NFU Consultation Response

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Implementation of CAP reform in England

Introduction

1. The NFU represents 47,000 farm businesses in England and Wales. In addition we have 40,000 countryside members with an interest in farming and the countryside. The NFU welcomes the opportunity to respond to the Defra consultation on the implementation of the CAP reform package in England. CAP is a policy which affects almost every farmer in the country. **It is hugely important that Defra and RPA work hard to implement the reform effectively and unambiguously**.

2. Over the course of successive CAP reforms the NFU has played a key role in supporting progressive reform of the policy. In May 2011, the NFU published a policy document for the future CAP which outlined our preferred strategy[1]. **As an organisation, we have consistently advocated policies that increase farming's market orientation, increase farmers' competitiveness in the global market, strengthen the position of farmers in the supply chain and remain as common and simple as possible**.

3. The NFU believed from the outset that the European Commission's proposals to reform the CAP post 2014 were a missed opportunity and we went as far as to describe the package as a "dog's breakfast". The NFU remains disappointed with the lack of a strategic vision for the future CAP which would place farmers in a more competitive position. This round of reform is contrary to progress made in previous CAP reforms, particularly around some of the greening elements. Having implemented a direct payments system that instils farmers to respond to the market, the EU has now agreed policy measures which will impact cropping decisions and require productive farmland to be taken out of production regardless of market signals. **It is imperative that Defra does not exacerbate this by implementing the package of measures in a manner which creates additional cost, burden or restrictions on production.**

4. English farmers take their environmental obligations seriously, but must also be able to compete with their competitors on the EU common market. That's why 'fairness', by which the NFU means the opportunity to compete on even terms with our competitors in other parts of the single market which constitutes 63.5%[2] of the UK farm exports (by value), is at the heart of our policy on CAP.

5. The NFU fully endorses the Government's own guiding principles[3] issued by the Department for Business Innovation and Skills earlier this year on the implementation of European legislation. In particular, the guidance that **officials should not go beyond the minimum requirements of the agreed EU regulations; they should seek alternatives to regulation, endeavour to ensure that UK businesses are not put at a competitive disadvantage compared with their European counterparts** and ensure that there is future ministerial review of policy decisions.

6. Since the political agreement was reached in July, NFU HQ staff and officeholders have attended open member meetings in every NFU county in England (30 counties) to discuss the CAP reform and listen to members' concerns in order to develop the NFU position on the implementation of the CAP reform package in England.

[1] http://www.nfuonline.com/business/cap/the-cap-after-2013--our-policy/
[2] Defra Annual statistics on the value and quantity of overseas trade in food, feed and drink
[3] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/229763/bis-13-775-transposition-guidance-how-to-implement-european-directives-effectively-revised.pdf

Chapter 1 - Inter-pillar transfers

7. The NFU, CLA and TFA are in agreement that if Defra is minded to apply inter pillar transfers in England a phased introduction would be appropriate. The figures from the Defra consultation (p 58) show that an inter pillar transfer rate retained at the existing level of 9% will:

   - Finance the £2.16bn of on-going legally binding commitments under the Rural Development Programme's agri-environment schemes
   - Provide an additional budget of over £1 billion to fund new activity

8. In addition, downward adjustments to agri-environment payments are anticipated in order to address the double funding created by greening. This will release further funds (Defra estimates £0-£100m) to extend rural development activity, whilst restraining likely future uptake of these schemes.

9. 66% of the existing ELS agreements are expiring in the next two years. Those remaining will be affected by the greening rules coming into effect from 1st January 2015 and the scheme has now closed to new applicants. In the meantime, farmers continue to see 9% modulation taken off their Single Payment Scheme receipts.

10. Defra is yet to publish details of the future agri-environment scheme which will succeed the current Environmental Stewardship schemes (ELS, HLS, UELS, OELS). We know that Defra needs £2.16bn to honour existing commitments already signed for and that at 9% transfer rate there would be more than enough money to cover this and leave a pillar 2 budget for the period through to 2020 of approx. £1bn.

11. Supplementing financial efforts in RDPE to achieve Government policy objectives through other approaches is given only passing consideration in the Defra CAP consultation. In addition to expenditure through the rural development programme, further environmental benefits will be delivered through the introduction of the new "greening requirements".

12. At 9% rate of inter-pillar transfer, the NFU anticipates that the "Campaign for the Farmed Environment" could play a key role in optimising the location and management of ecological focus areas across the farmed landscape. The Campaign has already developed modules for the key environmental challenges farming faces. Focusing on the area of land already managed outside of agri-environment schemes, the CFE could promote activity modules on pollinators, farmland biodiversity and water quality with the aim of improving the quality and benefit for these outcomes through thoughtful location and management. These voluntarily managed areas of land are most likely to be used to meet farmers EFA requirement.

Allocating the £1bn+ headroom

13. **The NFU believes that the additional £1bn+ headroom available at 9% transfer rate should be prioritised on measures that will directly benefit farmers and the environment.** We would prioritise resource in the Farming and Forestry budget line and reduce the notional allocation of resource to the Growth Programme, thereby ensuring that there is sufficient money to maintain agri-environment activity at current spend levels. Although the NFU proposes limiting the transfer of funds to the Growth Programme (see table 1), the likelihood is that the £122m earmarked for Leader will significantly enhance the funding that can be used to support growth in rural areas

14. To give an indication of how the "headroom" may be allocated, Table 1 below assumes a ratio of 2:1 for spending on farm competitiveness compared to the growth programme, particularly given the success Defra has achieved in developing and implementing the FFIS and REG

capital grants. The overall impact of this will mean that there is a greater proportion of the smaller rural development budget allocated to environmental priorities (an increase from 83% presently to 90% in the future).

Table 1. NFU proposed budget headings with 9% transfer

9% transfer increased environmental focus	**Total for next programme**	**Proportion of Total**
New / refocused Agri-environment	£725m	22.65%
LEADER	£122m	3.8%
Farming and Forestry	£132m	4.1%
Growth programme	£66m	2.1%
Total Headroom	**£1,045m**	-
Ongoing commitments	£2,155m	67.34%
Agri-env total	£2,880m	90%
Total programme	**£3,200m**	**100%**

15. In addition to the amounts laid out in Table 1 above, there will be additional resource generated through double funding constraints. Defra estimate this to be in the region of £0-£100m, based on 20% of farmers choosing to walk away from their agreements. The NFU believes that this is a conservative figure. We suggest that 30% of farmers will terminate their agreements and with payment reductions where there is a clear case of double funding, this could generate as much as £150m in further headroom. In this case the additional funds could go some way to increasing spend under the Farming and Forestry measure.

16. The funding challenges for the Rural Development Programme are well documented. There will be no Government match funding of money transferred from pillar 1 to pillar 2, whilst the total Treasury contribution is expected to be cut to £558m. This is a drop of 53% compared to the current programme. However, rather than seek to offset this drop in funding by maximising the inter-pillar transfer, the NFU's approach to building the RDP budget has been driven by:
    - Fulfilling ongoing agri-environmental commitments;
    - Safeguarding HLS activity by budgeting for those agreements that end in the next RDPE period to be renewed based on the same area and at the same rate;
    - Utilising the funds that would have been required to support ELS renewals for a further 5 years in the next programme period to underpin a new mid-tier scheme and fund any capital works for NELMS;
    - Minimising spend on LEADER at 5% due to variable performance in the current RDPE that has provided little direct benefit to farmers.

17. The funding proposal outlined in Table 1 allocates 6.3% of the "headroom" (2.1% of the total programme) to the Growth Programme. **The NFU believes that given the need to prioritise, the ambitions of the "growth" element of the next RDPE should be particularly tempered.** RDPE funding will join other European funds to create the EU Structural and Investment Funds Growth Programme, which will be allocated to LEPs. There is already **€6.2bn** in this funding pot, so the different funding options presented in the consultation document have relatively little impact on the overall size of the Growth Programme. However, the amount allocated from RDPE has the potential to place a significant constraint on the funding available for environment and farming's competitiveness. Improving farming's competitiveness would achieve increase in employment and business resilience and contribute to rural growth.

18. **There is particular concern amongst farmers created by the involvement of Local Enterprise Partnerships (LEPs) in delivering RDP money through the Growth Programme.** Few LEPs have identified the agri-food sector as a priority, whilst the experiences of LEADER and axis 3 have created a perception that funding shifts away from the land-based sector and is skewed towards social and community projects rather than business growth. **The LEPs capability to deliver funding priorities and direct schemes is untested. Given the previous disallowance and delivery issues with CAP funds (particularly under the old RDA structure), such an experimental approach through 39 LEPs recreates the threat of disjointed delivery, duplication, and ineffective use of funds.**

19. As well as the concern regarding delivery, there is uncertainty surrounding what the funding allocated to LEPs will actually buy. LEPs will need to submit their final Local EU Structural and Investment strategies early next year. To make a decision on funding before strategies are finalised and before their plans for rural growth has been assessed seems premature. A decision on the growth fund allocation should not be made until the rural ambitions and plans of each LEP have been fully evaluated. There are parallels with the uncertainty surrounding future uptake of agri-environment schemes post-greening. Budget planning could benefit from a phased introduction of inter-pillar transfer.

20. Areas identified for the growth programme include support for broadband and tourism activities. There are good reasons to resist the suggestion that rural development funds from 2015 onwards should be used to fund the roll-out of rural broadband:

    - Government already has access to up to £300 million from BBC licence revenue, which ought to be enough to fund much of the work needed to reach 95% of UK premises by 2017;
    - European Regional Development Fund (ERDF) monies can be used to part-fund the infrastructure required;
    - High-speed mobile broadband will fill in many of the gaps that remain: O2 are contractually committed to reaching 98% of UK premises (indoors) by 2017, and according to HMT this will happen by 2015;
    - Satellite broadband is becoming faster and cheaper, and it will be available where other technologies are inaccessible.

21. For tourism, the potential activities that will be funded are unclear. The CAP consultation document refers to Deloitte research that has identified a number of barriers to growth in the tourism sector, and suggests that the “Rural Development Programme could address these barriers through providing support for more joined up coordination of destination marketing activity and preserving and enhancing tourist attractions such as heritage sites.” However, using RDPE funds for marketing and promotion seems to go against the current Cabinet Office freeze on marketing. Assumptions in the impact assessment show a 21% deadweight for tourism. This would imply that over £5m of the £25m fund allocated to rural tourism in the current programme has not delivered. Similarly the impact assessment identifies deadweight for micro-enterprises projects at 50.7%

Details behind cost of renewing environmental efforts

22. If Defra were to decide to fund renewals of agri-environment agreements expiring from 2016, then £13m would have to be found in 2016-2017 (equals £202m less £189m) and this would then require an ongoing commitment of £13m per year for 5 years (see Table 2). Similarly, if it is decided that the HLS schemes expiring in 2017 would be renewed, then a further £17m would be required in 2017 and for 5 years after that. Continuing this process forward, a total of £240m would be needed from the next RDPE budget to cover HLS upper tier scheme renewals up to 2020. **This would ensure that there is sufficient budget to renew all HLS**

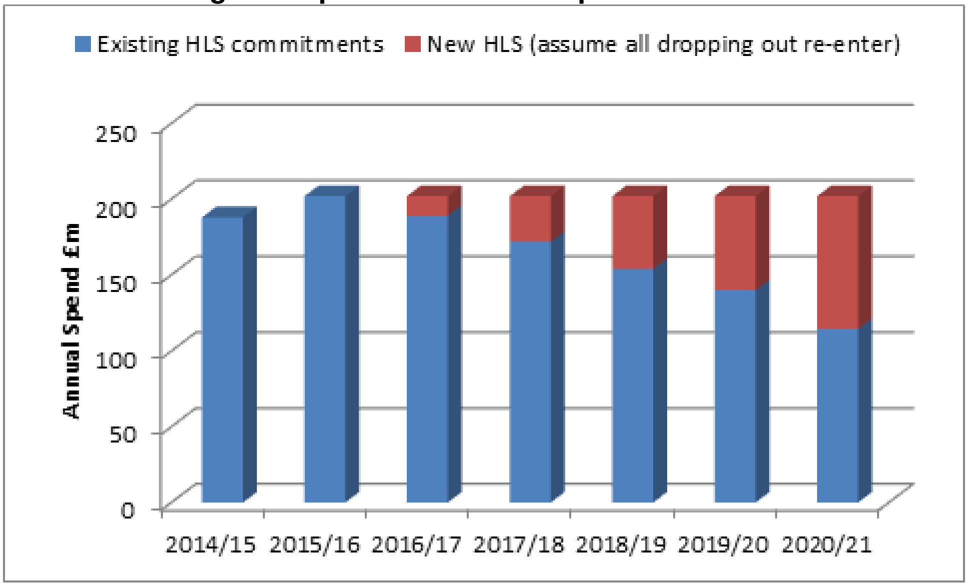
agreements expiring in the programme period, if Defra wished to (note that a further £195m would be needed from the 2021-2027 programme to honour these agreements).

Table 2.

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Higher level stewardship (£m)	£188m	£202m	£189m	£172m	£154m	£140m	£115m
New commitments (succeeding expiring HLS agreements)			£13m	£30m	£48m	£62m	£87m

23. In practice, this allows funding on HLS and its high level targeted successor to level off at the £200m per year mark (see Chart 1 below) combining previously committed funding and new funding. This assumes that all the agreements that expire are renewed at exactly the same rate. However there is likely to be an overlap with greening and some existing higher level schemes that Defra believes are not giving sufficient value for money are likely to be downgraded to the “mid-tier” level in the future - meaning that the renewal costs are likely to be at lower rates and therefore allowing the programme to effectively ‘go further’.

Chart 1. Maintaining HLS spend at 2015/2016 peak



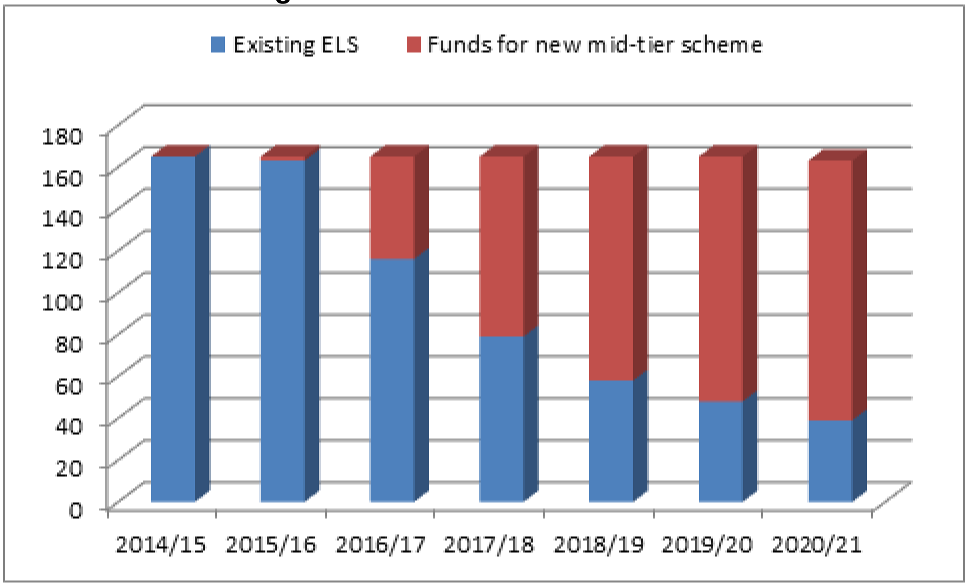
24. Taking a similar approach to looking at ELS, these are the ongoing commitments, with a more dramatic scale back occurring in 2016/17(Table 3).

Table 3. Funds released for new mid-tier scheme maintaining budget at 2015/2016 peak

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Entry level stewardship commitments (£m)	£165m	£163m	£116m	£79m	£58m	£48m	£39m
Funds released for new mid-tier scheme following expiry of ELS agreements	0	£2m	£49m	£86m	£107m	£117m	£124m

25. Greening will mean that coverage of AES will reduce significantly, and a significant proportion of those exiting ELS schemes will not be seeking to renew. However, a mid-tier scheme is being developed. If we assume that the funds that would be needed to fund renewals for ELS for a period of five years are now used to fund the new mid-tier programme, this would create a total funding requirement of £485m in the new programme period (see Chart 2).

Chart 2. Maintaining funds for the mid tier scheme



26. At present, it is not known what greening will mean for farmers' ability to join new schemes and therefore the scale of demand for a mid-level tier is unknown. **It should also be noted that greening will see 30% of the Pillar 1 budget aimed at environmental activity – this equates to £563m[4] per year for the next programme period that will deliver public goods for the environment through the CAP's first pillar.**

27. **Considering future funding requirements for HLS and mid-level schemes as outlined above, this would require funding of £725m (£240m + £485m). In short, 9% inter pillar transfers would still allow significant agri-environment activity to occur, would not diminish expenditure on high level targeted agri-environment schemes and would allow for money for farming competitiveness and growth.**

28. The inter pillar transfer rate that has to be announced by 31/12/13 will be applied in 2014 and subsequent years. But the new Rural Development Programme will only be introduced in 2015, and will only start to spend money in any volume in 2016 at the earliest.

29. **We urge Ministers to set the transfer rate at 9% in 2014 and to review the rate in the light of budgetary demands and the uptake of future rural development schemes, in 2017**. By taking advantage of a potentially staged approach to inter pillar transfer rates, the Government can pragmatically assess how much of the old ELS measures have been retained by greening and also evaluate the longer term demands of the new agri-environment schemes. Only when this assessment has been made should we consider whether higher modulation rates are desirable.

Background to NFU concerns on voluntary "modulation"

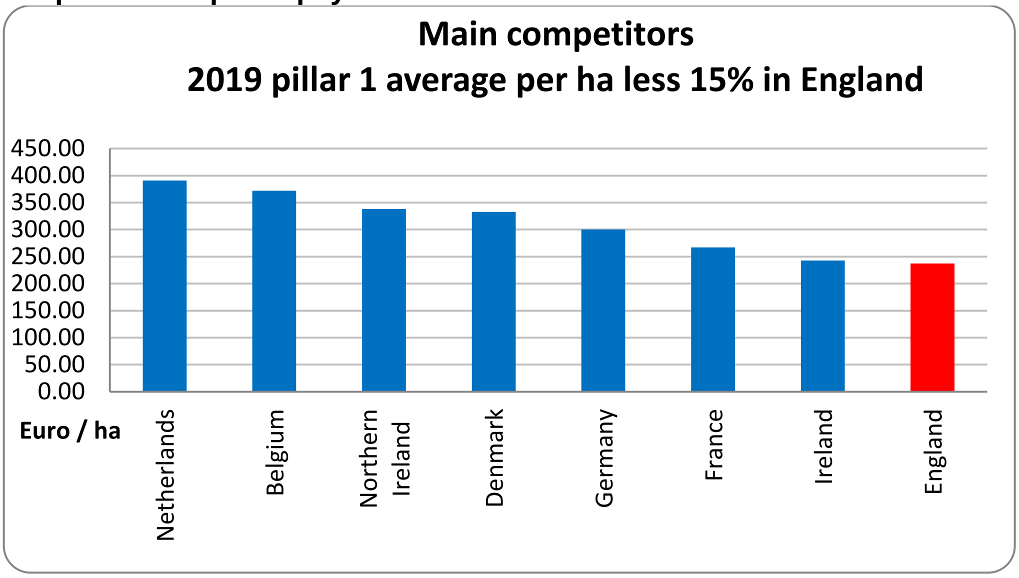
30. Voluntary modulation or "inter pillar transfer" as it is to be known in the future, is deeply unpopular amongst farmers. The UK is the only member state that currently uses voluntary modulation and English farmers face the highest deductions at 9%. Every beneficiary of SPS pays modulation with an average take of £1738. Yet there are just 11,850 farmers in HLS with an average payment of £16,670. This means that 1 in 9 farmers experience a big net gain in modulation whilst 8 farmers in 9 lose.

[4] Exchange rate 0.8

31. In future, there will be more losers and fewer winners as the mid-level scheme that will replace ELS and HLS will be much more targeted – the consultation itself says that ambition is for 35% of the farmed area to be in a scheme in future, down from the current 70%. Unlike the current programme, **there will be no Government match funding of money transferred from pillar 1 to pillar 2 in the new RDPE, with total Treasury contribution expected to be cut in the region of 53% compared to the present funding arrangements**. Defra's response is not scaling back its policy ambition but rather to compensate for these losses by cutting English farmers' direct payments by up to 15% and transferring this money across to the pillar 2 budget. This will save Treasury money, but greatly exaggerates the difference in payment levels between English farmers and our competitors.

32. The EU budget settlement 2014-2020 already places English farm payments lower than the average payment of many of our main competitors. If Defra uses the powers to reduce the pillar 1 envelope by 15%, then the impact would be to move the average payment received by English farmers below all of their main competitors (see Graph3).

Graph 3. Example of payment rates in other Member States



33. However, the average payments in member states and regions mask the important fact that actual payments to farmers differ greatly across Europe. All our main competitors, with the exception of Germany, continue to make payments to farmers on the basis of the "historical payment model." This means that more productive farmers are paid higher amounts by virtue of the level of activity they undertook back in 2000, 2001 and 2002. There will be limited attempts in other member states to move away from this model towards the "area based payment model", given that the majority of member states have sought to minimise the number of winners and losers arising from policy change. **This means that farmers in other countries, with comparable levels of output will continue to receive much higher levels of support per hectare than English farmers, whose payments are based on a flat rate of land area as opposed to targeted on past activity.**

34. Proponents of transfers from pillar 1 to pillar 2 often downplay the extent of the current and future differences these transfers create. They are not trivial. Already a Dutch dairy farmer who continues to receive payments based on historical activity receives a payment per hectare in the order of €500/ha, a Danish dairy farmer €447/ha and even in Germany where the Government has implemented the area based approach, an arable farmer in an area such as

Schleswig Holstein receives €359/ha. We note that in Germany the decision has been taken to modulate at 4.5%, significantly less than the 15% presented in the Defra consultation.

35. **English farmers are competing in a single market**. In a year of exceptionally poor weather the single farm payment is an important element in the resilience of farming businesses. Other governments see the direct payments partly as a mitigation of the more stringent environmental regulations which apply in Europe and the ever more costly restrictions that constrain our use of plant protection products and other technology. Higher payment rates allow our competitors to invest in their farming operations and to enhance their competitiveness. Cutting English payments by more than our competitors limits our ability to compete. It will leave English farmers more vulnerable to the volatility we have seen in markets and weather in recent years and make businesses less resilient compared to European competitors. The impact of transferring money from pillar 1 to pillar 2 would be further exacerbated given that other member states have been granted powers to do the reverse and potentially increase the value of direct payments made to farmers.

36. Utilising data from Defra's Farm Business Survey over the period 2005-2012 the NFU is able to show the impact on net farm incomes of South West livestock farms if voluntary modulation was increased by 6 percentage points from 9% to 15%. In low income years the effect of increased transfers to pillar 2 has a disproportionately negative impact on the bottom line of farming businesses. Table 4 shows that in the most recent year, based on Defra net farm income estimates, such a move would result in a decrease in farm income of 12%.

Table 4. Impact on net farm incomes of an additional 6 percentage points modulation

		2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Lowland grazing livestock	Revised NFI	2,111	4,043	5,667	8,146	10,136	8,683	18,552	9,607
	% NFI change	-38.6%	-24.7%	-19.0%	-14.0%	-11.6%	-13.2%	-6.7%	-12.1%

Chapter 2 Direct Payments

"Moving money up the hill"

37. The NFU is not opposed to moving more of the pillar one budget "up the hill." However, our basic principle is, given that that there are budgetary pressures that will impact on all farmers, to support an approach **which shares that budgetary pressure in a fair and proportionate manner across all farmers.** Until there is clarity for different categories of farmers regarding the future AES arrangements, how they will be targeted, the rate of transfer between pillars and the cost of greening, it is incredibly difficult to judge whether the proposal of moving money up the hill as presented in the consultation document is appropriate.

38. **There is support across the organisation for the proposition that it would be fair to align the payments rates in lowland and SDA non moorland categories**; however there is widespread concern that the 82.35% increase to the SDA moorland category as proposed under Option 2 does not appear proportionate without further analysis and evidence of need.

39. Given the vulnerability and disproportionate reliance that upland farmers have on CAP support, it is clear that significant quantities of future CAP resource will need to continue to be targeted to active farmers in the uplands. Defra's Farm Business Income figures for 2012/2013 shows that 72.5% of upland farmers' income comes from CAP support, down from 94% in 2011/2012. However, it should also be noted that the arguments put forward by Defra to justify the increase in the uplands. (i.e. the future loss of readily accessible "broad and shallow" environmental payments) apply equally in the lowlands. The reality is that upland farmers are likely to access the greening payment with lower costs than lowland farmers. Furthermore, in terms of CAP support dependency, lowland livestock farmers are not far behind the levels of reliance on CAP support seen in the uplands (85.1% of total income in 2012/2013). Indeed farm business income amongst lowland livestock farmers fell further and was lower than their upland counterparts in 2012/13.

40. Before we can take a final position on the options laid out in the consultation paper or propose specific numbers in a 3rd approach, we believe that Defra should carry out a holistic analysis across the suite of CAP measures, which considers the impact of the new greening rules, the impact of likely targeting of future agri-environment support and the degree of transfers from pillar 1 to pillar 2 on farm incomes across all farm types. **Until the impact of all decisions pertaining to these other factors of CAP implementation is clearly understood and the evidence base indicates that there is a need for action, Defra should not take an early decision on this matter.** We note that the decision to assign regional ceilings has to be communicated to the Commission by 1st August 2014 and that there would therefore be sufficient time to undertake full and proper assessment prior to this date.

41. **As noted above, there is a widespread view that the proposed 82.53% uplift in the moorland rate appears disproportionately large**. While the NFU is not necessarily opposed to any increase in the moorland rate, we believe, as argued above, that Defra should consider all factors together before coming to a decision. If a substantial increase in moorland rates is to be contemplated, it would only be acceptable to the NFU if a robust agricultural activity test is applied in this region. The NFU is not convinced that this will be achievable; if that is the case there is a severe risk that much of the extra money would leak outside the farming sector.

Scale back or Redistribution

42. It is evident from the CAP reform agreement that Defra is required to implement a measure which reduces the value of payments to large beneficiaries. This can be done either by scaling back large payments over €150,000 by 5%, or redistributing payments from larger farmers to smaller farmers by giving a top up of 20% - 65% on the first 54 ha of everyone's claim.

43. Both measures have the potential to create distortions, either to remain small to receive a top up on the 1st 54ha, or to remain below the level which would deliver a payment over €150k. Neither measure contributes to the NFU's objectives for a modern, market orientated sector, underpinned by a fair, common policy that primarily focuses on the economic challenge of addressing agricultural commodity market failures. The Defra evidence paper confirms that more farmers will lose income through the redistribution measure (i.e. lowland claimants > 137ha) than the reduction measure (lowland claimants > 880ha). It also concludes that implementing the redistribution payment would be complex for the RPA to administer. Our concern is that implementing a hybrid redistributive payment model could recreate some of the difficulties encountered by the RPA at the last reform. For these reasons **our preference is for Defra to implement the scale back to amounts over €150k by 5%. We believe that having the salary mitigation option is a very important principle to retain in the CAP architecture.**

44. We note that Defra and the RPA are reluctant to implement salary mitigation from the outset of the new scheme and we are entirely sympathetic to the challenges that the RPA will face delivering entirely new schemes and processes in 2015. We have laid out a possible approach to salary mitigation in Annex A and ask Defra to keep the issue under consideration for future years once the new regime gets up and running.

Active farmer test – "negative list"

45. Defra is required to implement, as part of the active farmer test, a requirement that no payments will go to legal entities included on a "negative list" (i.e. airports, railways, permanent sports grounds, water works and operators of real estate services).

46. The NFU supports Defra's preferred approach not to extend the negative list. We do however remain concerned that genuinely active farmers who have diversified business interests could find themselves on the negative list, for example we must guard against the "operators of real estate" being interpreted to include farmers letting out farm buildings or cottages. We believe that the EU's negative list should be implemented in England in a pragmatic way which causes the least disruption to genuinely active farmers. It is vital that farmers who may be affected by the negative list are told what information, if any, they will be required to provide ahead of May 2015 to ensure that they are able to take advantage of the conditions of the regulation.

Young farmers' top up scheme

47. Defra is required to implement the young farmers' top up. It has the choice on how many hectares to permit the top up. The NFU believes that the top up should be available on the maximum number of entitlements (i.e. 90). We do not believe that additional eligibility criteria should be required by those seeking to participate in the young farmers' scheme. We believe that a very careful assessment must be undertaken with industry consultation to determine the likely demand for the scheme. We understand that up to 2% of the budget can be used for the young farmers' scheme and this would be determined on an annual basis. It would be regrettable if money was siphoned for the young farmers' scheme, not taken up and then lost from the farming sector.

48. There is a need for Defra to confirm and explain the rules and eligibility criteria in cases when the young farmer operates as part of a legal entity.

Chapter 3 – Greening

National Certification Scheme

49. The NFU welcomes the Government's decision to adhere closely to the greening measures set out in the regulation. We would have favoured implementation through a National Certification Scheme if that approach was able to offer greater flexibility and choice to farmers, most specifically to provide an alternative to the crop diversification requirement. However it is clear from our understanding of the regulation and discussions with European Commission officials that there is very limited flexibility and no viable alternative to the crop diversification requirement available through a national certification scheme. The objectives we seek through a National Certification Scheme are therefore unlikely to be deliverable. At the same time we are concerned that implementation through a National Certification Scheme could result in a higher percentage of farm inspections and would create the mechanism that potentially ratchets up the greening rules at a later stage. **We therefore agree that Defra should not implement a National Certification Scheme in England.**

50. We very much welcome re-assurances from the Secretary of State that the greening rules will not be "gold plated" in England. To the NFU "no gold plating" fundamentally means that English farmers should not be put at a disadvantage to our competitors. English farmers should not face more costly or burdensome conditions to unlock the 30% greening aid than farmers in other parts of the UK or across the EU.

51. For the majority of farmers, confirmation that Defra will follow the broad EU approach as opposed to introducing a more demanding form of greening through a national certification scheme will be very good news. However we are disappointed that no viable alternative to the crop diversification requirement has been found.

52. The consultation paper indicates that approximately 12% of the area and 7% of the claimants will need to amend their farming practices to comply with the crop diversification requirement. We believe that this is an under estimation of the number of farmers affected in the country. The NFU has received considerable representations and correspondence from farmers that will be adversely affected by the crop diversification rules. The measure goes against all of the NFU core policy principles of simplicity, market orientation, and increased efficiency. It will increase costs, reduce efficiency and increase traffic on rural roads. We therefore believe it is right to continue to seek an alternative approach for farmers who have difficulty with the measure.

53. Our preference is for farmers to have an alternative option to the crop diversification measure to undertake enhanced ecological focus areas. We continue to pursue all political avenues to provide such an alternative option for those farmers, but to date Commission officials have resisted and Defra notes in its consultation that there is no flexibility to move away from any one element of greening (i.e. it would not be possible to substitute crop diversification for more ecological focus areas).

54. The NFU has a meeting with the European Commission at the end of November to continue efforts to seek an acceptable solution for those affected. We believe that there are more suitable forms of simple "greening" rules at the farm level, for example providing farmers with difficulty complying with the 3 crop requirement with the option to do additional ecological focus areas in place of the 3 crop requirement.

What selection of Ecological Focus Area measures do you suggest?

55. We believe that all relevant land features and areas that are laid out in the regulation should be included at the national level towards the required 5% EFA area. A broad selection at the national level ensures that individual farmers have access to the most appropriate measures at the farm level. The selection should include all applicable features and land uses, such as

hedges, ditches, buffer strips, wooded copses located on or adjacent to arable areas, afforested areas established under rural development schemes, as well as areas of cover crop, short rotation coppice and miscanthus. Areas of nitrogen fixing crops should also count as a "crop" for crop diversification purposes. **English farmers must have access to the same types of ecological focus areas as farmers in other countries**. It would be galling for example if a French farmer was able to count his peas or beans, or land under clover as ecological focus areas, but English farmers could not. The flexibility afforded farmers to count nitrogen fixing crops as EFA should not be eroded by over-zealous secondary legislation or conditions introduced by Defra at implementation stage.

56. Short rotation coppice (SRC) offers well-documented environmental benefits, including contributions to farmland biodiversity, soil permeability, low inputs, low run-off, and enhanced nutrient and flood management. Margins around SRC and rides between plantation blocks have been found to contain large numbers of butterflies and other insects, and can also support plants that are typical of open farmland and long-term set-aside. These environmental benefits were recognised by the Campaign for the Farmed Environment Evidence and Monitoring Group, subject to no fertiliser and pesticide use once the crop was established (beyond the first 12-18 months) - the only exception being in the event of an outbreak of pest/disease such as willow beetle or rust, in which case any treated crop area would have be subtracted from eligible land area.

57. Miscanthus, a perennial energy grass crop grown more widely than SRC willow, offers similarly significant environmental benefits (farmland biodiversity, soil permeability, very low inputs of fertiliser and crop protection products, low run-off, and enhanced nutrient and flood management). Recommended planting practice includes margins and headlands as for SRC, and may also include gaps explicitly for enhancement of biodiversity or access to neighbouring fields. Studies in the UK and Germany, comparing miscanthus with cereals, have indicated that miscanthus encourages a greater diversity of species (earthworms, spiders, mammals, birds). Furthermore, work under the Rural Economy and Land Use (Biomass) project in 2007-9 developed biodiversity recommendations for miscanthus plantation design and management. The very latest research suggests that miscanthus makes up the soil carbon deficit caused by land use change from grassland within two years, and thereafter continues to accumulate soil carbon for the 15-20 year lifetime of the crop.

58. To reduce the land take associated with the EFA requirement we believe that Defra should implement the EU weighting system as agreed, as well as all of the exemptions laid out in the regulation.

Ecological Focus Areas for pollinators

59. The NFU believes that EFAs can be implemented to deliver positive action for pollinators. An obvious way for ecological focus areas to benefit pollinators is to ensure that nitrogen fixing crops (for example clover, peas, lupins, beans, vetches and lucerne) count as EFAs. These types of crops would deliver benefits for soil structure, pollinators and nutrient management and are traditionally grown with low inputs. **However we believe that there should be no additional limitations placed on these crops beyond existing legislative limits on plant protection products or fertilisers.** Another crop specifically mentioned by members for its pollinator beneficial traits is borage and we ask Defra to reflect onhow this and other niche crops with environmental benefits could be included in the potential list of EFAs.

60. Agri-environmental management of solar farms, irrespective whether these areas are eligible for the future basic payment, offers an enhancement for two of the proposed arable land-use types (land laying fallow, and buffer strips) and may also be applied to long-term grassland. A solar farm typically occupies an area of between 2 and 50 hectares, of which only 35-40% is partly shaded by the rows of modules, providing habitat for both light and shade-loving plants and animals for a lifetime of 25 years. Most solar farms already incorporate a biodiversity

management plan developed in consultation with local wildlife trusts and national bird and pollinator conservation bodies (RSPB, BBCT, BBKA). Nectar and pollen seed mixtures, bird winter forage mixtures, and wildflower meadow mixtures of local provenance may be under sown, together with buffer strips around field margins, all subject to 'conservation grazing' with sheep to manage vegetation height. Formal 'best practice' guidelines are being developed and recognised by DECC, the National Solar Centre, the Solar Trade Association, local planners and NGOs. The NFU believes such greening measures can be easily adopted and have a high likelihood of uptake, with an expectation that hundreds of solar farms will be deployed nationally over the next 5-10 years (there are about 100 at present).

Permanent grassland

61. The permanent grassland measure should be implemented at the **national level** and only areas of environmentally sensitive grassland within the designated Natura 2000 sites should be subject to a ploughing ban.

Chapter 4 - Cross Compliance

Statutory Management Requirements (SMR)

62. The NFU welcomes the removal of sewage sludge and notifiable diseases from the statutory management requirements for 2015; this removes obligations which are already comprehensively covered in legislation with high compliance by farmers. Whilst we appreciate Defra are not consulting on the implementation of the SMR's, the NFU nevertheless wants to see Defra to keep the standards under review to ensure that only legally necessary elements of the current rules remain in place post 2014. There should be no gold plating of these requirements (especially given that the current SMR standards which are continuing beyond 2014 were first introduced before the Farming Regulation Task Force recommendations were published on cross compliance). The goal has to be to ensure that Government does not create multiple but differing requirements under cross compliance and domestic law.

Good Agricultural and Environmental Condition (GAEC)

63. The NFU sees opportunities to reduce the range of cross compliance when comparing the current suite of GAEC standards with the seven redefined GAEC elements put in place for 2015. We believe in a move away from a process-based system to a focus on outcomes. **Defra should only retain those GAEC's which add value or for which there is evident reason for continuation**. Policy makers now have eight years of inspection findings to base decisions for the forthcoming period on. We believe that there should not be standards in place that do not immediately fit into the new elements of GAEC and where very low levels of breach have been recorded.

Sanctions & Inspections

64. The regulation (Article 99(2) of the horizontal regulation) **gives Defra the ability to set up an early warning system applying to cases of non-compliance of a minor severity, extent and duration. Defra and its delivery bodies should take up this option and apply it to as many elements of the future cross compliance standards as possible**. This approach should be used for example, where one tag is missing from an animal, or when a field margin is found to be marginally below the required width.

65. The NFU would also urge Defra to grant inspectors tolerances with measurements based on overall compliance levels, for example a farmer being found to have less field margin than expected should not be penalised if a high percentage of the standard is complied with. The principle of taking into account the number of eligible stock / hectares / margins should have a greater weighting when determining the scale of sanction applied. The cattle severity calculator is a start, but that should also be reviewed to ensure adverse and disproportionate outcomes are eliminated.

66. The NFU also asks Defra to consider how to make the current sanction regime more proportionate in its approach. It should recognise the point that a breach can be found and it is neither a negligent or intentional act and as such should not lead to any sanction being imposed.

67. Defra should continue to drive through coordination of inspections. With regards to selection of inspections, we encounter situations where farmers seem to have been selected regularly for inspections, sometimes in consecutive years despite little or no breaches having been found. We would ask Defra to review the selection matrix to avoid repeat inspections in the following scheme year where minimum non-compliance has been found.

Farming Advice Service

68. **The NFU believes that the focus of the Farming Advice Service should only be on cross compliance post 2014.** This is to ensure that messaging is clear on cross compliance requirements and there is no blurring of the lines between cross compliance and other

programmes of advice offered, for example CFE, CSF or advice linked to pillar 2 schemes. Cross Compliance is complicated enough as it is, to mix up cross compliance with other issues may not aid industry understanding. We would like Defra to develop a more joined up approach so that those who have breached a cross compliance standard are given support and practical help to rectify the issues and that evidence of behavioural change leads to a reduction in the likelihood of an imminent repeat inspection.

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?

69. **Control of Weeds (GAEC 11) –** The NFU does not see the current GAEC 11 (Control of Weeds) being part of the GAECs in future. This requirement is made up of the control of injurious weeds that are covered by the 1959 Weeds Act, and which does not form part of new GAEC 7 requirements and so should not be included post 2014. We would also urge Defra not to take up the optional element within new GAEC 7 to cover invasive plant species such as Himalayan Balsam, Rhododendron etc; this would be seen as going beyond the minimum requirements as set out in the regulation. Farmers feel they have been targeted under GAEC 11 when the behaviours of land managers not covered by cross compliance often causes the problems faced. For example utility providers, maintainers of transport infrastructure and other non-farming land user neighbours put pressures on the situation. We believe that farmers do take reasonable steps to prevent the spread of injurious and invasive weeds on their land. We recommend that Defra explores alternative ways of combating the spread of invasive weeds, not through cross compliance as many of those harbouring these weeds have no connection to agriculture.

70. **Agricultural land which is not in agricultural production (GAEC 12)** – The NFU does not see this current standard falling into the redefined GAEC landscape, however we wish to continue discussions with Defra on how the old GAEC 12 could be tied to the active farmer definition as a requirement of agricultural activity. GAEC 12 was introduced to cover the situation where SPS eligible land was not being used to produce anything - both unused grassland (temporary and permanent) as well as arable land that was not cropped. Therefore it cannot be considered a landscape feature in the pure sense. It was introduced to address concerns back in 2005 when de-coupled CAP support was introduced, specifically the thought that land would be abandoned. This concern has been unfounded in subsequent years. Removing this cross compliance requirement will not in our view give rise to widespread deterioration of agricultural land.

71. The NFU does believe that claimants need a baseline requirement within the Basic Payment Scheme rules that ensures that land is kept in a state that can easily be brought back into production if it is not in production for a period of time and which can be used to activate entitlements against.

72. **Felling of Trees (GAEC 16) & Tree Perseveration Orders (GAEC 17) -** The retention of both of these standards post 2015 should be questioned given that there is already legislation in place to protect trees and a significant level of overlap exists between these standards.

73. **Heather & Grass Burning (GAEC 10)** – The NFU notes that there has been one breach reported over the period 2005 to 2012 for this standard. This would suggest that the burning code in place for the industry is being followed.

74. **Scheduled Monuments (GAEC 7) -** Whilst these could be a landscape feature, the wording of new GAEC 7 states: "*Retention of landscape features, including where appropriate, hedges, ponds, ditches, trees in line, in group or isolated, field margins and terraces, and including a ban on cutting hedges and trees during the bird breeding and rearing season and, as an option, measures for avoiding invasive plant species"* does not specifically include scheduled

monuments – focusing on de-regulation and the fact that there are already alternative ways of dealing with scheduled monuments, then we question this standard being part of GAEC post 2014.

75. If this standard is to be retained, the NFU believes that there is no case to add in nationally important but undesignated archaeological features to this requirement. The NFU has been given no significant or extensive and conclusive evidence to back up the assertion that the removal of Pillar 2 schemes will have a significant impact on the protection of these features. We would therefore consider any additional requirements for undesignated archaeological features as gold plating. We note that there have only been 3 breaches of this standard reported during the 2005 to 2012 period.

76. **Rights of Way (GAEC 8)** - Again, whilst elements of these could be a landscape feature, the wording of new GAEC 7 does not specifically include rights of way. **Again focusing on de-regulation and the fact that there are already alternative ways of dealing with rights of way, we believe this requirement should be removed from cross compliance.**

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

77. **Soil Protection Review (GAEC 1) –** The NFU has been working with the Defra soils team looking at how the over burdensome nature of this requirement can be addressed. We hope that a proportionate and light touch approach is maintained as this work progresses. With regards to post harvest management of combinable crop land, we would not want mandating of green covers post-harvest, which could be inferred by new GAEC 4 (Minimum soil cover) set out in the legislation. **NFU seeks removal of crop residue burning restrictions from GAEC 1**. We would welcome a review led by Defra and industry to ascertain how post harvest stubble management and burning could be used to manage weed resistance. This is in light of the falling efficiency of crop protection products against resistant weed populations and rapidly reducing existing and new registration of active ingredients**.** The NFU is not aware of a single recorded breach of this element of the GAEC requirements during the past nine years. Legislation and codes of practice govern stubble burning in England meaning that wild fire escapes from stubble burning are rare and smoke nuisance is kept to a minimum. Cereal stubble, including wheat stubble, has a very limited impact on soil organic matter content with the toughest component in wheat, lignin, commonly having a half-life of less than one year in UK conditions[5] Furthermore, UK long-term studies show that even when straw is incorporated with stubbles, the impact on soil organic matter is negligible.

78. **Stone Walls (GEAC 13) –** If this standard is retained going forward, it has been suggested to stakeholders that the derogation to allow the removal of stone from walls to repair footpaths should be removed. Defra have given no evidence to suggest that this problem is significant and extensive to back up this assertion. The NFU would therefore consider this change to be gold plating of this standard. We note that there have only been 5 breaches reported during the 2005 to 2012 period of GAEC 13.

79. **Hedgerows (GAEC 15)** – There has been a suggestion to bring England's policy in line with devolved policy (such as in Wales), and extend the 'no cutting' time by one month. It has been suggested that this would allow the extra time needed by many breeding birds to have flown their nest.

[5] Reviews of extensive UK soils research within *Review of the role and practices of stubble burning in New Zealand, including alternative options and possible improvements* http://www.far.org.nz/mm_uploads/130809_FAR_Stubble_Burning_Review_Final.pdf

80. The NFU believes simply extending the date to be in line with another part of the UK is not a sound or robust basis for change of this GAEC. Indeed it is worth noting that many of our members in Wales would actually like to have the same cutting date as is laid down in England. It is very important to appreciate the impact a change of this nature would have on many parts of the industry. Defra should appreciate that hedge cutting is to a large extent carried out by contractors who have a programme of work in an area. Any curtailment of the time allowed to do the work subsequently has a knock on effect. Furthermore August is normally an appropriate time to do the work particularly as the land is generally drier to avoid soil structure issues. In fact, carrying out the work during the autumn and winter could result in increased poaching and rutting leading to a potential breach of cross compliance under GAEC 1. We only need to look at the recent seasons to see the impact of any further restrictions of trimming will have on the industry. The summer 2012 to winter of 2012/13 period put real pressures on the industry and this clearly highlighted the problem farmers and their contractors faced in getting their annual trimming work completed by the start of the non-trimming deadline of 1st March.

81. Safety is another important issue to consider; many fields are on a slope and can only be safely accessed when ground conditions are suitable. Health and Safety Regulations require farmers to do a risk assessment and ground conditions are an important factor of that assessment. Furthermore, it would be better to have tractors trimming roadside hedges on dry roads in the summer when there is light, than creating a safety risk of doing so at a later time in the season when roads will be wetter and with shorter daylight hours.

82. Moving the date to 31st August would leave fewer suitable days on which the work can be carried out and having the flexibility for farmers to trim hedges in August would make an enormous difference to many. With a large area of oilseed rape now being grown and along with early crops of barley and wheat able to be harvested in July, farmers are faced with tighter planting windows. On heavier land oilseed rape often by mid-August will have been drilled and wheat will be drilled from early September. This will not leave enough time for hedges to be cut. Preventing hedge cutting until the 31st August for many would remove the ability to trim the arable field hedges that year, which will have adverse consequences on the maintenance of field boundaries at the most appropriate time of the farming year. Annual cutting will avoid the problems experienced by those that alternate the cutting of hedges from year to year, much damage especially when trimmed with a flail trimmer occurs after two year's hedge growth. There is an argument that some birds do not prefer hedges that are trimmed every other year. It is important to note that not all hedges are cut in August, but because of the points made above, the need for flexibility is paramount to the industry.

83. One of the reasons given for moving the date from 31st July to 31st August is to protect birds, for example the yellow hammer and the linnet. It is important to point out that not all hedges harbour nesting birds in the later part of the breeding season and so a one size fits all cutting back would be disproportionate reaction to this suggested change.

84. **For these reasons we believe that the start of the hedge cutting window should be retained as 1st August.**

Chapter 5 – Direct Payment decisions taken on direct payments

85. Overall the majority of members of the NFU do not object to any of the decisions taken by the Government and those decisions are in line with existing NFU policy. However some concern has been expressed by claimants affected by the 5ha minimum claim size. There are also concerns amongst many members with regards the potential impact of increased quantities of coupled support payments in other parts of the UK and across the EU. In this respect it is important that the NFU makes the following points to Defra.

86. It is estimated by Defra that there will be c. 16,000 claimants affected by the 5ha minimum claim size from 2015. The NFU believes that it is important that the Government's decision is clearly communicated to claimants who in the proceeding 2 years have claimed less than 5ha eligible area. The options for those claimants should be clearly laid out to them. We believe that claimants affected should have the ability to trade their entitlements on the open market. Information on the transfer of land or entitlements and the necessary deadlines should also be communicated clearly and specifically to those affected by this change in eligibility criteria.

87. Many members are concerned that the EU agreement on the future CAP allows member states and regions to reintroduce and to increase coupled aid payments. The NFU believes it essential that Defra monitors the situation in the UK closely and acts to ensure that the conditions of coupled support, namely that it cannot be used to increase production, are enforced across the UK. We also urge Defra to do all it can to ensure that the secondary legislation which is currently being negotiated in Brussels maintains strong conditionality on the scope of coupled payments. We believe that it is reasonable that coupled support is suspended in full if there is an increase in production of the supported products and sectors. The NFU encourages Defra to work closely with the European Commission to ensure that CAP reform implementation decisions taken by other regions and members states do not leave English farmers at a disadvantage through distortion on the common market.

Chapter 6 - Rural Development

Lessons learnt

88. The current programme, particularly the revisions to delivery as a result of the disbanding of the Regional Development Agencies, provides a wealth of insight in designing the new RDP. The following is a list of key areas where lessons can be learned and actions taken forward.

89. **Build on the success of FFIS and REG -** The Farm and Forestry Improvement Scheme (FFIS) and the Rural Economy Grants scheme (REG) both saw significant uptake and interest from farmer applicants and the wider supply chain. For example, REG was significantly oversubscribed, with every £1 of funding attracting £4 of proposals from applicants. The schemes represent a significant step forward in the current RDPE and their overall framework should be rolled forward into the next programme scheme. Significant effort has gone into providing the scheme design and guidance, whilst the communication and awareness of these schemes should help ensure future interest and uptake. The use of a menu-based approach for the small grants scheme and greater flexibility for the larger REG scheme have proved to be a winning formula. Applicants appreciate the limited bureaucracy associated with FFIS and the freedom to develop their ideas when applying to REG. In addition, there have been several initiatives from across RDPE that have delivered benefits on farm, particularly around nutrient management planning and animal health. The positive foundations of these initiatives should be retained. It is important to retain nationally recognised schemes rather than 100's of local clones which creates confusion and may give rise to distortions.

90. **Keep it simple -** Similarly, the next RDP should not create complex delivery vehicles for RDP. They have been proven to add cost, delay delivery, and create the risk of disallowance. There are some recognisable elements to the current RDP, both amongst farmers and facilitators. Creating new rules, processes and guidance for programme applicants all adds to the potential to have gaps in the programme and builds a perception amongst applicants of gold plating programme procedures and creating barriers to entry for grant schemes. It is only by keeping the programme simple that the assumption that delivery administration costs fall by 30% in the new RDPE can be achieved[6].

91. **Be realistic about uptake -** Although the restructure in delivery of axis 1 and 3 caused an inevitable delay in the programme, any delays to RDPE put pressure on delivery. The focus becomes one of 'getting money out of the door' and can lead to a misallocation of funding or effort as a consequence. Where there are new elements to RDP, the assumptions of uptake and spending profile must be more realistic. The idea of flat spending profiles has not characterised the current programme and it is unlikely to be the case with its successor. And yet estimates of total administration costs associated with a new programme in the consultation impact assessment still assumes that applications are spread equally over the new Rural Development Programme.

92. **Engage with stakeholders -** Part of the success of the FFIS and REG schemes was the level of engagement with stakeholders in their design. Using stakeholders to review programmes on a regular basis and assess scheme effectiveness should be integral to the new programme. At various times through the current RDPE, the Programme Monitoring Committee (PMC) has felt like something of a rubber-stamping exercise or a process to fulfil a legal obligation to the European Commission. Yet following the abolition of RDAs and the centralisation of RDPE schemes, engagement with stakeholders on programme structure yielded positive results. The programme design benefits from the input and expertise of industry stakeholders and it must be recognised that industry and PMC members can fulfil a valuable consultative role. .

[6] Impact Assessment for the RDPE p.28

93. **Continue to reduce the administrative burden and streamline applications -** Clearly the centralisation of RDPE delivery removed the problems that arose from the differences across regional boundaries in processes and priorities. However, questions remain around the administrative burden and subsequent processes. The application time assumed in table 12 of the impact assessment of 12.5 hours appears to underestimate the true costs involved in compiling an application for RDPE. It would be insightful to analyse the proportion of applicants across different schemes that used consultants and third parties to undertake RDPE applications and supporting work. This would indicate the perceived 'ease' of application.

94. **Develop appropriate metrics and check achievements -** The consultation documents point to the limited robust evidence with regard to farm and forestry productivity schemes. Ensuring that the right metrics are available to evaluate the programme should be a pre-requisite – if you can't measure it, how can you manage it? Given the popularity of FFIS and REG with farmers, it is a disappointment that its success cannot be properly evaluated. Similarly, the provision of skills through RDPE is based on the numbers undertaking training and/or hours of training provided. Greater effort must be taken to evaluate the quality of such programme spend without ramping up the administrative burden. Similarly, greater effort should be taken in assessing the actual effectiveness of RDPE projects against the initial projections made in grant applications. This is particularly true for new ventures and start-up businesses, where initial plans may have been significantly revised, particularly post-recession. It is a significant assumption to think that RDPE beneficiaries (particularly of axis 3 funding) have all delivered what they projected to deliver. Improved evaluation should provide better information and improve RDPE appraisal and targeting in future.

95. **Reconsider the effectiveness of "Supply push" measures, particularly when faced with contrary market signals. -** The Energy Crop Scheme, Organic ELS and Woodland Grants Scheme for tree planting have all incentivised supply of a land-based product, yet all have run into problems whether it's been revising down anticipated uptake or reviewing the level of incentives. Triggering the supply of anything for which there is limited demand is not sustainable and a more rounded view of the wider marketplace should be taken. Perhaps a more sustainable way of encouraging energy crop planting would have been to stimulate demand, for example. Certainly, the uptake of wood fuel related projects in RDPE will have benefited from the significant price changes in energy markets through the current programme period. Careful consideration needs to be given as to whether a scheme has the ability to accelerate market development or acts contrary to market signals, simply creating a product for which there is insufficient demand.

Missing elements in Defra's assessment of need to support the new RDP

96. The agricultural industry today is in a markedly different place from where it was when the current Rural Development Programme was designed. In 2005, total agricultural output was £14.6bn and sector contribution to the UK economy (in GVA terms) was less than £5bn. By 2012, the value of UK farmed production was £24bn and GVA had increased 79%. Critically the global context for food and agriculture has changed significantly. The food price spike of 2007/8 has not been a one off. Global commodity prices increased in 2012 and have remained at relatively high levels since, as a series of supply shocks have made market volatility the new norm. Recent analysis from the European Commission on Prospects for Agricultural Markets[1] indicates that these dynamics are set to continue for the next decade. Tight supplies will keep agricultural commodities at relatively high levels, whilst small variations in supply will trigger significant price movements according to the Commission's predictions.

[1] http://ec.europa.eu/agriculture/publi/caprep/prospects2012/fullrep_en.pdf

97. From Foresight[2] and beyond, there has been much analysis about the long term need for global growth in food production. Our industry faces a crucial period**. The NFU firmly believes that UK farmers must be in a position to make a meaningful contribution to increasing food production**. At the same time farmers must contend with increased volatility in agricultural markets, globalisation and dysfunctional food supply chains. This should provide scope to develop and target rural development policy priorities based on the future challenges that our industry will face.

98. The focus in 2005 was arguably on generating alternative revenue sources for farms through Pillar 2. Rewarding farmers for provision of public goods (through agri-environment schemes) and diversification opportunities were subsequently prominent in RDPE. **Today, the challenges are based around food production**. Even within the current programme, both areas face challenges. For example, the Programme Monitoring Committee identified, “HLS growth is significantly less than expected at the start of 2012/13.”[3] Similarly, diversification is not the panacea for all farming businesses. Diversification enterprises tend to be relatively limited in scale – some 53% of all diversified enterprises have an output value of less than £10,000. The churn of diversification enterprises is also an issue. About 2,500 farms surveyed in the 2009/10 Farm Business Survey started them within the previous 12 months. Yet 3,100 farms which had diversified enterprises in 2008/09 gave up during 2009/10. In addition, the risk of displacement is always a factor when considering new-business start-ups given the potential for market cannibalisation.

99. The next RDP must focus on the challenges that we will face through to 2020 and beyond. Its potential has already been highlighted in Defra’s Green Food Project[4], with consideration of “how to support competitiveness and investment, as well as securing environmental improvement, through the design of the future Rural Development Programme.” **Rural development policy must help farmers to produce more food in the long term by increasing their competitiveness and ensure that our farming industry achieves this growth in a sustainable way.** These emerging challenges and shifting industry dynamics have not been sufficiently captured in the assessment made so far.

100. No mention is made of business confidence in relation to interest and uptake of RDPE. Given that grants typically cover no more than 40% of capital projects, applicants have to obtain the balance of funding from private sources. Analysis of the impact of recession on the number and size of grant applications by measure in the current programme would provide useful insight to future programme design. As the economy recovers, is there likely to be more demand for specific elements of RDPE schemes? What elements are most likely to have a significant difference?

101. As the consultation and accompanying assessments point out, there are substantial gaps in the understanding of the impacts of investment spent on Axis 1 and Axis 3. **Considering that the programme has gone through a mid-term review and given the experience of RDP delivery in England, the paucity of evidence to evaluate the current programme (and therefore develop the next RDP) is inexcusable.** This gives rise to the benefit to cost ratios (BCR) used in the impact assessment having the potential to misrepresent the effectiveness of the current programme and skew planning and budget allocation of the future RDP. In particular, the use of jobs created/safeguarded in calculating BCRs does not accurately reflect axis 1 and 3, given that the latter is overtly focused on business start-ups and expansion. There is certainly more of a narrative relating to RDP, whether relating to measuring the success of specific programme measures, comparing targets/indicators with actual participation or measuring spending performance against the budgeted profile. Perhaps this

[2] http://www.bis.gov.uk/assets/foresight/docs/food-and-farming/11-546-future-of-food-and-farming-report.pdf
[3] PMC 18-3 Programme Managers Report
[4] http://www.defra.gov.uk/publications/files/pb13794-greenfoodproject-report.pdf

has not been included due to the limitations of the consultation, but it needs to be remembered that the current RDPE has not been without its drawbacks.

Future priorities

102. The Rural Development Regulation provides six priority areas for Member States to choose from in developing their Rural Development Programmes. Although consultation annexes link the different priority areas to the three areas identified by Defra, it is disappointing that these links are not outlined in more detail in the body of the document. As such, it feels like the competitiveness, agri-environment and growth focus of the next RDP just follows on from the three axes that give the current programme its structure. It therefore encourages comparisons with the current programme. And as outlined in response to previous questions, the current second pillar funded some positive activities, but also saw some use of funds that remain questionable. In many respects, this lack of a fresh vision for RDP is particularly disappointing given that the consultation represented an opportunity for Defra to detail priority areas and potential budgets to industry, stakeholders and the European Commission.

103. The NFU believes that the future RDPE should:

- Increase the proportion of farm income derived from the marketplace
- Boost the competitiveness and sustainability of UK agriculture

104. Of the six priority areas identified by the European Commission, the NFU believes that the four that should be focused on are:

- fostering knowledge transfer and innovation in agriculture.
- enhancing competitiveness of all types of agriculture and enhancing farm viability
- restoring, preserving and enhancing ecosystems dependent on agriculture
- promoting resource efficiency and supporting the shift towards a low carbon and climate resilient economy in agriculture, food and forestry sectors

105. Defra's proposal highlights two themes to help support the three main areas – innovation and advice/skills. The NFU would agree with this coordinated approach to the programme and the supporting role of these themes. Ultimately, the RDPE offers potential to change behavior on farm. That can be achieved through providing capital investment to change the way things are done or through providing advice and skills. Combining both these elements provides a powerful driver to change behavior.

106. In practice, it is inevitable that the environment will be prominent in the next RDP. The long tail of commitments that has already been committed to will ensure that funding on environmental activity is again likely to put England at the top of a league table showing the proportion of RDP funds spent on agri-environment activity. In addition, safeguarding the benefits that HLS has delivered appears a sensible approach and will build on the £2.16bn already committed.

107. **Above all, matching the ambition of the next rural development programme with the level of funds available is essential**. Ramping up budgets given our low allocation of EU funds and reduced Exchequer funding does not tally with increasing or maintaining overall RDP programme spending. Instead, it is a case of prioritising funding in areas where it will help deliver a farming industry that is less reliant on public support in the long term, regardless of whether that support is delivered through pillar 1 or pillar 2. We should also be wary of unintended consequences. For example, do well funded agri-environment schemes stifle innovation in developing a market that rewards environmental delivery? Similarly, has the focusing of CAP funds on rural tourism delivered a sector that is increasingly dynamic or is it a sector where business investment is sporadic and unduly influenced by grants and similar incentives? The direction of travel for reducing policy intervention in agriculture and ensuring the industry is increasingly responsive to supply and demand signals is well-established, but it

is also essential we're not creating an expectation of long-term government assistance in other sub-sectors of our rural economy.

Growth Programme

108. **Given the need to prioritise, the ambitions of the growth element of the next RDPE should be particularly tempered.** RDPE funding will join other European funds to create the EU Structural and Investment Funds Growth Programme. There is already €6.2bn in this funding pot, so the different funding options presented in the consultation document have relatively little impact on the overall size of the Growth Programme. However, the amount allocated from RDPE has the potential to place a significant constraint on the funding available for environment and productivity.

109. **There is particular concern amongst farmers created by the involvement of Local Enterprise Partnerships in delivering RDP money. Few LEPs have identified the agri-food sector as a priority, whilst the experiences of LEADER and axis 3 have created a perception that funding shifts away from the land-based sector and is skewed towards social and community projects rather than business growth**. Their capability to deliver funding priorities and direct schemes is untested. Given the previous disallowance and delivery issues with CAP funds (particularly under the old RDA structure), such an experimental approach through 39 LEPs recreates the threat of disjointed delivery, duplication, and ineffective use of funds.

110. As well as the uncertainty regarding delivery, there is uncertainty surrounding what the funding will actually buy. LEPs will need to submit their final Local EU Structural and Investment strategies early next year. To make a decision on funding before strategies are finalised and before their plans for rural growth has been assessed seems premature. A decision on the growth fund allocation should not be made until the rural ambitions and plans of each LEP have been fully evaluated. There are parallels with the uncertainty surrounding future uptake of agri-environment schemes post-greening. Budget planning could benefit from a phased introduction of inter-pillar transfer.

111. Areas identified for the growth programme include support for broadband and tourism activities. There are good reasons to resist the suggestion that rural development funds from 2015 onwards should be used to fund the roll-out of rural broadband:

- Government already has access to up to £300 million from BBC licence revenue, which ought to be enough to fund much of the work needed to reach 95% of UK premises by 2017;
- European Regional Development Fund (ERDF) monies can be used to part-fund the infrastructure required;
- High-speed mobile broadband will fill in many of the gaps that remain: O2 are contractually committed to reaching 98% of UK premises (indoors) by 2017, and according to HMT this will happen by 2015;
- Satellite broadband is becoming faster and cheaper, and it will be available where other technologies are inaccessible.

112. For tourism, the potential activities that will be funded are unclear. The CAP consultation document refers to Deloitte research that has identified a number of barriers to growth in the tourism sector, and suggests that the "Rural Development Programme could address these barriers through providing support for more joined up coordination of destination marketing activity and preserving and enhancing tourist attractions such as heritage sites." However,

using RDPE funds for marketing and promotion seems to go against the current Cabinet Office freeze on marketing. Assumptions in the impact assessment show a 21% deadweight for tourism. This would imply that over £5m of the £25m fund allocated to rural tourism in the current programme has not delivered.

Making RDP simpler, ensuring accountability and value for money

113. In terms of providing value for money, the NFU believes the focus on a limited number of schemes is a sensible approach, particularly if it is a case of carrying forward programme elements that already work and have proven popular. However, it should be remembered that the RDP impact assessment does include a range of Benefit Cost Ratios (as outlined previously), but there is a general lack of information to evaluate the current programme and therefore plan the next. This is particularly the case when looking at farm competitiveness and productivity.

114. Defra has already stated its intention to ensure simplicity. For axis 1 type measures in the current programme, the centralisation of programme delivery has already provided an opportunity to simplify and reduce bureaucracy. Similarly, agri-environment schemes have been well understood by the farming community and the scheme options have evolved since the launch of agri-environment to become much clearer. The hand books have improved on revision. However, each handbook revision has also contained changes to rules and payment rates. This means it is very difficult to give consistent advice across agri-environment without referring to the different handbooks and also creates confusion on the ground. With the new scheme the aim has to be to get it right first time, so incremental changes are not required.

115. Given these previous efforts, it is a rational that the next RDPE for farm competitiveness and training build on these characteristics. Efforts to continue "to keep it simple" should include:

- Provide clear guidance and application procedures.
- Avoid developing schemes where significant RDPE staff time is required in supporting and developing applications.
- Ensuring that the application process can be completed without a need for advisers or input from RDPE Delivery staff.
- Encourage regular feedback from programme applicants and delivery organisations.
- Undertake annual review of scheme design with industry stakeholders, including a comparison of delivery costs between different strands of RDPE and between different delivery bodies to ensure best practice is broadened across all schemes.
- Provide workshops for farm business consultants and advisers (similar to FAS efforts to train the trainer) in year 1 to ensure there is awareness of the schemes and clarity over what government is seeking.
- Map out other funding opportunities for participating farm businesses e.g. a participant in FFIS becomes a target for specific training opportunities and advice.
- Ensure there is clarity over what will and won't be funded under scheme elements, utilising case studies or dummy applications/feedback where appropriate.
- Using application windows to help manage programme delivery (note that although closing and opening dates may be unpopular with some potential applicants, it makes sense in terms of managing workload, ensuring there is a competitive element to funding decisions, and ensures applications are not delayed indefinitely).

116. With any public source funding, accountability is essential. Broadly speaking, programme applicants in the current RDPE appreciate that there is an appropriate process to

be followed to gain access to funding. The problems in the current programme have been where these hurdles are not apparent from the outset and as an applicant becomes more interested in schemes, so the amount of information they need to provide increases. One way in which this could be addressed is through IT and sharing applicant details as part of the programme management. For example, a participant for an RDPE training scheme should only have to register once, rather than have to provide details to each individual training provider.

117. One area where England has ensured there is accountability for public funds is in addressing the deadweight problem when selecting programme options. This has been recognised by the EU. Nonetheless, there remain options to improve this further. **The consultation Impact Assessment estimates deadweight for woodland management at 40%, woodland creation at 19%, micro-enterprises at 50.7% and tourism at 21%.**

New Environmental Land Management Scheme (NELMS)

Opening remarks

118. The NFU views environmental measures in pillar 1 and pillar 2 CAP as a complementary package. The CAP measures targeted towards the environment could and should be supported by the wider industry led initiative for the environment – the Campaign for the Farmed Environment (CFE).

119. Farmers are often troubled when they hear of the very large pillar 2 payments that go to institutional and predominantly non farming charities and trusts. In 2011, the largest recipient of pillar 2 funds[7] was the National Trust at £4,481,717 followed by the RSPB at £3,997,559. Other Wildlife Trusts such as in Norfolk and the South West Lakes Trust received well over £1million in pillar 2 support and the Forestry Commission received £1.4million. We believe that Defra should consider a mechanism in the future scheme that scales back very large payments to non-farming entities and therefore ensures a fairer distribution of the limited resources.

120. We recognise that Defra is likely to prioritise a significant proportion of England's next rural development budget to support for the environment. We believe that Defra should allocate RDP resource to;

- Fulfil ongoing agri-environmental commitments
- Safeguard HLS "high level" activity by budgeting for those agreements that end in the next RDPE period to be renewed based on the same area and at the same rate
- Utilise the funds that would have been required to support ELS renewals for a further 5 years in the next programme period to underpin a new mid-tier scheme and fund any capital works for NELMS

121. This approach would require £2,880m out of the total £3,200m budget available for the future RDPE. Supporting environmental priorities would therefore take up 90% of the future programme. This is outlined below in Table 5 and our calculations are laid out in the chapter on inter-pillar transfers previously in this submission.

Table 5.

9% transfer increased environmental focus	**Total for next programme**	**Proportion of Total**
New / refocused Agri-environment	£725m	22.65%
LEADER	£122m	3.8%
Farming and Forestry	£132m	4.1%

[7] http://cap-payments.defra.gov.uk/

Growth programme	£66m	2.1%
Total Headroom	**£1,045m**	-
Ongoing commitments	£2,155m	67.34%
Agri-env total	£2,880m	90%
Total programme	**£3,200m**	**100%**

122. The NFU's principles regarding the design of NELMS are:

- The ambition and scale of the scheme should be matched to the resource available. Thus at 9% transfer rate we recognise that a more targeted approach will be necessary in the future. This would not be the case at a higher transfer rate.

- Environmental measures in pillar 1 and pillar 2 CAP are delivered as a complementary package.

- NELMS is a voluntary scheme for farmers to participate in.

- It should be a scheme which is simple to participate in and applications can be completed by farmers without the need for professional support.

- NELMS should be a multi objective scheme with equal emphasis on delivering outcomes for Biodiversity 2020, Climate Change and Water Framework Directive.

- NELMS needs to have a transparent targeting approach, so those submitting an application have a full understanding of whether they have a real chance of success. Applicants do not want to waste time and resource on completing unsuccessful applications or employing 'bid writers' to be more successful.

- Agreement holders should not incur advisory costs for on-going care and maintenance once in agreement and they should not incur application costs.

- Farmers should have the ability to choose the right options that suit their farmed environment and achieve environmental gains.

- Agreements should be fair and balanced between agreement holders and Defra / Natural England with clarity and certainty about agreement terms.

123. **Summary Comments on NELMS**

- **We entirely agree with Defra that money will be tight in the next programme if inter pillar transfers are limited to 9%, but this is not the case at 15% when NFU would anticipate a continuation of broad and shallow type commitments**. 9% inter pillar transfer rates will necessitate greater targeting and prioritisation of the pillar 2 agri-environment schemes. We insist that Defra sets the ambition of its next programme according to the limited means it has available to it, not the other way around.

- The NELMS objectives need to be balanced through delivery, moving away from the bias towards biodiversity in the current environmental stewardship schemes, taking the need to meet Water Framework Directive objectives into account and wider environmental objectives.

- There does need to be much more clarity in the 'mid-tier' to prevent it becoming too complex. Practically, coordination is unlikely to be taken up by farmers. Coordination should form a minority of agreements and should be achieved through individual agreements contributing to the same or similar outcomes.

- We agree that agreements should be between the individual farmer and Natural England as the delivery body.

- The Campaign for the Farmed Environment is in a strong position to support farmers to maximise environmental gain from CAP schemes by advising on the best alignment of greening, NELMS and voluntary environmental measures.

- The level of advice and aftercare provided by NELMS needs to be appropriate to the type of agreement.

- The NFU supports the five year agreement length, as long as there is the ability to have longer agreements to match the nature of environmental provision being rewarded. The universal offer of capital grants should be subject to much shorter agreements.

124. The NFU looks forward to continuing discussions with Defra on all aspects of NELMS. There is much more work to be done to develop the detail, particularly on facilitation and advice offer.

Campaign for the Farmed Environment

125. Should the Government opt for a 9% rate of inter-pillar transfer, the NFU anticipates that the Campaign for the Farmed Environment (CFE) could play a key role in optimising the location and management of ecological focus areas across the farmed landscape. The Campaign has already developed modules for the key environmental challenges facing farming. Focusing on the area of land already managed outside of agri-environment schemes, the CFE could promote activity modules on pollinators, farmland biodiversity and water quality with the aim of improving the quality and benefit for these outcomes over through thoughtful location and management. These voluntarily managed areas of land are most likely to be used to meet farmers EFA requirement.

126. The CFE has the farming industry's backing and capacity to promote local environmental priorities and environmental messaging across all CAP delivery. At present the Campaign coordinators are developing local environmental priorities at a county level that could provide the platform for this coordinated approach. Industry partners, including Defra delivery bodies and environmental NGOs are involved in this process. **Through CFE's coordinated local environmental messaging it could help meet the aspirations for landscape scale delivery promoted by Lawton.**

127. The Campaign for Farmed Environment could promote best fit of options and locality for attainment of maximum environmental outcome. This applies to both farmer selection of the most suitable forms of ecological focus areas for their own situations and to signpost and encourage farmers to undertake further efforts for the environment through NELMS or voluntary environmental management.

128. This year the CFE has entered a new phase providing for the first time a coordinated delivery platform amongst the key industry-led initiatives (Voluntary Initiative (VI), Greenhouse Gas Action Plan (GHGAP) and Tried & Tested (T&T)). The CFE has also extended its coverage through CFE county coordinators to the whole of lowland England and pastoral farming systems. This means that it now has the structures in place on the ground to promote nationally the tools, guidance and advice available from all the industry led initiatives, but with

local tailoring of environmental priorities from the CFE teams and their extensive local networks.

129. The Campaign's message going forward is about embedding environmental management as a core principle of all farm businesses and building resilient farm businesses that are better placed to face environmental challenges. Therefore, the delivery model adopted by the Campaign and the partnership working with the VI, GHGAP and T&T means that it has the potential to address challenges such as; Water Framework Directive (WFD) and Biodiversity 2020. Thus the CFE provides a means to aid the sustainable intensification challenge; ensuring a farms' environmental value is protected and enhanced. **CFE is in a strong position to support farmers to maximise environmental gain by supporting the best alignment of greening, NELMS and voluntary environmental measures.**

Structure of the proposed NELMS

A Single Integrated Scheme

130. We feel that there is merit in bringing together all the land management schemes into one streamlined multi-objective scheme. There are too many schemes in too many places for farmers to easily identify what opportunities are available to them. There is some nervousness amongst farmers about bringing the various schemes together, for example around application process, but we do believe that in interests of simplification for reducing administrations costs and for maximising synergies in environmental delivery, that a single multi-objective scheme is appropriate.

131. We are not convinced that the woodland grant scheme (EWGS), especially for new planting, should be an integral part of the NELMS. We would want to see clear evidence that the scheme has delivered during the current programme and that there continues to be a market failure which warrants supply pull government grant aid for planting of new woodlands. We note that the current scheme has seen incentives ratcheted up, whilst the impact assessment points to a relatively high deadweight when funding this activity.

132. Farmers value the function of the CSF, as it combines advice, events and relevant small scale grants in a single package. It has a strong and recognisable brand. If CSF is integrated into the capital grants element of NELMS the CSF brand should remain, but access to CSF advice and grants should be available to all farmers and certainly not be restricted only to those able to access land management agreements.

133. The removal of Uplands ELS raises questions about how these areas could access NELMS in the future. Without information on the options and payments available in NELMS it is difficult to assess how the uptake of NELMS will vary compared to the current scheme. It also means we cannot see how different farming sectors will be affected by the changes proposed, particularly from a farm revenue and viability perspective.

Integration of Delivery Body Administration

134. Integration of the schemes implies integration of application processes and, therefore, the processes that support scheme administration. Although farmers would be nervous about greater integration, there are opportunities for reducing administration costs and for maximising synergies in environmental delivery, which means that some integration is appropriate.

135. The emphasis must be on getting the agreement right at the outset and making sure the advice and systems are in place to ensure this is achievable. Greater integration between the delivery bodies must blend understanding of farming systems, technical expertise of the staff and the rules. Not all situations are black and white and the administration systems need to appreciate that.

136. Integration should ensure that the application process is consistent. It should prevent inconsistencies between the Basic Payment Scheme and the New Environmental Land Management Scheme. For example, the same mapping system will be used, removing the different mapping requirements between the schemes. It should lead to application advice that is consistent across the schemes and advisers are fully aware of the implications on BPS from an activity in NELMS.

137. Equally, greater integration should mean issues are resolved quicker as it removes the need for one delivery body to be asking another for information. Some recent agri-environment casework on Permanent Ineligible Features involved RPA, who initiated the enquiry, Natural England as it related to agri-environment claims and Forestry Commission, as the parcel of land involved woodland. This made resolving the query slow and complex and led to a delay in payments. If there is going to be a common application process then it seems sensible to have a common process for dealing with disputes and casework. This ensures that the bigger picture, across all the schemes, is being considered. Currently a cross compliance failure is considered separately for SPS and agri-environment schemes, meaning the applicant receives two separate penalty letters. In this case it is not clear who the appeal should be sent to.

NELMS Objectives

138. Defra's proposed primary objectives for NELMS are Biodiversity 2020 and Water Framework Directives. There are secondary objectives of landscape, historic environment, educational access and genetic conservation. Climate change adaptation and mitigation are overarching objectives.

139. We recognise that Defra face difficult choices to deliver an effective environmental programme across these objectives with a limited budget. Synergies across objectives will have an important role to play to optimise environmental outcomes from options from limited budgets. Moving in to NELMS there needs to be a rebalancing of the delivery against objectives away from the current scheme predominantly focussed at biodiversity.

140. When Biodiversity 2020 was launched the then Secretary of State acknowledged that B2020 is an ambitious strategy and delivery would require partnership working. Clearly, when Defra published B2020 it did not expect the public sector to fund all its delivery. So, NELMS should not seek to deliver all of B2020. The budget available in pillar 2 will not be sufficient to fund ambitious B2020 targets, so hard choices need to be made about what can reasonably be delivered through the future RDP.

141. With respect to those environmental objectives its worth highlighting the scale of Defra's ambition in the Biodiversity 2020. Currently there are 1.9Mha of 'priority habitat' in England and Biodiversity 2020 wishes to extend this by an additional 200,000ha, of which 52,000ha would be new 'ancient' woodland, as well as improving the quality of existing habitat. Aside from the loss of productive land, the Defra CAP consultation (page 59) costs meeting the Biodiversity 2020 ambitions for habitat creation and improving habitat quality as £500m/year. The costs of habitat creation are very significant, for example HLS payments for creating saltmarsh are £500-700/ha and other habitat creation options commonly start at £300/ha. For information these habitats include unimproved grassland, heathland, saltmarsh, woodland and wetland, but also arable field margins, hedgerows and traditional orchards.

142. The NFU contests that there is a legal obligation to create this extent of new habitat. Rather the legal requirements apply to habitat quality; the EU Habitats Directive and EU Birds Directive require the UK Government to achieve favourable condition, but not habitat expansion. In respect to condition, according to Defra stats 97% of agriculturally managed designated sites are in favourable or recovering condition. Legal obligations also arise from the Water Framework Directive, to achieve good ecological status in surface waters. However, this obligation is phased over three management cycles to be achieved by 2027. The task for the

immediate programme period is to establish a convincing evidence-led trajectory for water quality improvement, a trajectory which is still in development.

Whole farm approach

143. The proposal is for a 'whole farm' approach with a requirement of 'no detriment' across whole farm. It appears the level of NELMS activity required would not relate to farm size i.e. the ELS points system has gone. However, it is not clear how 'whole farm' impacts on mid and upper tier arrangements. Would it be possible to only have NELMS land management options on the protected site, i.e. SSSI, and not on the rest of the farm? In mid-tier would it be possible to undertake NELMS option on part of the part e.g. on a mixed farm, only the arable area has NELMS options contributing to improving farmland birds.

144. Defra will need to define 'whole farm' carefully to provide flexibility for tenants, who may not have security of tenure over all of his holding to enter into a 5 year agreements. In such cases, it may not be possible to bring the 'whole farm' in to NELMS agreement. Those areas of the farm outside an agreement should not have additional management conditions placed on them. Flexibility is required for land transfers in and out of a farmer's holding.

145. **Industry-led activity CFE could promote complementary environmental land management activities on land outside of NELMS options.** This includes aligning greening activity with the NELMS options to attain greater environmental gain.

Upper Tier site specific agreements

146. The description of the upper tier outlines a targeted approach towards designated and protected sites such as SSSIs or scheduled monuments and those deemed of very high priority or complexity. Entry would be through invitation from Natural England, with it being estimated 90% of the potential agreement holders are already known to Natural England. The concern is that this approach would be very exclusive, potentially excluding good applications from coming forward. Therefore, to build the requisite trust with the industry and manage expectations it is important that the targeting of the upper tier is transparent to all and covers all the scheme objectives. This approach should allow new agreements to come forward from individual farms, outside of the invitation process.

Mid-tier landscape scale and site specific agreements

147. The most innovative part of the NELMS proposals is incentivising collaborative agreements to achieve landscape scale benefits. This approach carries a substantial risk, given the challenges of encouraging collaboration and the high cost of facilitating it. We agree coordination should not be the only way to access the scheme. As a new, untested approach, coordination should not be the main route to access the mid-tier. We are concerned that coordination adds complexity to the scheme and will act as a barrier to good applications coming forward.

148. We welcome the proposal that the agri-environment scheme agreement is between Natural England, the delivery body, and the land manager, not with the collective group. Importantly, the proposed approach appears to enable individual applications to come forward and be accepted outside of a collaborative approach. We believe coordination/ collaboration should not be a requirement to access the scheme, particularly when an individual applicant will contribute to the same environmental outcomes.

Coordination

149. There are many models that could be used to achieve landscape scale delivery of environmental outcomes that need to be explored. Not all models require coordination delivered through groups of farmers working together. Coordination can result from collective endeavour promoted by guidance from initiatives such as the CFE or CSF working to common targeting guidelines and eligibility rules in a given area.

150. Coordination across a landscape could be achieved through clear targets. For example, across a catchment certain activities are required to deliver that environmental improvement to water quality. With that clear target, individual farmers in the catchment wishing to enter NELMS would have to use the options appropriate to that catchment. It would not require a coordinated group application.

151. We do not see coordination between agreement holders as being the main route in to the mid-tier of NELMS. The majority of applications will come from individuals. Past experience shows that farmers do not easily come together to coordinate their activity, particularly as many are competitors in their core business activity. Achieving coordination around an environmental issue will be more difficult as each farm business is different, with a range of land tenure arrangements, and environmental opportunities will vary between farms. This combined with land exiting existing agreements on different dates will make coordination difficult.

152. Experience shows that coordination will take a long time to achieve. For example, commons agreements can take several years to complete, due to their complexity and the variety of business interests involved.

153. Whatever approach is taken, ultimately it needs to be transparent, so a potential applicant(s) can assess easily whether they have a chance of submitting a successful application, and simple, so external assistance is not required to support the application process. We are concerned coordination adds unnecessary complexity to the application process. If coordination is part of NELMS it should be very light touch, flexible, and, as proposed, incentivised. However, we would expect that coordinated agreements would be a minority of total agreements.

154. We are concerned that coordination adds complexity to the scheme, creating an additional administration step for applicants to go through. It will delay agreements coming forward in the new scheme. Also, potentially, a group bid ties up available budget from future years when land enters agreements in different years. Budget available in any one year should go to the best applications in that year.

Scale of coordination

155. If coordination remains a feature of NELMS it will need to be led by famers at a scale that they can identify with and relates to the environmental priority. We are concerned that 'landscape scale' implies a large area. A large area will be extremely difficult to get the majority of farmers in that area to work together and coordinate their agri-environment scheme activity. To get farmers working together they need to be like minded and hold common aims, not always the case with neighbours. There will need to be provisions that do not require total coverage of an area, or contiguous land.

156. Coordination should be allowed at a small scale to achieve environmental gains. For example, improvement and enhancement of butterfly habitat could cover a couple of fields managed by two farmers.

Coordination across an area

157. The consultation does not outline what constitutes 'coordination' of agreements. To achieve coordination does the farmland need to form a contiguous block of land? Realistically, it will not be possible to get everyone in a block of land to agree to enter a coordinated bid. If there were six farmers managing that block of land and one, the one in the centre of the block, does not want to participate in NELMS will that prevent the other five from entering NELMS as a coordinated agreement?

158. With 70% of land currently in agri-environment the majority of land is covered by a scheme. We assume it will be possible to put forward a coordinated bid that includes a mix of land from that currently in agri-environment to land outside of an agreement. In addition, if coordination is to achieve landscape scale approach to environmental delivery, it must be possible for new agreements to be added in to an existing coordinated approach. There could be many reasons why a farmer was unable to enter in to a coordinated bid when it was initiated and those circumstances change.

159. Coordination requirements will need to consider farm structures. Some farms will have parcels of land in different parts of the country, sitting in different landscapes. As this is a 'whole farm' approach with a single agreement it will only be possible to enter into a coordinated agreement for one parcel. It is not clear what NELMS activity would be required on other parcels, if any. Also, the other parcels would, it seems, be excluded from going in to a coordinated agreement for that location and, potentially, prevent that location entering in to coordination.

Landlord tenant relationships

160. There is concern that tenancy arrangements will make coordination much more difficult. The time and complexity of establishing commons agreements are an example. Farmers aiming to work together on coordination may be thwarted by the range of different tenancy and land ownership arrangements in place across that area. If two out of five farmers aiming to work together do not have the required five years remaining on their tenancy, then those two farmers may be precluded from entering in to agri-environment agreement. It seems this would prevent all five entering in to agreement. As with existing agreements simple systems must be put in place to allow the two farmers to enter agreement with the landlords support.

Option selection

161. We envisage that this mid-level scheme would contain a range of options including capital payments and possibly presented in 'bundles' related to specific environmental outcomes (such as water protection, pollinators or landscape conservation) which farmers can choose. We expect that for each agreement packages of measures will need to be drawn together depending on the nature of the farm and environmental priority.

Facilitating landscape-scale approaches

Cost of facilitation

162. **The total budget for facilitation and advice will be at the expense of projects on the ground. Therefore value for money needs to be achieved. We suggest the budget should be capped and not exceed the current proportion of agri-environment budget spent on ETIP.**

Is facilitation required?

163. We believe the scheme should be simple and transparent so no external assistance is required to complete the application process. The scheme should be set up so external bid writers or facilitators are not required to have a successful application. If facilitation is an element of NELMS it must be much clearer how it adds value, as it is a costly approach.

164. It should not be assumed that every collective bid needs external facilitation. Coordination can be achieved through other routes. For example, if the environmental priority is farmland birds, individuals can apply to undertake farmland bird options within that area. It would be difficult to demonstrate how facilitation has added value to those agreements.

165. We understand the proposals are still under development. However, they have the potential to be complicated for the applicant, creating additional entry requirements, leading to more advisers/facilitators and therefore mixed messages on the ground without any guarantees it will deliver the desired environmental outcomes.

Who is the facilitator?

166. If facilitators are required to develop a group bid they must have suitable credentials and be trusted by the farming community. Farmers are more likely to work with their own agronomist and farm adviser, already known to him and his neighbours. Trust already exists between the adviser/ agronomist and a number of local farmers. It should be possible that one of the farmers in the group is the facilitator, if that's what those farmers require.

167. It is not clear how a facilitator would be funded. We are against a 'competitive facilitation fund' as it could not deliver trusted facilitators that farmers would want to work with. Farmers would want to choose who they would use as a facilitator, not have a facilitator imposed following a bidding round. To enable the farmer/ potential applicant to appoint a trusted person a way should be found that funding goes through the agreement holder.

Role of the facilitator

168. It is not clear what the actual role of a facilitator will be. Clearly, there is an expectation that they will bring farmers together to form a coordinated bid. The potential role could go further than that, including environmental advice and support completing the application forms. If facilitation is to be funded by NELMS then that funding should be for the core purpose of the facilitation, seeking coordination between farmers, and not extend into other functions. Also, we would expect facilitators to have appropriate liability insurance to cover their role.

169. Facilitation support should end once the collective bid has been made. With the NELMS agreement being between the land manager and Natural England as the delivery body, facilitation will add no value once the agreement is in place.

Universal offer

170. We agree, there should be a universal offer in the form of capital grants available to all farmers, but not at the expense of additional transfers to pillar 2. The universal offer would take the form of small scale grants within pillar 2 and alongside a mid-level scheme in likelihood focused on active resource protection of key landscape, aquatic or biodiversity targets. As well as having positive benefits for the environment the grants also support the local economy, supporting the use of local tradesmen and suppliers.

Capital grants only

171. We support an annual approach to capital grants for those outside a multi annual agreement. The proposal is universal capital grants will be supported by simple online advice. This is acceptable if the application process is clear, simple and transparent.

Capital grants in multiannual schemes

172. Capital grant items should also be available for those within the mid and upper level tiers. It should be possible to utilise funding from the farming and forestry competitiveness budget headings for this purpose. For farmers in multiannual agreements major capital works need to be planned to tie in with business cash flow. For many capital work will need to be after initial NELMS payments are made, ensuring cash is available to bank roll the capital works. So, if the first NELMS payment is not made until 10 months after the agreement start date, major capital works should not be planned in until after that time.

Single start dates

173. Government has already taken the decision to start all agreements on 1st January each year. **We are concerned that this will require applications to be made during the busiest part of the farming calendar, harvest**. Furthermore, provision should be made to ensure continuity between schemes to retain environmental benefits. There will be a gap between an existing agreement ending, part way through the year, and starting an agreement on 1st January under the new scheme.

Single agreement

174. We support the proposal to have one agreement per holding. However, this does need further consideration to fully understand the impact. We are aware of scenarios where one holding has several existing agreements, ending on different dates. In this scenario the agreement holder should either be able to transfer all agreement land into the new scheme, with a new single agreement or he enters a new agreement for the first parcel expiring and adds the other parcels of agri-environment land as the relevant agreements expire.

Common Land

175. We agree the arrangements for common land should remain as they are, with one agreement covering a group of land managers. We assume a common land agreement would count as a coordinated agreement for the mid-tier.

Five Year Agreements

176. Five year rolling agreements with break on either side have proven popular with most farmers. However we are aware that these multi-annual agreements are unsuited to those with short term occupation of farmland (especially FBT tenants). Standard agreement terms for all NELMS should be negotiated with the farming industry as part of preparation for scheme launch in 2015.

177. Defra will need to consider a range of agreement lengths matched to the nature of environmental provision being rewarded, e.g. wetlands may need longer than 5 years, as indicated in Defra's consultation paper. Also, complex agreements delivering in the upper tier may need to be subject to ten year terms. For example, commons agreements involving many parties are difficult to negotiate and take much time. In addition, the capital payments offered through the universal offer will need shorter agreements than five years.

Menu of options

178. The consultation document could usefully have provided a list of options, so a picture could be painted to understand the scheme proposals. As it is we do not know what options will exist in the new scheme, the detail of the prescriptions or which part of the scheme they will be available in. This information is fundamental to understanding the shape of the proposals and how they relate to pillar 1 activity. From an individual farmer perspective, if makes it difficult to understand if they can gain from NELMS, which may in turn shape their individual views on budget transfer.

179. We should retain from the current environmental stewardship model, the diversity of options, including capital items, available to farmers to select suitable measures for their own circumstances. The options should allow for continuation of environmental good work from current agreements. We expect that for each agreement, options will need to be drawn together depending on the nature of the farm and environmental priority. This will enable the farm to include its unique environmental features.

180. It should be possible for environmental management to be paid for that is over and above the greening requirements. For example, the fallow area could count towards greening, if planted with pollen and nectar mix the latter could be paid for through agri-environment. This

could be accommodated through different payment rates depending if the area of land the environmental feature is used for greening or not.

181. The option and prescription detail does need to be clearly stated to applicants. Problems have occurred with the current agri-environment scheme as option detail and interpretation has evolved. Area constraints are one example where the handbook did not state a minimum area for an option, only provided a guide. However, it has led to penalties for applicants not following the 'guide' area. This is unacceptable.

Restricted option choice

182. The consultation refers to agreements responding to 'the opportunities identified in their area'. This is not described, but we assume will require the applicant to use certain groups of options. This should not preclude the applicant addressing local farm environmental features that have not been picked up by the targeting framework. So if he has habitat supporting a particular butterfly and the land sits in a farmland bird target area the applicant should be able to enhance the butterfly habitat through agri-environment as well as contributing to the farmland bird target. The same applies when monuments are located on the farm.

Option payment rates

183. In designing the scheme Defra and Natural England must remember this is a voluntary scheme for agreement holders to participate in. It would be logical to offer a realistic incentive to encourage farmers to participate in agri-environment schemes. This can be achieved to some extent through the inclusion of a "transaction cost" within the income forgone calculation.

184. With limited resource, the future scheme is likely to have an element of competition. Defra must undertake to pay a fair rate for the activity undertaken through the agreement. The prescriptions relating to the options should be clear from the outset and clearly relate to the payment rates. The options should be used consistently across the country. There should not be a difference of interpretation depending on location of the land, as has happened with some options in the current scheme. Where an option requires a 'management plan' to be agreed with the delivery body Natural England, applicants need to be clear of the parameters for the plan and how that relates to the payment rate. Management plans could lead to different requirements on an agreement holders, some more onerous than others, which leads to the scheme being applied differently across the country and payment rates that do not clearly reflect the actual requirements. This should be avoided.

Clear payment timetable

185. To help farmers plan their business cash flows it is very important that there is a clear payment timetable set out from the start of the agreements. We would not want to see a repeat of the current situation where an agreement holder can wait 16 months for his first payment and receive two payments after he has completed his agreement term. This is unacceptable. This situation does need addressing for current agreements, through the process of aligning them with calendar years.

Application process

186. At this stage of development NELMS seems to be very complicated. It is important to remember the ambition that the scheme is simple and transparent for the applicant. The applicant needs to be able to quickly assess whether it is worth applying to the scheme and it therefore needs to be easily understood.

187. When a farmer is interested in NELMS he must be able to easily find out what targets apply to his farmed area. He will need to know what the application process entails. The CFE is in a strong position to provide this initial guidance promoting NELMS and the right options, aligning with good placement of greening activity to achieve greater environmental gains.

188. The proposals for mid-tier suggest less input from the delivery body Natural England. If that is the case Natural England must take more responsibility for eligibility checking at application. Once an application is accepted by Natural England it must be a given that the details on the application form meet the eligibility criteria. There have been recent cases where penalties have been triggered for faults on the application form, e.g. two incompatible options on the same area, which should have been picked up at application. This must not happen under NELMS.

Farm survey

189. In principle some form of environmental audit in preparation to entry to an agreement should assist in better selection and targeting of options on the right parts of the farm. Our starting point is that brevity and impact on agreement content must be the primary goal – an audit process designed by committee, especially if it features in competitive entry, will not be an effective use of resources. Industry-led activity CFE or auditing under CSF may provide a context for the farm survey supporting targeting for part farm agreements.

Targeting

190. **We accept that the scheme will have to be more targeted at 9% transfer given the limited available budget.** We firmly recognise that without the levels of pillar 2 funds we have had in the past, that there will have to be tough choices made at farmer level (as well as by Defra), leaving some farmers who wish to carry out additional environmental actions without the funds available to finance this.

191. The targeting should be based on evidenced environmental opportunities. There are many sources of good data which can be used to inform targets. The NCA facts and figures provide some useful information. However, the NCA 'environmental opportunities' should not be used for this purpose. These have not been consulted on effectively and do not reflect what is achievable.

192. The challenge will be to develop a simple, clear and transparent targeting framework which draws together national and local environmental opportunities. The development of the priorities will need to include local consultation before NELMS starts. CFE is developing local environmental targets for the farmed environment that can be built on for NELMS targeting. CFE already brings together key local stakeholders including Defra agencies, environmental groups and industry and ensures farmer engagement. Using CFE as a vehicle we anticipate that Defra will ensure clarity about local targets for a mid-level scheme and coherence of delivery across pillar 1 and pillar 2 measures. The CFE vehicle suggests that targeting at a county level would be the correct spatial scale and meaningful to the farming community.

193. The inevitable impact of a targeted scheme is that some farmland will be unable to participate in agri-environment agreements. This may send a negative message to those who have for many years participated in agreements and regard conservation management as an integral part of the farm business.

194. Given the resentment that may be caused by those unable to access the new scheme it is important that the targeting process is transparent to all. Plus the targeting information must be accessible in a simple format so potential applications can apply the environmental opportunity targets, particularly in the mid-tier where Natural England will have less involvement in the application process.

NELMS Advice and aftercare

195. We can see value in advice supporting better informed entry into pillar 2 schemes (and uptake of options in pillar 1 'greening' as well). In most cases 'advice' can take the form of "one

to many" events – CFE and CSF are well practised in this respect and have experience of train the trainer events, cluster farmers etc. Peer to peer advice appears to provide the best form. Farmers will take advice from trusted sources.

196. We do not believe that the current ETIP is delivering value for money, indeed to large degree it and CFE have duplicating roles and compete for farmers' attention unhelpfully. In the context of the next RDPE it is essential that Defra establishes a leaner and more focused promotional capacity alongside pillar 1 and pillar 2 measures/schemes. This effort should incentivise industry bodies' willingness to work in partnership with Government.

197. The advice and aftercare offer for upper tier agreements is suggested to mirror that already on offer to HLS agreements. The mid-tier, being less challenging than the upper tier, should require much less support. Without seeing the options proposed for mid-tier it is difficult to comment. 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. This assumes the more complex options, requiring advisory support, would fall in the upper tier.

198. The budget for facilitation and advice will be at the expense of projects on the ground. Therefore value for money needs to be achieved. We suggest the budget for advice and facilitation should not exceed the current proportion of agri-environment budget spent on ETIP. This will reflect that the majority of agreements will be more focussed against the targeting framework.

199. 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.

Digital by Default

200. The expectation is NELMs contracts and 'documentation' for the upper/middle tier would be broadly similar in scope to the current ES/EWGS offers, but delivery would be digital or assisted digital. This would change business processes, for example, by transposing technical guidance/handbooks to digital format; may change application processes e.g. mapping features electronically and may change relationship with delivery bodies e.g. over the nature of advice and support.

201. This will be a major change in delivery. There needs to be support to help farmers make this transition and overcome barriers to accessing digital information. There is still a need for hard copies of contractual information, given the complexity of the scheme. Hard copies of handbooks must be available when an application is being developed.

202. The new IT system needs to enable good coordination of activity between NELMS and BPS/greening. It is important that the IT system helps farmers make correct applications taking in to account the potential requirements from greening and NELMS. The IT system needs to be intuitive for the farmer to make a correct application.

Scheme Entry requirements

203. We believe the legal minimum requirements should be the baseline for the scheme. This includes cross compliance, and other relevant mandatory requirements. We are concerned that the consultation says 'scheme entry requirements would need to be set above where 'environmental good farming practice' is judged to rest.' It does not say what 'environmental good farming practice' means or how it is interpreted. 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.

Identifying the right areas of support to help improve farming competitiveness

204. **The NFU recognises that there has been success in supporting greater competitiveness, improving skills and training, and even farm diversification. The NFU agrees that small and larger grant schemes (based on experiences of FFIS and REG) should continue, and they should again focus on activity that goes beyond standard business practice**.

205. However, we are conscious that some parts of the UK have used Rural Development funds in different ways and this has caused distortions. For example, RDP funds in Wales and Scotland were used to help develop free range egg units. This created over production, distorted the market and arguably displaced growth in England of free range flocks. In such scenarios, the introduction of similar schemes in England may have combatted this, and perhaps flexibility could be allowed where other parts of the UK take a different view to what forms standard practice on farm.

206. We welcome the flexibility that is being considered, particularly around HP, second hand equipment and linkages with private investment. All could combine to deliver a more effective use of rural development from a tax payer perspective. Further potential could be derived from looking at financing awards. Grants are typically offered at the 40% level, although there is potential to fund at lower levels. Making greater use of this flexibility on funding decisions could help stretch the limited RDPE funds further.

207. The objectives relating to increased competitiveness identified in the consultation document are broadly applicable. However, there are some specific points that need considering:

- Innovative practice, KT and cooperation – collaboration can be particularly challenging for farmer groups. Certainly in the current RDPE, the mid-term evaluation noted that limited use was made of the cooperation measure (124) and funding was reallocated against other measures. This can require high levels of facilitation to ensure progress, particularly if a group is being formed for the first time. The work on the dairy sector and Producer Organisations has illustrated that where there is already a shared objective or existing structure, it invariably acts as a springboard to action.
- It is essential that anything offered through RDP complements what is already available rather than displacing it or competing with it. It should be remembered that there is a range of information and support available through levy boards and farm consultants, for instance, particularly around wider business skills and continued professional development.
- Given the above, it is disappointing that AHDB plan to reduce their benchmarking efforts in the dairy sector. Physical and business performance benchmarking are integral steps in creating awareness of issues and identifying the potential areas to ensure future growth.
- We would question any focus on supporting the woodland enterprise supply chain and venison supply chain to increase the area and benefits of woodland management. This does not create meaningful additions to food production and is an area where deadweight and uptake of management options has been a challenge previously.
- We agree that succession is an issue. However, given the support for Young Farmers in pillar 1, complementary measures in pillar 2 need to be chosen accordingly. Better signposting of resources and packaging of advice might be options and the NFU could facilitate further input from our Next Generation Policy Forum to review the recommendations already made in this area.
- A defining moment in the current programme has been around the win-wins that are available when it comes to efficiency. The benefits from both a business and

environmental viewpoint have helped ensure success of measures as diverse as nutrient management planning to rainwater harvesting. Continuing to build on these win-wins should be a priority.

- Consideration must be given to other policy levers, particularly when it comes to other areas. The funding available through RDP is limited and it is important there are not excessive ambitions for the programme budget. For example, what could be achieved through the fiscal framework to trigger farm investment in reservoirs or AD plants? Is it realistic that RDP is the centre focus for addressing Water Framework Directive when there are other tools available?

208. The consultation also raises the option of targeting specific funds on high priority areas or sectors. Given that a proportion of the RDP will be funded through inter-pillar transfer, all farmers should have the option of applying for grant as a matter of principle. The current programme has seen modulation become a particularly emotive issue amongst farmers. This is particularly the case with LEADER funds where farming is not a focus of the Local Action Groups or with axis 3-type projects where funding is viewed as leaking away from agriculture. Schemes should generally be accessible to all farmers to ensure that they have the option to be beneficiaries.

Skills and Training

Lessons learnt

209. The Skills programme was initially delivered through the Regional Development Agencies with some of these choosing to sub-contract to Lantra. This led to an inconsistent approach across regions with different systems in place for approving projects with delays also experienced to the start of training provision and delivery. In addition the administrative processes faced by training providers and farmers attending the training were highlighted as being excessively burdensome. While this has improved under the current system it is an area that could be further simplified.

210. Following the abolition of the RDAs there was a move to create a new national RDP skills programme through Defra centrally. With this change to the delivery model, priority should have been to ensure continuity with no gaps in training provision and delivery to businesses. Unfortunately the programme was affected by the change to the funding infrastructure and delays occurred in issuing specifications and awarding contracts, which resulted in further gaps in delivery and a stop-start approach to training delivery.

211. The biggest challenge from a farmer's viewpoint has been the lack of awareness and communication regarding the training available through the programme since the national framework was established. Promotion and awareness raising of training is a critical aspect if demand led training is to be delivered and skills development training accessed. Clear and transparent information is needed on the national structure and the types of training and funding available. This should be promoted and hosted through existing structures for example like Gov.UK which can provide a central, accessible location to easily obtain further detail and information.

Future skills needs

212. The NFU believe that agricultural skills and training should be an objective of the new Rural Development Programme. The integration and implementation of skills development into every business is essential in helping create a professional workforce which is seen as vital to improving business performance, competitiveness and sustainability. While it is important that skills development should focus on business and leadership skills to help display higher business performance it should also offer practical, entry level training.

213. The new programme provides the opportunity for a more co-ordinated approach to training delivery with better integration amongst training areas to encourage attendance and increase awareness. While it is important to have a focus on business management and leadership skills, an initial broad and shallow exposure to RDP training through practical, basic or 'entry level' training will help reach as many farmers as possible within the programme from the outset. This will be key to engaging businesses and individuals in training and will provide an immediate benefit for the business, greater awareness of RDP and act as a stimulus for further continued professional development. 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. Improving engagement and attendance in training through a more co-ordinated approach will help establish interest and increase knowledge of RDP as a funding source. This could also help develop a more demand led and bottom up approach to skills, enabling the programme to respond to emerging skills needs and up-to date issues.

214. Demand for training could also be driven by linking skills with capital grants. For example before receiving funding for reservoirs, farmers receive training for water resource management issues.

215. There has been a recent emphasis on research and development and new technologies in agriculture with the publication of the Agri-tech strategy. While this centres on research, resulting R&D and technologies that flow from it will not be maximised without the relevant skills in place. It would therefore be sensible for some RDP skills funding be aligned with the Agri-tech strategy and innovation centres. However it is important to note that RDP funding should be used for skills and training development on-farm and should not be accessed by third parties or used higher up the knowledge exchange or research chain.

Innovation

216. We are aware that innovation is a cross-cutting objective of the new Rural Development Regulation and it must **support and encourage innovation at a practical and commercial level for farming businesses**. The NFU through our office in Brussels has been heavily involved in discussions on embedding research and innovation in to commercial agriculture, both independently and with other farming unions from across the EU. We're working hard in Brussels and the UK to highlight the strategic importance of farmer involvement in setting research priorities and knowledge exchange activities at this critical time for agricultural research. We're proactively linking with research funders and providers including the levy boards, and developing partnerships from the UK with like-minded organisations across the EU. For example, the NFU has already started to use its own network of County Advisers across our regions by encouraging them to proactively engage with local research providers where appropriate.

217. The NFU has also been heavily involved in commissioning and development of the **Feeding the Future** report (alongside AHDB, RASE and AIC) published earlier this year. This report sets out high level research and innovation ambitions and themes which have been identified by farmers and growers as having particular priority and cross-cutting benefits to productive agriculture and horticulture. We are very encouraged that this work and the themes it identified have been recognised in the shaping of the Agri-tech Strategy. The report can also be used to inform the new RDP about the longer-term priorities for the sector. However, it is important to note that **RDP funding cannot, and we believe <u>should not</u>, be used to directly fund research**. Research activities should be funded through European mechanisms such as the EU Research and Innovation Framework (i.e. Horizon 2020) and other existing research grant providers such as the research councils or via private funding as and where appropriate.

218. Learning from real life situations is key for knowledge exchange and uptake of innovative approaches by farmers. Therefore, on-farm demonstration farms and experiments and not just laboratory results are crucial. With this in mind, we believe that **co-ordinated and accessible information about on-farm demonstration activities for effective knowledge exchange is very important in helping to promote the uptake of innovation.** Therefore, an industry-led partnership of RASE, AHDB, NFU, LANDEX and others is already working towards establishing the means to co-ordinate and promote existing on-farm demonstration activities through the delivery of an online portal that will be searchable for region, topic and sector. It is also important to note here that knowledge exchange will be most effective and lead to genuine innovation and long-term improvements in productivity if good provision of skills and training runs alongside (see our response in skills and training section above). This will involve different but often complementary activities, and could well link in with potential work around European Innovation Partnerships as set out below.

European Innovation Partnerships

219. **The Rural Development Regulation does offer the legislative basis for the European Innovation Partnership (EIP)**. The EIP on agricultural productivity and sustainability has been specifically set up by the European Commission to build innovation in European agriculture. It is intended to foster competitive and sustainable agriculture by bringing together researchers and farmers to apply technologies on farm and exchange knowledge sharing best practice. It provides Member States with the option to set up Operational Groups, consisting of some or all of the key players (i.e. researchers, farmers, businesses etc.) and to support activities such as sharing information and knowledge transfer, and provision of advice.

220. The NFU believes that **applied science and competitiveness building are critical** and that the EIP does present us with a potential opportunity and therefore needs serious consideration as the UK develops its next rural development scheme. We believe that there are many potential benefits for the agriculture sector in sharing research outcomes and developing projects with farmers in other member states. **It will be important that any support under the EIP should align with other initiatives and strategies already underway, such as the Agri-tech Strategy and Sustainable Intensification Research Platform (SIP).** As such, any potential EIP Operational Groups should utilise and strengthen existing partnerships and networks and not duplicate or create new bureaucracies.

221. It is clear that the Commission believe that the **EIP is a bottom-up instrument driven by farmers and not researchers**. Therefore, the selection of innovation topics must be driven by the demands of users and match the grassroots needs of farmers and land managers. The challenges already identified within the Feeding the Future report provide a good starting point here for prompting the themes for Operational Groups.

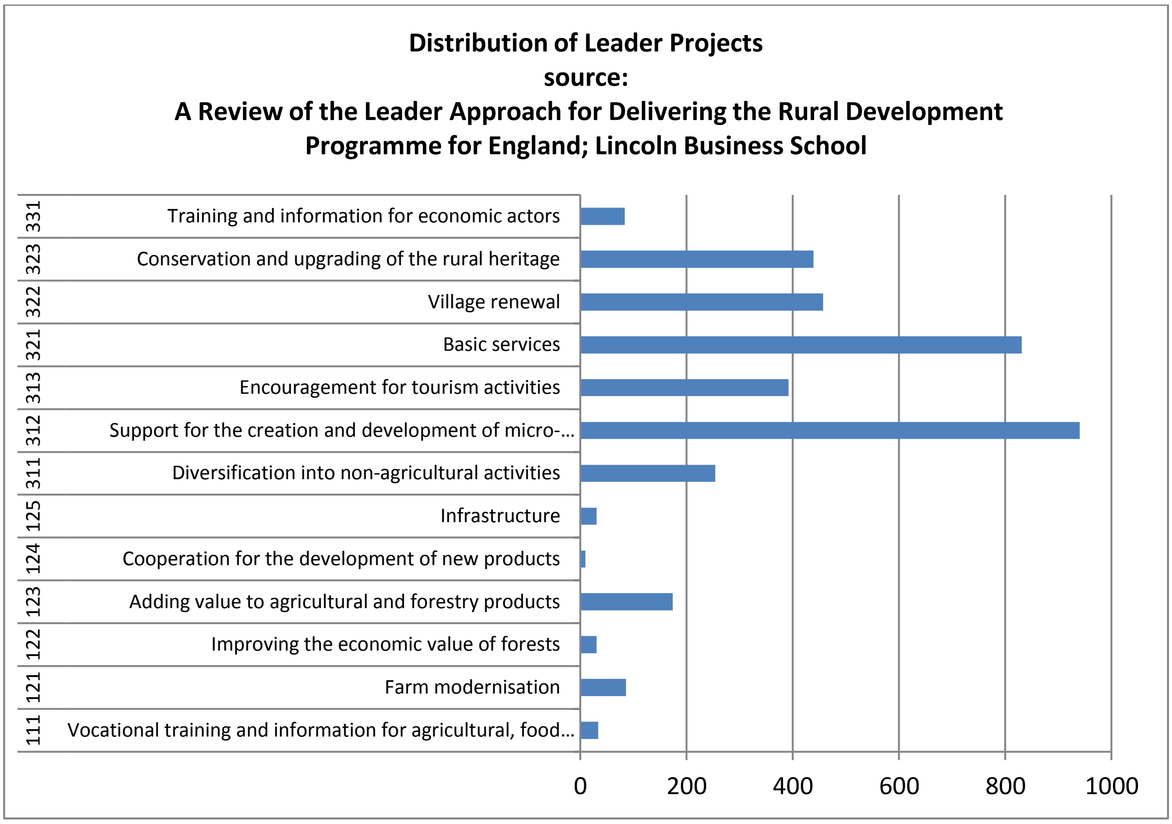
222. We understand that an “innovation broker” or “innovation support services” may sometimes be helpful to refine innovative ideas identified by an Operational Group and provide support for finding potential partners and funding sources. However, the NFU strongly believes that RDP **funds should <u>not be used</u> to support a new industry emerging around the role of innovation or knowledge exchange brokerage**. Instead, RDP funds should be used to help genuinely facilitate farmers and land managers coming together with scientists to explore the sharing information and knowledge or provide basic support for testing out new ideas through projects which adapt existing techniques/practices to new geographical/environmental contexts. To encourage Operational Groups to draw down funding to support their activity, it will be essential for the Government to provide an accessible national framework and transparent application process with minimal administrative burden.

LEADER – strengthening LEADER's contribution to delivering jobs and growth

223. The LEADER programme has expanded significantly at the EU level, from €442m in 1991 to over €5.5bn in the current programme. This is despite the European Court of Auditors flagging in Special Report No.5/2010[8] that the Commission has not yet demonstrated the effectiveness of efficiency of this expenditure.

224. Compared to the wider EU, the reality is that there are few genuinely rural areas in England as indicated by Commission data[9]. With the exception of Herefordshire, all other NUTS 3 regions in England are classified as predominantly urban or intermediate. Nonetheless, the number of LEADER Local Action Groups (LAGs) in England has expanded - the current RDPE has 64 LAGs compared to 25 in the 2000-2006 programme.

225. LEADER has typically been used to fund axis 3 projects (£99m of the total LEADER budget of £138m has been spent on axis 3 projects). The chart below shows the distribution of LEADER projects across the different measures available for funding in axis 1 and axis 3. This is despite the fact that return on investment is greatest for agriculture-based projects and business support. Projects supporting community projects and events/ tourism generate the lowest return on investment according to an Ekosgen report for Defra on the National Impact Assessment of LEADER.[10]



226. This distribution of expenditure has largely resulted from the ability of LEADER groups to choose their own focus areas in the past. It is also likely influenced by the fact that community-based projects are quicker to come forward and easier to implement compared with land-based projects under LEADER. Similarly, some larger businesses will proceed at smaller scale

[8] http://www.eca.europa.eu/Lists/ECADocuments/SR13_12/SR13_12_EN.pdf
[9] http://ec.europa.eu/agriculture/statistics/rural-development/2012/index_en.htm
[10] http://rdpenetwork.defra.gov.uk/assets/files/Impact%20of%20Leader/National%20Impact%20Assessment%20of%20LEADER.pdf

without being prepared to wait for LEADER funding. Collectively, this has led to a view from strategic level stakeholders that LEADER is focused on the small scale and the marginal[11], and has not provided great assistance to agriculture. Indeed, LEADER groups themselves don't expect to focus on farming, with enhancing the competitiveness of all types of agriculture and farm viability was rated as less important by respondents in research by Lincoln Business School, seemingly ignoring the return on investment aspects outlined previously.

227. From a farming perspective, there are some examples of positive projects, yet it must also be remembered that the LEADER groups have also been the source of many projects that fall short of the spirit of programme objectives and past delivery has to be taken as an indicator of future performance. **Efforts may be planned to filter applications to ensure the appropriate use of funds. However, the reality is that such a filter will need to address an ever-greater number of applicants that are likely to be trawling funding sources given wider budget cut backs. The threat for funding to leak to non-priority areas remains**.

228. The role of LEADER within RDPE appears set to change based on the information provided in the consultation document. Given that Defra has identified growing the rural economy is one of its top priorities, the consultation document points to the future role of LEADER in strengthening the contribution funds invested through LEADER make to delivering jobs and growth in rural areas.

229. We understand that Local Enterprise Partnerships (LEPs) will have a key role to play in relation to the next programme for LEADER, beginning with selection of areas in which it is proposed that LEADER or Community-Led Local Development (CLLD) will apply. In our view LEPs will – within parameters set by Defra after consultation with interested stakeholders (and taking account of the early experience of pilot Rural Growth Networks) – need to demonstrably respond to local economic needs in drawing up guiding principles and goals for LEADER and CLLD activities within their area. Local Action Groups will need to ensure that their LEADER /CLLD strategies not only comply with key requirements but are aligned with the principles and goals determined by their LEP.

230. As such, LEADER appears to have the potential to complement the funds that will be delivered through the Local Enterprise Partnerships. **Although the NFU proposes limiting the transfer of funds to the Growth Programme (see Table 1), the likelihood is that the £122m earmarked for Leader will significantly enhance the funding that can support growth in rural areas.**

231. It remains uncertain how LEADER, LEPs and a tighter focus will knit together. For example, a recent review of LEADER from Lincoln Business School found that those LAGs with the broadest focus believe they can make the widest contribution to rural development. Similarly, those regions with the most liberal approach to allowing movement of funds between measures were most popular with their LAGs who feel they can manage their activities with enhanced efficiency. With a tighter focus, such flexibility may be limited. LEADER engagement with LEPs is reportedly weak or undeveloped.

232. Whilst positives can be taken from evidence from the REA that suggests the most successful LAGs are those with a broad representation of community, public sector and private sector interests, this has the potential to duplicate the structure and expertise of LEPs. It also has the potential to add costs to what is already a high-cost delivery mechanism. At the same time, collaboration projects have proved particularly difficult to deliver through LEADER and only small numbers have been achieved across the whole programme. The challenges created

[11] A Review of the Leader Approach for Delivering the Rural Development Programme for England; Lincoln Business School

by matching the tighter focus that government expects with the motivations and track record of LEADER staff should not be underestimated.

233. Although LEADER is described as a ‘bottom-up’ approach whose salient features entail defining priorities locally in response to local needs and pursuing relevant objectives, it has long been subject to strategic oversight to ensure that activities meet EU rules and other requirements and reflect priorities agreed for the wider area in which a Local Action Group sits. Yet there is no single best approach to effective governance, whilst some schemes are considered to have added gold-plating to the procedures, particularly in relation to their technical appraisals. A wide range of administrative models and working practices have been deployed by LAGs and there is no standard “best model” for LEADER administration. This does not tally with the proposal for fewer and simpler schemes, whilst the LEADER approach in general does not fit with the need for national schemes.

234. Regardless of its ultimate focus, it will be incumbent on Local Action Groups to consult effectively and transparently with farmers, growers and others in the local economy to identify priorities within the strategic framework outlined above. The NFU, alongside other bodies such as the Rural and Farming Networks, will be ready to play its part in ensuring that local priorities are identified.

Making the LEADER approach more effective and deliver better value for money

235. Given the prominent role that LEADER will take in the future rural development programme, the LEADER approach needs to be more effective and deliver better value for money. This will only happen if the LEADER LAGs have clear, readily-understood objectives, the right personnel, and advice from people with relevant knowledge and experience. They will need to have good access to economic development professionals, normally via their LEP, and the involvement of key rural entrepreneurs in a voluntary capacity.

236. The involvement of farmers and growers in the operation of the Local Action Groups will be important. In seeking to recruit such rural entrepreneurs, those setting up LAGs will need to ensure that the role will be sufficiently attractive to justify the farmer taking time out of their own business; this will mean ensuring that there will be genuine opportunities to guide the LEADER work (and the minimum of paperwork consistent with effective decision-making) so that the representatives will be satisfied that they can make a real difference for their community

237. It will also be important to ensure that Defra enhances its support for LEADER LAGs via the RDPE Network or a similar network to facilitate learning through sharing of information. The recent review of LEADER from Lincoln Business School found little evidence of use of best practice examples posted in the RDPE network website by LAGs. There is a consensus that the current programme has suffered from very uneven progress, resulting in part from considerable variations in the amount of support provided by key organisations in the early years of the programme.

Loans

238. On the surface, exploring the potential for loans and other financial instruments makes sense. It would ensure that funding could ‘go further’ and could see the private sector become involved in delivery (something that could be used more widely in the environment focus, perhaps). In particular, this could see the administrative burden trimmed, given that commercial assessment of schemes will have already occurred. In addition, it could help ensure there is freedom and flexibility for funding. However, this needs to be balanced with the risk. Ideally, Defra should seek to replicate models that have been used successfully elsewhere. There are relatively few examples. The Rural Community Energy Fund offers loans, but the NFU understand the scheme in general has been slow to establish itself. Given the track record of disallowance in England, any such schemes need to seek prior approval from the European

Commission to ensure that such innovative approaches do not leave us open to future penalties. In addition, the wider context of the scheme must be considered. Given the likely limitations on Pillar 2 funds, does it make sense to tie up a proportion of the funding in a scheme which is untested?

239. Where loans could have a more prominent role is with regard to young farmers. Given that the asset base of new entrants is limited, perhaps a loan fund or credit guarantee scheme could be used to make borrowing more affordable to those entering agriculture. It is recommended that wider feedback from this consultation is reviewed before a decision is taken on whether to take forward this innovative approach, and the NFU would be willing to contribute to this process.

Chapter 7 - Market Management

Requirement for written contracts

240. The NFU agrees that it would not be appropriate to legislate for the requirement for written contracts between producers and processors and prefer for the industry to work in collaboration basis to ensure that there is written and fair contracts in place between producers and their customers. However we reserve the right to re-open the opportunity to legislate for written contracts should we find resistance to introducing written contracts on a collaborative basis.

Formal recognition of producer organisations and inter-branch organisations

241. Feedback from our members indicates that they do not consider that there would be any value to extending producer organisations (PO) and inter-branch organisations to additional sectors of agriculture. However we do recognise that the EU Commission considers that the extension of the PO model to other sectors of agriculture, having done so for the dairy sector, is one way in which farmers can collaborate and increase their relative market strength in response to the rationalisation further up the supply chain. At the current time however, our members fail to see any additional value in forming a PO compared to forming a co-operative, although this position may change depending on how PO's as a tool of EU agricultural policy evolve over the coming years.

Annex A- Salary mitigation

Our proposal

We would suggest that Defra implement salary mitigation by allowing the subtraction of salaries and wages linked to agricultural activity actually paid and declared by the farmer in the previous year, including taxes and social contributions related to employment, from the amount of payments to be granted to a farmer pursuant to Chapter 1 of Title III of this Regulation in a given calendar year.

The request for salary mitigation:

A request for salary mitigation would be optional but where the farmer wishes to make this request they would as part of their SPS claim make a simple declaration along the following lines:

“The amount of salaries and wages including taxes and social contributions (employee and employers national insurance contributions) paid to employees linked to agricultural activity in 2015/16 amounted to £X. Evidence of these payments can be provided on request. If there is a requirement to independently verify this figure you have my permission to confirm the figure against H M Revenue and Customs records, being the figure reported under RTI for the tax year 2015/16.”

The reference year

Ideally the reference year should be a UK tax year (running from 6 April to 5 April) to allow for easy independent verification, should the need arise. This is because under PAYE RTI reporting employers are required to report all payments of salaries and wages paid to all employees and identify which tax year the payment falls in. It is therefore relatively straightforward to identify the total amount of salaries and wages, including tax and social contributions paid within a tax year. In terms of independent verification, in most cases, the final RTI submission of the tax year would include the total amounts paid in that tax year on a cumulative basis and the reference number for the final RTI submission of the tax year could therefore be provided in order to verify the figure against HMRC’s record of this one submission.

If it were necessary to report payments made within a calendar year this would still however be possible, as RTI returns must be made every time an employee is paid and HMRC issue a reference number for each submission. It would however be more difficult for the employer to produce a report of payments made in the final three months of one tax year and the first 9 months of another tax year. In terms of independent verification it would be necessary for the farmer to provide a list of the RTI submission references made during the calendar year to the RPA and for the RPA to verify the total for each submission with HMRC.

Businesses with both agricultural and non-agricultural employees

We recognise that some businesses will also engage employees who are not linked to agricultural activity. In these cases the business will need to be able to identify and solely report the total figure relating to those employees linked to agricultural activity. This should be possible by the business separating their employees into two control groups for reporting purposes, one for agricultural employees and one for non-agricultural employees. They would then make separate RTI returns for each of the two control groups. This would enable independent verification of the amount paid to agricultural employees only as the farmer would be able to provide the RPA with a list of the RTI submission references for the agricultural employee control group which could be verified against HMRCs records of those submissions.