components of Farm Business Income supplied from FBS

Variable	Component Description
Farm Business Income	Income from agricultural output (crops, livestock, home grown fodder crops, tillages and forages)
	Diversified income from non-agricultural activities
	Income from agri-environment schemes
	Single payments

Baseline estimates of 2013 FBI are calculated for each farm by taking a three year average of FBI without single payments (in inflated prices) and then adding inflated estimates of 2013 single payments (assuming post modulation payment rates of €263 for Non SDA, €211 for SDA and €37 for moorland).

New levels of 2015 direct payments have been estimated and added to FBI to establish a basis for comparison against the baseline. Direct payments are calculated for the following scenarios, using the following payment rates per hectare for the 2015 scheme year.

	Description	Basic Payment per hectare payments (€)		
		SDA moorland	SDA	Non SDA
Baseline*	2013 average direct payments, post 9% modulation	37	211	263
2015 Scenario		Including greening payment		
1	9% transfer, no money uphill	35	208	259
2	12% transfer, no money uphill	35	201	251
3	12% transfer, money uphill	70	244	244

***** The baseline takes a simplified approach to modulation in order to produce these initial estimates. Modulation in 2013 has been implemented in 3 bands; 14% of the part of payments up to €5,000, 9% for the part between €5,000 and €300,000 and 5% on any payments over €300,000. In this analysis we have assumed an average of 9% modulation on the direct payment ceiling and subsequently calculated average payment rates per hectare.

Data processing and adjustments

The analysis is based on the 1,102 farms which appear in the FBS in the years 2010, 2011 and 2012 and also participated in the 2010/11 Agri-Environment module.

For each farm, FBI for each of the three years has been adjusted to deduct single payments and then has been inflated into 2015/16 prices. A three year average FBI without single payments has been generated. The estimated 2015 direct payments are then added on.

- The new direct payment figures have been estimated in the following way:
  - Indicative per hectare payment rates have been estimated for different policy scenarios and these have been applied to each farm's entitlements, provided that the farm has at least 5 hectares of entitlements.
  - Any payments above €150,000 reductions have been subjected to a 5% reduction for the proportion that is over €150,000, without provision for salary mitigation.
- In addition greening has been taken into account for 2015 claim year onwards:
  - Greening payments have been assumed to be 30% of the direct payment for each farm from 2015 claim year onwards. We've assumed farmers bear all

the costs of greening even where these exceed the level of the greening payment.

- o The methodology for estimating crop diversification costs has been improved since the CAP consultation. For this analysis, Defra's Farm Business Survey has been used to estimate the costs for those farms that would need to adjust their cropping to meet the requirement. This has been done by multiplying the total area of arable land which needs to change by the difference in average gross margin between two typical crops[11]. The change in cropping pattern will be different for individual farms, so the estimated costs will be an overestimate for some and an underestimate for others (e.g. those only growing highly profitable crops, such as potatoes). For the reasons set out in the consultation analysis we have assumed that the crop diversification requirements are already met by horticulture farm types.
- o The methodology used to assess the impact and costs of the EFA Greening requirement is broadly the same as was carried out for the CAP Consultation Evidence Paper[12]. However, the weightings for each EFA feature have been revised to reflect more recent proposals from the European Commission, which are still under discussion. Furthermore, the analysis now uses a smaller sample of farms to be consistent with the rest of this analysis. However, the aggregate costs of EFA for this reduced sample are similar to those of the larger sample in the previous assessment. Farms with negative gross margins have been excluded from the analysis.

- For any direct payments above €150,000 payments have been subjected to a 5% reduction for the proportion that is over €150,000, without provision for salary mitigation. Costs of complying with EFA and crop diversification elements of greening are deducted.
- Forecasts for nominal GDP have been used when inflating taken from OBR Budget Report data. Therefore FBI is inflated in order to account for both changes in prices and income growth in the economy over time. This allows the analysis to consider how farmers' business income keeps pace with wages in the economy as a whole.
- An exchange rate of £1 = €0.8 is assumed in this analysis

[11] A typical high-margin crop, winter wheat, and a typical low-margin crop, spring oilseed rape; giving an approximate cost of £570 per hectare of arable land

[12] https://consult.defra.gov.uk/agricultural-policy/cap-consultation/supporting_documents/131022%20CAP%20Evidence%20Paper%20%20Final.pdf

Farm level results are weighted in order to provide indicative aggregate results. The flow chart below shows how the impact of each individual change to CAP has been disaggregated.

CAP Impact flowchart: