

Date:

Wednesday 5 March

COMMITTEE INQUIRY INTO AGRI-ENVIRONMENTAL SCHEMES

Purpose

1. To invite comments on the first draft of the Committee's report on agri-environment schemes.
2. At its meeting on 29 January the Committee identified a number of issues to be included in the report of its inquiry into agri-environmental schemes. A first draft of the report is included at Annex 1.

Action for the Committee

3. Members are asked to comment on the draft and to indicate any changes they wish to see. Subject to the comments received, a final draft will be brought to the Committee's next meeting for approval before publication.

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Committee Secretariat February 2003

Contents

Background	page 2
Terms of reference	page 3
Tir Gofal	page 4
A new framework for agri-environment schemes	page 7
Funding agri-environment schemes	page 8
Principles underpinning future agri-environment schemes in Wales	page 10
<i>Annexes</i>	
List of those providing written submissions	page 14
Proposed ‘pyramid model’ for agri-environment schemes in Wales	page 15
The interaction of European funding with agri-environment schemes	page 16

Background

1. Agri-environment schemes pay farmers for managing their land in ways that benefit the environment. Payments are made because there are benefits to society from having sustainable farming systems that enhance wildlife and landscapes, and make a contribution to sustaining rural communities.
2. Prior to 1999, support in Wales was provided through a number of agri-environment schemes: the Environmentally Sensitive Areas Scheme; the Habitat Scheme; the Moorland Scheme and Tir Cymen. In 1999, these schemes - some part-farm and some whole farm, some available to all and others geographically targeted – were closed to new entrants and superseded by a single, all-Wales, whole farm scheme - Tir Gofal. The Organic Farming Scheme, which provides payments to farmers during conversion to organic status, also delivers environmental benefits to society and forms part of the existing agri-environment programme funded under the Wales Rural Development Plan.
3. In the financial year ending March 2003, expenditure on these various schemes, which covered around a quarter of all agricultural land in Wales, totalled some £34 million.
4. Enabling significantly more farmers to receive payments for farming in environmentally beneficial ways is currently high on the agenda for policy makers throughout the UK and Europe. The introduction of a widely

available, basic agri-environment scheme (a broad and shallow scheme), has, for example, been proposed in both Wales and England. The European Commission's proposals for the mid-term review (MTR) of the Common Agricultural Policy (CAP) would, to some extent, re-focus public support for agriculture away from direct subsidies towards wider rural development measures and payment for environmental goods. Whilst the detailed effect of the proposed reforms have yet to become clear, the Committee welcomes the general direction of the change as being in line with our drive to make Welsh agriculture environmentally and economically sustainable.

5. The changing emphasis of agricultural support policy brings with it the need to review our current set of agri-environment schemes. For this reason, the Agriculture and Rural Development Committee decided in July 2002 to conduct an inquiry to consider the lessons that might be learned from the operation of Tir Gofal and to make recommendations for the future of agri-environment schemes in Wales.

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Terms of reference

6. In July 2002, the Committee agreed the following terms of reference:

To consider the effectiveness of Tir Gofal in delivering its objectives and to make recommendations for the future shape and funding on an integrated and tiered system of agri-environmental schemes in Wales.

7. Written submissions of evidence were received from the bodies and organisations listed at Annex 1.

8. In addition, oral evidence was taken in Committee from the following:

Countryside Council for Wales (CCW)

County Land and Business Association (CLA)

National Farmers Union (NFU) Cymru–Wales

Farmers' Union of Wales (FUW)

Forestry Commission

Institute of Rural Studies, University of Wales

Royal Society for the Protection of Birds (RSPB)

9. To further inform our inquiry, the Committee considered the interaction of European funding with agri-environment schemes. Advice and guidance on this issue was largely provided by officials working for the Welsh

Assembly Government. We are grateful to all those who assisted us with our work.

10. The report and recommendations that follow represent the conclusions the Committee has drawn from the evidence presented to it. We hope that they will be taken forward by the Welsh Assembly Government and assist in shaping the future development and delivery of agri-environment schemes in Wales.

Tir Gofal

11. Tir Gofal, the National Assembly's principal agri-environment scheme, is administered by the Countryside Council for Wales (CCW). It ensures a minimum standard of environmental care across the whole farm so that improvements on part of the farm cannot be negated by intensification on the rest of the holding.

12. Tir Gofal's objectives are to:

- improve, restore and create wildlife habitats;
- protect and restore characteristic rural landscapes;
- protect and conserve historic and archaeological features;
- provide for public access to the countryside.

13. To date, some 3,400 farmers have applied to join the scheme; 1,200 agreements have been signed, representing around 4% of the agricultural holdings in Wales and approaching 8% of agricultural land area.

14. In February 2001, the Welsh Assembly Government instituted a stocktake of the scheme to ensure that the maximum possible benefits were being derived from the available resources, principally by streamlining administration to enable a greater number of farmers to participate. A number of measures were recommended including a rationalisation of management prescriptions, simpler administrative rules and bonus payments for use of Welsh oak and traditional livestock breeds. These amendments should be introduced by the time the scheme reopens later in 2003.

15. Tir Gofal is regarded as one of the best agri-environment schemes in Europe, providing significant funding to the agriculture sector through a whole-farm scheme operating across the whole of Wales. The benefits of the scheme featured strongly and consistently in the evidence presented to the Committee during its inquiry. The Committee also supports the scheme and recognises that the changes following the stocktake exercise should deliver further improvement. **We see the continuation and expansion of Tir Gofal and related schemes as being key to the development of an environmentally and economically sustainable system of agriculture in Wales.**

16. Nonetheless, the evidence we received also drew attention to some concerns, which we outline in the following section. The Committee hopes that these concerns, and the lessons learned from the operation of agri-environment schemes to date, will inform the design of any expanded programme in the future.

Funding

– in the financial year 2002-03, public spending on Tir Gofal was some £13.4 million representing around

£11,000 per agreement. Though substantial, the overall level of funding for the scheme remained a concern for many submitting evidence. In part, these concerns reflect the success of the scheme, with many more farmers applying than have yet been accepted. Pressure for more funding also reflects calls for an extension of the environmental aims of the scheme.

Access for some farm types –

dairy farms currently account for around 3% of the land area covered by Tir Gofal agreements although they make up about 15% of the area of all agricultural holdings in Wales. Farms of less than 20 hectares make up around 27% of Tir Gofal agreements but some 47% of all agricultural holdings in Wales. Equivalent figures for farms in the next size bracket (21-50 hectares) are 22% of agreements and 25% of holdings overall. Figures such as these support a perception amongst many in the farming community that Tir Gofal is somehow ‘elitist’, with medium-sized family farms and the dairy sector, where financial viability currently depends on farming intensively, finding it difficult to qualify.

Evaluation –

much of the evidence we received asserted that Tir Gofal has made significant improvements to the farmed environment in Wales. But effectiveness is currently measured in terms of *outputs* such as the number of agreements, areas covered by prescriptions and the number of traditional buildings and historic features protected, rather than in terms of environmental outcomes. Many contributors highlighted the need for better monitoring and evaluation of the environmental effects of the scheme. To this end the Committee welcomes the fact that baseline ecological monitoring of Tir Gofal farms has now commenced. We recognise that many of the hoped-for environmental changes may take many years to become evident e.g. it may take many years for improved grassland to revert to hay meadow or for bird populations to become established.

Administration –

the farming unions in particular had concerns that the scheme is overly complex, restrictive and places an excessive administrative burden on applicants. The Committee recognises that amendments to the administrative arrangements of the scheme following the Tir Gofal stocktake will bring about some improvement in this regard.

Resource management–

some of those contributing evidence argued that the existing objectives of the scheme do not sufficiently encourage improvement in basic soil, air and water resource management.

Coverage –

much of the evidence we received pointed to the weakness of Tir Gofal in addressing environmental problems that require a more co-ordinated, wide-scale approach, such as diffuse pollution. In their oral evidence to the Committee, the RSPB pointed to a body of evidence indicating that wildlife benefits rise in line with the area of land managed in an environmentally sensitive way. Achieving wider coverage for agri-environment schemes should, therefore, promote greater species diversity and make individual wildlife populations more sustainable.

A new framework for agri-environment schemes

17. In 2002 the Welsh Assembly Government established a working group to re-appraise the way in which agri-environmental support in Wales is delivered. Many of those contributing evidence to the Committee's inquiry were also members of this working group, which proposed a so-called *pyramid model* of agri-environment schemes. Within this framework, a majority of farmers would receive relatively modest payments in return for meeting basic environmental requirements (a broad and shallow agri-environment scheme) with smaller numbers gaining higher payments for more challenging obligations and higher payments still for co-operative schemes. An illustration of the pyramid model is attached at Annex 2.

18. Such a suite, adequately funded, would represent a significant advance in our ability to deliver support to the farming industry in a way that meets the demands of a reformed CAP and the public's desire for an environmentally sustainable agricultural system.

The Committee recommends the introduction of an integrated suite of agri-environmental schemes within this framework, provided adequate funding is secured. The detail of the schemes within the model should be developed by the Welsh Assembly Government in consultation with interested parties and should be based upon the fundamental principles outlined in paragraphs 27-35.

Funding agri-environment schemes

19. To deliver such an expanded programme in a way that gives meaningful levels of funding to a majority of farmers, whilst maintaining sufficient financial incentive to encourage farmers into more demanding schemes, will require a substantial increase in the overall agri-environment budget. Securing such an increase in turn depends on a complex interaction of European funding, modulation receipts and the Assembly's own resources. Details of the interaction of European funding sources with agri-environment schemes are provided in Annex 3.

20. EU funding available to Wales for agri-environment schemes is principally determined by the amount allocated to the UK by the EU to fund rural development measures. At present, the UK receives only 3.5% of the available funding – despite having 12% of the agricultural land within the EU – essentially because Member State allocations for the programming period 2000-06 were largely determined by historical patterns of spending on rural development measures rather than by future plans for such spending. In turn, the Welsh share of these EU rural development resources, for the period from 2000 to 2006, amounts to around 150 million euros (about £90m over seven years). How much of this limited rural development funding can be spent on agri-environment schemes then depends on EU requirements specifying the rate of co-financing available and on commitments to other measures funded from the same pool.

21. In addition to these EU funds, funding for agri-environment schemes is provided by resources obtained through the modulation of direct subsidy payments to farmers, from the pound-for-pound match funding of modulation receipts currently received from the Exchequer and from funds allocated by the Welsh Assembly

Government from its own budget.

22. The funds made available or committed for agri-environmental schemes from each of these sources, for the seven years from 2000 to 2006, are shown in the following table:

Funding source	Euros (million)	£ million (a)
EU co-financing	35.9	22.2
Assembly match funding for EU allocation (b)	21.5	13.3
Modulation receipts	57.4	35.4
Exchequer match funding of modulation receipts	57.4	35.4
Additional Assembly funds	81.2	50.1
Total	253.3	156.4
<i>(a) converted at rate of £1=Euro 1.62</i>		
<i>(b) to match fund EU financing at 75% in Objective 1 areas and 50% elsewhere</i>		

23. Hence, it can be seen that securing adequate funding for an expanded suite of agri-environment schemes depends on obtaining:

- a. increased funds from the modulation of direct subsidy payments to farmers;
- b. a greater share of EU rural development funds for the UK; and
- c. the full amount of match funding available from the UK Exchequer.

24. Decisions on modulation are dependent on ongoing negotiations over the mid-term review of the CAP. At present, the UK is one of the few Member States to operate a system of modulation but the mid-term review includes a proposal to introduce an EU-wide system from 2006-07. The practical operation of such a scheme is outside the scope of this inquiry. Nonetheless, the Committee urges the Welsh Assembly Government to adopt the following recommendation to ensure that sufficient funds for a meaningful, expanded suite of agri-environment schemes are available.

We recommend that the Welsh Assembly Government continues to prioritise the commitment of its own

resources to agri-environment schemes and uses its influence with the UK Government and the European Union to press for:

- a. a greater share of EU rural development funds for the UK and Wales;
- b. a system of modulation, which, whether operated on a UK or EU basis, does not result in a reduction in the overall sum available for agriculture and rural development in Wales; and
- c. continued pound-for-pound Exchequer match funding of receipts from these sources.

Principles underpinning future agri-environment schemes in Wales

25. Assuming adequate funding can be secured, the Committee supports the introduction of an integrated suite of agri-environment schemes within the pyramid framework discussed in paragraphs 17 and 18. This would see the introduction of a so-called broad and shallow entry level scheme where a majority of farmers would receive relatively modest payments in return for meeting basic environmental requirements. Above this, smaller numbers would gain higher payments for more challenging obligations broadly in line with the existing requirements of Tir Gofal. Higher payments still would be available for groups of farms operating suitable co-operative schemes.

26. The detail of such a system should be developed by the Welsh Assembly Government following consultation. **The Committee recommends that the system should be based and assessed upon the following principles:**

Coverage

27. The Committee does not wish to see farmers denied access to agri-environment schemes simply because of their geographical location.

Principle 1

The full suite of agri-environment schemes should be available across the whole of Wales.

Access

28. As was described in paragraph 16, there is a perception that some types of farm have difficulty entering Tir Gofal as they need to farm intensively in order to remain financially viable. The introduction of a broad and shallow scheme will make participation in some form of agri-environment scheme achievable for the majority of farms. But higher tiers should also be designed so as not to disadvantage particular farm types.

Principle 2

Access to the suite of agri-environment schemes should be available and realistically achievable for all farm types provided they are able to offer sufficient environmental benefit.

Objectives

29. Tir Gofal currently has four objectives (see paragraph 12). In their written evidence to us, CCW suggested that the objectives set for any future agri-environment programme should be broadened to include: protection and positive management of biodiversity; protection, management and restoration of traditional landscape features; protection, positive management and restoration of historic features; maintenance and enhancement of public access to the countryside; maintenance and enhancement of soil, air and water quality and the provision of rural employment opportunities and skills development. Whilst recognising that the definition of ‘environmental benefit’ may vary between the tiers of the pyramid or according to local environmental priorities, we would not want to see the impact of the scheme blunted by a plethora of objectives. In the Committee’s view, the main objective of agri-environment schemes should be to deliver environmental benefit. Though other socio-economic considerations, such as the provision of public access or rural employment opportunities, are often linked to environmental benefit and should therefore be encouraged, they should be seen as secondary to the main objective of any agri-environment scheme.

Principle 3

The objectives of all agri-environment schemes should be clear, focussed and principally aimed at the delivery of environmental benefit.

Entry criteria

30. Principle 2, that access should be realistically achievable for all farm types, must be underpinned by clear and widely understood entry criteria. Entry criteria must also be designed to ensure that the objectives of agri-environment schemes are met. The whole-farm approach of Tir Gofal has clear benefits in terms of the environmental impact of the scheme and the Committee wishes to see this continued in any expanded suite of programmes. As a result, entry criteria for higher tier schemes should be designed to provide appropriate weighting to habitats and species of particular value so that pockets are not lost due to the requirements of whole-farm entry. Given the focus on environmental benefit the Committee wishes to see, we recommend that the design of the whole suite should support implementation of the existing UK Biodiversity Action Plan and the National Assembly’s duties under Section 74 of the *Countryside and Rights of Way Act 2000*.

Principle 4

Entry criteria for agri-environment schemes should be clear and widely understood.

Principle 5

Agri-environment schemes should be whole-farm in coverage.

Principle 6

Objectives and selection criteria should support implementation of the UK Biodiversity Action Plan and the National Assembly’s duties under Section 74 of the Countryside and Rights of Way Act 2000.

Principle 7

Selection criteria for higher level schemes should provide scope to target species, habitats or features of particular value.

Integration

31. Fundamental to the envisaged pyramid model should be the integration of agri-environment schemes at different tiers. The broad and shallow scheme should deliver relatively high environmental standards across the majority of farmland and serve as a springboard to encourage farmers into more demanding schemes and to increase their awareness of basic resource management. Schemes at different levels should have complementary objectives and conflict between the management prescriptions of agri-environment schemes and other land management designations should be avoided. Such integration should result in land management that contributes to other policy objectives in areas such as flood defence, tourism or woodland management.

Principle 8

Objectives and requirements of all agri-environment schemes should be integrated and complement other land management designations and prescriptions.

Evaluation

32. Proper monitoring and evaluation is essential if any policy is to be well designed and public money well spent. In the case of agri-environment schemes, there is a need for monitoring and evaluation of:

Internal process

– to ensure that the administration of the various schemes is as light and efficient as possible whilst maintaining proper control over public funds;

Compliance

– to ensure that the recipients of public funds comply with the terms of the agreements they enter into; and

Outcomes

– to ensure that policy makers can accurately assess the impact of schemes against the objectives set for them. At present, the effectiveness of the Tir Gofal scheme can only be assessed in terms of its *outputs* e. g. the number of agreements, areas covered by particular prescriptions and so on. In the course of our previous inquiry into organic farming, we were presented with evidence of the positive environmental benefits delivered by organic farming methods. This kind of *outcome* measurement i.e. measurement of

the relevant environmental impact of schemes, should be built appropriately into all agri-environment schemes to allow us to assess if they are delivering the objectives set for them.

Principle 9

Soundly based, relevant and appropriate monitoring and evaluation should be built into all agri-environment schemes.

Funding

33. The environmental benefits flowing from a broad and shallow agri-environmental scheme need to be weighed against those that would accrue from channelling resources through higher level schemes such as Tir Gofal. Correctly balancing the resources available for different tiers and the thresholds between them will, therefore, be crucial to optimising the environmental benefits delivered. Clearly farmers should not be rewarded simply for cross-compliance with other schemes or for delivering existing statutory requirements. The Committee's view is that the broad and shallow scheme should be sufficiently demanding to deliver genuine environmental improvement. We would suggest that the Rural Development Plan definition of good farming practice should be used as the threshold above which payment would be made. Having accessed the broad and shallow scheme, there should also be adequate financial incentive to motivate farmers to seek entry to higher level schemes.

Principle 10

Funding available for an integrated suite of agri-environment schemes should be allocated between tiers to optimise the environmental benefit delivered.

Principle 11

Payment should not be made in return for cross-compliance with other schemes or compliance with statutory requirements.

Principle 12

Adequate financial incentive should exist to motivate farmers to seek entry to higher level schemes.

Principle 13

Payments should allow for limited capital costs required by agreements.

Administration

34. Unnecessary administration and bureaucracy is clearly undesirable. Nonetheless, proper financial control over the dispersal of public funds, the monitoring and evaluation requirements outlined in paragraph 32, and the provision of advice and support to applicants, are essential. These should be less demanding for a broad and shallow scheme than for the higher tiers of the pyramid model. The Committee wishes to see the correct balance struck between such valid administrative overheads and the need to avoid unnecessary bureaucracy.

Principle 14

The bureaucratic burden on applicants, and the administrative overhead of agri-environment schemes should be minimised subject to the need for proper financial control, evaluation, enforcement and the provision of advice and support.

Advice, information and training

35. Providing farmers with high quality advice, information and training will be vital to ensure high levels of take-up and compliance and to increase awareness of environmental considerations. Farming Connect clearly has a role in this area in assisting farmers through the application process and advising on the development of skills and knowledge to allow progression to higher level schemes.

Principle 15

Applicants should be given ready access to practical, locally relevant advice, information and training on all aspects of agri-environment schemes.

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Annex 1

List of those providing written submissions

Cambria Archaeology

Campaign for the Protection of Rural Wales - Newport and Valleys Branch

City and County of Swansea

Coleg Powys

Conwy County Council

Country Land & Business Association

Countryside Council for Wales

Denbighshire County Council

Environment Agency

Farmers' Union of Wales

Forestry Commission

Glamorgan-Gwent Archaeological Trust

Gwynedd Archaeological Trust

IGER

Institute of Rural Studies

Isle of Anglesey County Council

Lantra

N F U Cymru

RSPB

Karen Sinclair AM

Snowdonia Association

SPARC/PLANED

Welsh Association of National Park Authorities

Welsh Agri-Food Partnership Organic Strategy Group

Welsh Deer Initiatives

Individual Farmers x 2

Welsh Assembly Government - CAP Reform Steering Group



Proposed 'pyramid model' for agri-environment schemes in Wales

Annex 3

THE INTERACTION OF EUROPEAN FUNDING WITH AGRI-ENVIRONMENT SCHEMES

Council Regulation 1257/1999 (the Rural Development Regulation) brought together nine previous Regulations relating to support for agriculture and wider rural development and introduced a coherent system of support for the so-called "accompanying measures" – relating to afforestation, agri-environmental measures, support for less favoured areas and early retirement – and "non-accompanying measures" (investment in holdings, processing and

marketing grants, training, support for young entrants, wider rural development and other forestry measures). Member States were invited to prepare Rural Development Plans, initially covering the period 2000 to 2006, which were required to include agri-environmental measures but which could optionally include any of the other measures. The Rural Development Plan for Wales included two agri-environmental measures (Tir Gofal and the Organic Farming Scheme) together with measures relating to afforestation, less favoured areas (the Tir Mynydd scheme), investment in holdings, processing and marketing, training, wider rural development and other forestry measures.

2. The total level of European support for measures implemented under the Rural Development Plans of Member States, or parts thereof, is specified in Regulations. The UK received 3.5 per cent of the available funding – despite having 12 per cent of the agricultural land with in the EU – essentially because Member State allocations were largely determined by historical patterns of spending on rural development measures rather than by future plans for such spending. As a consequence, the Welsh share of EU rural development resources for the period from 2000 to 2006 amounts to 149.57 million euros (about £90m over seven years). In recognition of the severe difficulties which this restricted allocation would cause for the delivery of Assembly policies for rural areas, the Assembly allocated some £280 million of its own resources to Rural Development Plan measures, and in addition opted to introduce modulation of direct subsidy payments to farmers, which (coupled with pound-for-pound matching funding from the Exchequer) provides a further £80 million during the Plan period. Hence the total available for Rural Development Plan expenditure is £450 million over seven years.

3. Regulation 1257/1999 provides for expenditure on agri-environmental schemes to be co-financed by the EU at a rate of 50 per cent generally, and 75 per cent in Objective 1 areas. This might be taken to imply that, whatever the level of Assembly provision for such schemes, it would be match funded pound for pound by the EU in non-Objective 1 areas, and at three times the rate of Assembly funding in west Wales and the Valleys. However, the quantum of European funding for all Rural Development Plan measures is, as indicated above, fixed at 149.57 million euros over seven years – equivalent to only £13 million a year and hence demonstrably inadequate to allow funding of agri-environmental schemes at these rates of co-financing. European funding for agri-environmental measures is further constrained by the European Commission’s requirement, which became clear during negotiations on the Rural Development Plan, that co-financing of support for Less Favoured Areas should be maintained as close as possible to the recommended minimum rate of 25 per cent; hence 59.95 million euros have been allocated to the Tir Mynydd scheme. In addition, it is also necessary to co-finance ongoing contracts under pre-existing agri-environmental schemes (such as the Environmentally Sensitive Areas scheme) from within the overall allocation. This requires a further 35.15 million euros, leaving only 54.47 million euros of EU co-financing to be allocated amongst all the other measures.

4. The effect on agri-environmental funding (for Tir Gofal and the Organic Farming Scheme combined) is as follows:

Funding source	Allocation (million euros)
EU co-financing	35.88

Assembly match funding for EU allocation *	21.52
Additional Assembly funds ("national top-up")	81.22
Modulation receipts	57.35
Match funding for modulation receipts	57.35
Total	253.32

** to match EU financing at 75% in Objective 1 areas and 50% elsewhere*

5. The table demonstrates that the Tir Gofal and Organic Farming Schemes can only be maintained at their current and projected levels through the Assembly's contribution of substantial extra resources over and above what would be required to match fund the European contribution. In effect a substantial proportion of recipients of funding from agri-environmental schemes in Wales are wholly funded from Assembly resources because of the inadequacy of European funds to contribute at the rates envisaged in the Regulations towards the programmes which the Assembly has established.