

Lesley Griffiths AM
Cabinet Secretary for Energy, Planning and Rural Affairs

27 November 2018

Dear Lesley

Following the publication of *Brexit and our land*, the Committee agreed to carry out a short piece of work to assess the risks and opportunities of an outcomes-based approach to the Public Goods scheme, as set out in the consultation.

In order to inform our work, we held evidence sessions with academics, representatives from NFU Cymru, FUW, RSPB, Wildlife Trust Wales, and those directly involved in delivering outcomes-based schemes.

The three key messages from our work can be summarised as –

- **Development of schemes** – the shift away from basic payments to the two proposed payment schemes, including a payment for public goods scheme, is the most significant change to how the agriculture sector is supported in over 40 years. The Public Goods scheme will need to be introduced on an unprecedented scale. This will require detailed modelling and pilot schemes and engagement with the industry to ensure the schemes are fit for purpose;
- **Implementation** – the timescale for beginning the transition to the new schemes (starting in 2020) is very short, against a backdrop of unprecedented uncertainty (some which will have direct impact on the agriculture sector, such as future trading arrangements); and
- **Funding** – there is a lack of clarity about how the proposed schemes will be funded after 2020.

As you know, the Committee has previously carried out an inquiry into the **Future of Land Management in Wales**, which considered future payment and support for Welsh farmers once the UK leaves the European Union ('EU'). In our report, we concluded that the Welsh Government should explore the potential for introducing support mechanisms that underpin high quality food production and achieve sustainable outcomes. We made a number of recommendations to that effect.



Building on the report, we have set out the key issues raised in more detailed evidence on outcomes-based schemes which we would like to draw to your attention. We believe these issues require further exploration as part of the ongoing development of the proposed schemes.

Development of schemes

Modelling and pilot schemes

FUW raised serious concern that the proposals set out in the consultation document are, “untried, untested, unmodelled and unpiloted” and, as such, there is “no understanding” of the economic or environmental impacts. It explained that, in comparison, extensive modelling had been undertaken for previous Common Agricultural Policy (CAP) scheme proposals. This included an assessment of the impact on individual businesses and on different geographical locations. Findings had shown that “with most of the models, [there were] huge movements of money for certain areas, which would have had very catastrophic impacts for those areas”.

There was consensus that pilot schemes should be established either before or during the transition period to help inform the development and implementation of the proposed scheme.

Can you provide information about the modelling that will be undertaken to inform the development of detailed proposals for the Public Goods scheme, including the timescales involved and resources available to support this work.

We would like you to clarify when you intend to establish pilot schemes, on what scale, and how they will be funded.

Can you explain why you haven’t undertaken any assessment of the potential impact of your proposed schemes, before you undertook your consultation?

Engagement and collaboration

Witnesses agreed that engagement and collaboration in developing schemes will be central to their success. They emphasised the need for a “bottom-up approach”, which relied on a high degree of farmer involvement and input from the wider rural community.

Witnesses emphasised that farmers have a wealth of knowledge and experience, and understand which outcomes can reasonably be delivered on their land. This should be harnessed when developing schemes and identifying appropriate outcomes.

An evaluation of Dartmoor Farming Futures found that farmer involvement in the design of schemes can lead to better ownership and understanding of their agreements, which, in turn, leads to better outcomes. This applies equally to farmer involvement in measuring and monitoring outcomes.



The schemes referred to in evidence including the Burren Programme, Dartmoor Farming Futures and North Yorkshire Results-based Agri-environmental Payment Scheme (RBAPS) have managed to successfully engage farmers and land managers in all stages of the development. However, these schemes tend to be small-scale. We believe that replicating this success on the scale required for a national scheme will be a challenge.

Can you provide information about how you propose to involve farmers and land managers in the development of schemes and, in particular, in the development of initial pilot schemes?

Access to schemes

Farming unions asserted that the proposed scheme will replace the Basic Payments Scheme as the main income stream for farmers. It must, therefore, be accessible to farmers across all agricultural sectors and geographical areas.

Witnesses emphasised the need to ensure that the proposed scheme does not disadvantage tenant farmers. In particular, it would be important to consider how best to reward farmers with short-term tenancies in delivering long-term outcomes.

We expect future modelling and pilot schemes to be used to assess the extent to which the proposed scheme is accessible to farmers across agricultural sectors and geographical areas.

Defining outcomes and indicators

RSPB emphasised the need to ensure that outcomes reflect commitments to international targets, for example, climate change, as well as local priorities. Where possible, outcomes should be developed and agreed in collaboration with local communities. RSPB cited the Sustainable Management Scheme as a positive example of collaborative working to deliver landscape-scale projects.

Similar views were expressed by Professor Christie who suggested that outcomes-based schemes provide an opportunity for greater localism, where decisions could be devolved, for example, to National Parks or local authorities, and informed by local communities.

There was strong consensus that outcomes should be clearly defined and easy to understand. Witnesses emphasised the importance of identifying appropriate and robust indicators to assess the impact of the scheme. Professor Christie explained that some indicators are easier to measure than others. For example, biodiversity indicators tend to be easier to measure than climate change mitigation or water quality indicators. Dr Hockley called for a clear regulatory baseline in order to reward land managers for additionality.

FUW raised concerns around a “postcode lottery” where there was a risk that some farmers could lose out due to ecological processes that are outside of their control. We heard that, for this reason, the number of birds on the land was not used as an indicator in the North



Yorkshire Results-based Agri-environmental Payment Scheme (RBAPS). Wildlife Trusts Wales highlighted the need to consider the whole catchment scale rather than being too definitive, looking at ecological processes and nature-based solutions on a landscape scale.

We expect indicators for outcomes to be clearly defined, easy to understand and fair. They should be developed and agreed in collaboration with local communities and land managers to ensure understanding and buy-in.

Can you clarify when you intend to bring forward proposals for a new regulatory baseline, and whether any new regulatory baseline will be in place before the Public Goods scheme is introduced.

Payment

One of the key concerns raised by farming unions was the impact of outcomes-based payments on farmers' income, and on their ability to plan and invest in their businesses.

FUW asserted that variable payments between years would be "inevitable" if payments were linked to the delivery of outcomes. It emphasised that the delivery of outcomes will depend on a number of external variables that are outside the control of farmers (for example, extreme weather conditions).

There was concern raised that the proposed scheme could effectively penalise farmers who have a long track record of delivering positive environmental outcomes through good land management practices. NFU Cymru emphasised the need to ensure that the proposed scheme will "reward what's already on the farm, what farmers have already done and what they're caring for." Similar views were expressed by Dr Hockley and RSPB.

Witnesses emphasised the need to provide fair reward to farmers, which would require a payment structure designed to incentivise farmers to take part in the proposed scheme.

Several witnesses highlighted potential difficulties associated with payments based on outcomes alone, given the time taken for changes in management practices to deliver outcomes. It would be important to identify how payments could be linked to results in the short term.

None of the schemes referred to in evidence based payments on outcomes alone. Professor Christie reported that most outcomes-based schemes are 'hybrid' models, where part of a payment is linked to delivering agreed outcomes and part for complying with a prescribed management regime. He explained that this reduces the risk for farmers and could encourage uptake. The level of payment is currently often based on income forgone, costs incurred and training undertaken. This was mainly attributed to European rules for payments.



Dr Hockley suggested that a hybrid model would be particularly important early in the schemes. This would allow payments for early actions to, for example, establish woodlands, and the schemes could phase into having more emphasis on outcomes-based payments as they move on and outcomes can be measured.

We would like to know what consideration you have given to introducing a 'hybrid model', which we heard may help mitigate the risks associated with an outcomes-based approach.

WTO Agreement on Agriculture

There were mixed views from witnesses about whether compliance with the World Trade Organisation ('WTO') Agreement on Agriculture would act as a barrier to the proposed scheme.

FUW stated that the Agreement on Agriculture was "fairly explicit in what it doesn't allow, which is payment above the income foregone measurement". It raised serious concern that the Welsh Government has yet to address the question of compliance and called for further action to be taken in this regard. FUW highlighted that without surety, there would be risk of future challenge, which could result in lengthy trade disputes.

Under the UK Agriculture Bill ('the UK Bill'), the UK Government will be responsible for ensuring that all UK domestic support policies are WTO compliant. It will also be responsible for setting financial ceilings in Wales (and the other devolved nations) in relation to agricultural support, and for establishing a decision-making process for classifying support in accordance with WTO criteria.

NFU Cymru explained that it was not clear how the UK Government will approach its responsibility to ensure compliance or what the implications of this will be for the delivery of the proposed scheme. NFU Cymru stated that, as the proposed scheme progresses, it will be "critical" to ensure that payments for outcomes are permissible above income foregone or costs incurred.

We are aware of your ongoing discussions with the UK Government about the WTO provisions within the UK Bill. These decisions will have significant implications for the proposed scheme and the approach to future payments. As such, we hope that an agreement is reached with the UK Government, as a matter of urgency.

We would like details of the work you have undertaken to satisfy yourself that the proposed scheme can be delivered successfully in accordance with the WTO Agreement on Agriculture.



Implementation

Timing

Farming unions raised concern about the proposed timescales for implementing the scheme, particularly given that detailed modelling and impact assessments had yet to be undertaken and pilot schemes had yet to be established. FUW explained that Tir Gofal, the previous agri-environmental scheme, had been piloted over a seven year period before full implementation. Similarly, NFU Cymru explained that previous CAP reforms had been implemented over a period of several years.

NFU Cymru suggested that the Welsh Government should consider extending existing Glastir contracts that are due to end in 2018 and 2019, which would provide more time for the proposed scheme to be developed and tested before implementation.

Wildlife Trusts Wales acknowledged the need for an appropriate transitional period. However, it raised concern about delaying implementation and reiterated the need for swift action to address the rapid decline in biodiversity.

Brexit and our land includes a proposed transition period from 2020 to 2025. The UK Government's timetable accompanying the Agriculture Bill suggests that transition in England will begin a year later in 2021, and that reform will be completed by 2027.

We would like you to explain why you are seeking to begin transition in 2020, and whether this is practicable, given your commitment that there will be “no changes until the new schemes are ready to be rolled out”.

Capacity

Farming unions suggested that the extent of the challenge in transitioning to the proposed scheme should not be underestimated. They questioned whether there is sufficient administrative and advisory capacity to deliver the proposed scheme, particularly given the volume of applications that are anticipated and the timescales involved.

According to the farming unions, applications could reach up to 25,000 compared to the 16,000 to 17,000 claimants under the Basic Payments Scheme. They raised concern that insufficient capacity could result in delays for farmers in accessing the scheme, and in receiving payments. FUW referred to the difficulties in England of implementing the EU's Single Payment Scheme ('SPS'). Delays in administering payments had resulted in considerable financial penalties. According to a National Audit Office report, these difficulties has arisen, in part, because the Rural Payments Agency had underestimated the scale of the work needed to implement the SPS.

Dr Hockley stated that the proposed scheme was “not that radical a departure from Glastir” and allows for further reform over time. He suggested that the transition period



would be useful to allow for any administrative adaptations and to address any capacity issues.

We would like details of any work undertaken to assess the potential increase in the number of applications under the proposed scheme. We would like further assurance that there is sufficient capacity within current advisory services and Rural Payments Wales to ensure a smooth transition to the proposed scheme.

Monitoring

As previously stated, witnesses emphasised the importance of involving farmers in monitoring outcomes. This enhances understanding of the scheme, fosters ownership and increases their commitment.

Evidence from the evaluation of existing schemes, including the Burren Programme, highlights the need for intensive training on outcomes monitoring for both advisors and farmers.

Professor Christie explained that in “a lot of pilot projects”, most farmers are able to self-monitor after one year, with some requiring additional, short-term support. Refresher training is also available. Most schemes combine self-monitoring with second or third party assessment. This combined approach has been successfully adopted by Dartmoor Farming Futures where accuracy of self-assessment was around 70%.

RSPB highlighted the limitations of the current Glastir Monitoring and Evaluation Programme ('GMEP'), in particular the lack of appropriate indicators to effectively monitor changes in rare species.

We would like clarification on the role of farmers in monitoring outcomes under the proposed Public Goods scheme. We would also like details of any work undertaken, or planned, to assess the training requirements of farmers to enable them to carry out self-assessments, and any analysis of the associated training costs associated.

Funding

The uncertainty around future funding for land management was a key concern for representatives from both the agricultural and environmental sectors. They called for secure, long-term funding to provide confidence in futures schemes, certainty to farmers, and to ensure tangible environmental improvements.

Wildlife Trusts Wales raised concern that, under future funding arrangements, the proposed scheme will be competing for funding with other political and public priorities, such as health and education. Both Wildlife Trust Wales and RSPB emphasised the need for



the schemes to demonstrate value for money and hold up to increased public scrutiny. They believed that an outcomes-based approach would help achieve this. Similar views were expressed by Professor Christie.

We welcome the UK Government's commitment to protect overall funding for UK farm support until the end of Parliament in 2022. Future funding arrangements in the short and longer term will depend on effective collaboration and joint working between the UK and Welsh Government. We have serious concerns, therefore, that the UK Government chose not to engage you fully before establishing the independent advisory panel to consider how this funding will be distributed.

We note the UK Government's offer for a Welsh representative to sit on the panel. We expect you to take advantage of this offer to maximise Wales' opportunity to ensure fair funding for agricultural support. It will be important to ensure that the Welsh Government's nomination has the confidence of the sector.

The adoption of the proposed Public Goods scheme would mean a significant change to the way that Welsh farmers are supported following the UK's departure from the EU, and the end of the CAP in Wales.

Our work has highlighted the scale of the challenge for the Welsh Government if it is to develop and implement a scheme capable of delivering the objectives set out in *Brexit and our land*, by the end of the reform period.

We would welcome a response to the matters raised in this letter no later than 31 January 2019.

You will be aware that we are in the process of considering the Welsh provisions within the UK Government's Agriculture Bill, including those that provide for the administration and implementation of the proposed Public Goods scheme. We will be reporting on the Bill in early January.

Yours sincerely,



Mike Hedges AM

Chair of Climate Change, Environment and Rural Affairs Committee

