

Annex 1: Response to Finance Committee's report on the Agriculture (Wales) Bill – 6 February 2023

Recommendation 1. The Committee recommends that, in line with the issues raised in its letters to the First Minister on 16 November and 19 December 2022, that the Minister provides a written response to the recommendations set out in this report, prior to the Stage 1 debate.

I have agreed to provide a written response to the committee ahead of the stage 1 debate on this Bill.

However, I would like it noted as outlined by the First Minister in his letter to the Committee in December, it is not always practical for Welsh Ministers to do this prior to the Stage 1 debate for every Bill.

Recommendation 2. The Committee recommends that the Welsh Government provides a breakdown of the costs included in Option 3 of the Regulatory Impact Assessment relating to Rural Development Plan funding, and that this information is included in an updated Regulatory Impact Assessment following Stage 2 proceedings.

Accept

The focus of the future support Cost Benefit Analysis within the Regulatory Impact Assessment (RIA) was on the costs and benefits of providing revenue support directly to farmers. Under the current system, the two largest contributors to this are the Basic Payment Scheme and Glastir, amounting to an estimated £278m per year. The costs and benefits of other elements of support (such as Farming Connect and the Farm Liaison Service) were also included.

We are not proposing to divert funding support away from farmers. The £278m is not a prediction or guarantee of future funding levels, it will depend on future funding settlements from His Majesty's (HM) Treasury and the Welsh Government budget process. It is difficult to be certain what the future budget for agricultural support will look like beyond the term of this UK parliament.

We accept the recommendation to add further information relating to the Rural Development Programme elements not included in the RIA, for information following Stage 2.

Recommendation 3. The Committee recommends that the Minister undertakes modelling work to estimate the annual cost of the Sustainable Land Management scheme dependent on the different levels of take-up in different farming types, and

Annex 1: Response to Finance Committee's report on the Agriculture (Wales) Bill – 6 February 2023

that this information is included in an updated Regulatory Impact Assessment following Stage 2 proceedings.

Accept in Principle

The Regulatory Impact Assessment (RIA) covers all the provisions in the Agriculture (Wales) Bill. It is not an RIA for the Sustainable Farming Scheme (SFS). Option 3 of the Cost Benefit Analysis (CBA) for future support focusses on the costs and benefit of legislation to introduce support consistent with Sustainable Land Management (SLM). The Bill does not define the delivery mechanisms of future schemes.

The proposed SFS is still under development. We have recently concluded the survey, workshops and interviews which formed the second round of co-design for the SFS and intend to publish a full report early 2023. The environmental and economic modelling work my officials are undertaking will also inform the design of the final proposed scheme.

I have committed to consult on the final proposed scheme at the end of this year. We will publish a range of evidence concerning our assessment of the scheme and the outcomes we are expecting to deliver. The timescales proposed for the consultation and SFS modelling will not allow additional information to be included in a revised RIA following stage 2 proceedings.

Recommendation 4. The Committee recommends that the Minister reassess the unquantified costs, and uses previous experience to provide a sensitivity analysis to show the potential range of costs, and that this information is included in an updated Regulatory Impact Assessment following Stage 2 proceedings.

Accept in Principle

The Regulatory Impact Assessment (RIA) has, wherever possible, quantified the expected costs associated with the provisions within the bill.

For some of the powers being taken in the bill it is not possible to quantify costs, for example we cannot know when a crisis might occur, and on what scale, so we cannot plan for all expected costs. A fuller explanation is provided below.

Intervention in Agricultural Markets:

Calculating costs for this proposal is unknown because of the nature of these proposed powers being one of crisis response. Two examples of previous market intervention schemes are given below, but these may not reflect the cost of any future schemes.

Annex 1: Response to Finance Committee's report on the Agriculture (Wales) Bill – 6 February 2023

In 2020, a scheme was launched to support the dairy sector when the Covid-19 pandemic forced the closure of hospitality establishments. While this scheme used powers under the Government of Wales Act 2006, they were used in a similar way to how the proposed powers could be used. Under this scheme, £1,018,500 was paid out to Welsh dairy farmers, which when adjusted for inflation, is equivalent to £1,182,000 in 2022 prices.

In the period 2011-2021, two crisis intervention schemes were launched, both in support of the dairy sector. One came in the form of support across the EU in 2016, which was in response to hardship caused by the end of milk quotas, a Russian ban on EU food imports and low oil prices.

It should be noted this scheme may not directly reflect the sort of scheme possible under the proposed powers for exceptional market conditions in the Agriculture (Wales) Bill, as it was proposed as a wider set of EU support to the dairy sector. Under the 2016 scheme, €30,195,996 was allocated to the UK under this crisis intervention measure. At the time, officials estimated the support to Wales would be approximately £3.2 million. Adjusted for inflation, in 2022 this would be worth £4 million.

Marketing Standards/ Carcass Classification:

There are no foreseeable financial costs because the Welsh Government does not currently have any plans to use the proposed powers to amend marketing standards in the time period specified.

Tenancies:

Costs and benefits are very difficult to estimate with any certainty as each agricultural tenancy agreement is a unique private contract and the detail of the financial assistance schemes to which the provisions apply are yet to be finalised. It is difficult to estimate how many agricultural tenants may benefit from the provisions when implemented. However, we anticipate the true benefit of the proposal will be in incentivising tenants and landlords to come to a negotiated agreement to avoid the costs of dispute resolution.

Tenants who successfully utilise the provisions to vary restrictions (when implemented) may receive direct financial benefits from accessing financial assistance schemes. This could also benefit the landlord where schemes help increase farm efficiency and productivity by making the tenant more financially resilient and less likely to enter into rent arrears. However, this is impossible to quantify because it will be different in each case.

Annex 1: Response to Finance Committee's report on the Agriculture (Wales) Bill – 6 February 2023

Forestry:

As outlined in more detail at Recommendation 6, the likely costs set out in the RIA were those which could be identified and agreed in collaboration with the Forestry Provision Stakeholder Group. They also agreed that a number of costs could not be quantified other than in individual examples as set out in the text of the RIA. There were no previous experiences to draw upon that relate to the new powers proposed.

It is proposed that frequency of cases and associated real costs are examined as part of the post-implementation review to be undertaken within 3 years of the commencement of these new powers. This will provide a better understanding of the operation of the powers and the costs involved.

Public Intervention and Private Storage Aid:

The Welsh Government are planning to reform Public Intervention (PI) and Private Storage Aid (PSA) legislation, ending mandatory Public Intervention and making amendments to how Public Storage Aid is governed. These changes mirror those being made by the UK Government for England and use powers for the Welsh Ministers in the Agriculture Act 2020.

These schemes, which operate effectively when applied across the UK market, are rarely used due to the fact the specification and/or price thresholds are rarely met.

Officials are currently assessing the implications and where appropriate will update the RIA.

Recommendation 5. The Committee recommends that the Welsh Government ensures the Senedd will have the opportunity to scrutinise the Economic Impact Assessment and present its views.

Accept

The final economic analysis will be published alongside a range of other evidence in support of our proposals, as part of the proposed consultation in 2023 on the Sustainable Farming Scheme. I anticipate that this work will estimate the economic impact of the proposed Sustainable Farming Scheme (SFS) on the Welsh farming sector

I will ensure that the final report on the economic analysis of the proposed SFS is made available to the Senedd for scrutiny.

Annex 1: Response to Finance Committee's report on the Agriculture (Wales) Bill – 6 February 2023

Recommendation 6. The Committee recommends that the Welsh Government undertakes further work to assess the cost to the private sector relating to forestry and provides a sensitivity analysis to show the potential range of costs, and that this information is included in an updated Regulatory Impact Assessment following Stage 2 proceedings.

Not accepted

It is not possible to provide a potential range of costs for inclusion in the Regulatory Impact Assessment (RIA).

The likely costs and benefits set out in the RIA were those which could be identified and were agreed in collaboration with the Forestry Provision Stakeholder Group which was comprised of representatives of both the forestry and conservation sectors. A number of costs could not be quantified other than in individual example cases as set out in the RIA.

Unquantified costs are already part of the normal pattern of forest management planning, allowing flexibility around felling operations where necessity arises e.g. stoppage due to unsuitably wet ground conditions or the unexpected presence of a Schedule 1 bird under the Wildlife and Countryside Act 1981. These are in line with the UK Forestry Standard which all felling licences must comply with.

Proposed conditions will range from baseline conditions to site specific or bespoke conditions depending on the site circumstances. Baseline conditions are aimed at formalising compliance with other environmental legislation within the felling licence system. As such, no additional costs to the private sector are envisaged over and above what they are already doing.

With regards to site specific or bespoke conditions where there is a potential for additional costs, providing a range of meaningful costs is very difficult. This is due to the unknown likelihood of different cases arising depending on highly variable factors such as scale of operations, age and species of trees felled, individual site conditions and the environmental sensitivities present.

These highly variable factors also affect estimating a range of costs to the private sector for amendment/suspension/revocation of licences and any associated compensation. It is noted that instances of suspension and revocation are expected to be very rare, as a last resort where agreement or amendment cannot address the issue.

Therefore, it is not possible to provide a potential range of costs for inclusion in the RIA.

Annex 1: Response to Finance Committee's report on the Agriculture (Wales) Bill – 6 February 2023

It is proposed that frequency of cases and associated real costs are examined as part of the post-implementation review to be undertaken within 3 years of the commencement of these new powers. This will provide a better understanding of the implementation of those powers and the costs involved.

Recommendation 7. The Committee recommends that, as part of the post-implementation review, the Minister quantifies the benefits arising from the Bill.

Accept

The Bill includes a set of comprehensive monitoring and reporting requirements as set out below.

Annual financial reporting of schemes operating under the Power to Provide Support will outline all the financial spend of all support provided during the period being reported. This report will also provide information on the number of schemes and their corresponding financial profiles for the period.

An Impact report must be completed periodically to assess the impact of all support provided. Not only will this provide the mechanism of appropriate accountability, it is also a means of measurement against the purposes for which support is given and an assessment of the supports contribution towards achieving the SLM objectives. This will form an important and ongoing evidence base for future policy development.

In addition, there are reporting requirements for the progress made against the SLM objectives, where indicators and targets will be set to measure progress against the SLM objectives.

Forestry:

My officials will conduct a post implementation review of the legislation within 3 years of commencement of the amendments to the Forestry Act 1967.

We will work with Natural Resources Wales and stakeholders to agree a collection of relevant data following commencement in order to monitor the impact of the forestry provisions within the Bill.

Recommendation 8. Where possible there should be synergy between the current and new IT system that will be developed to support online applications and contract management under the Bill. The Committee recommends that the Minister provides further details of the costs of the system once the options assessment has concluded, and that this information is included in an updated Regulatory Impact Assessment following Stage 2 proceedings.

Annex 1: Response to Finance Committee's report on the Agriculture (Wales) Bill – 6 February 2023

Accept

Further details of the IT development costs will be provided in an updated Regulatory Impact Assessment (RIA) following stage 2 proceedings. These costs will be estimates based on our initial assessment of options relating to the delivery of the current scheme design proposals.

Recommendation 9. The Committee recommends that the Sustainable Land Management scheme's application process for farmers or farm businesses is user-friendly and minimises the resources required to apply for the programme through concepts such as pre-populated information.

Accept

Making the application process user-friendly with minimal resources required is an important design principle which will be adopted wherever possible.

Recommendation 10. The Committee recommends that the Minister provides clarification in relation to the £2.8 million of additional costs that will be borne by Natural Resources Wales and whether additional funding will be made available by the Welsh Government or whether Natural Resources Wales will be expected to absorb these costs into its existing budget.

Accept

The costs attributed to Natural Resources Wales (NRW) are indicative estimates and not predictions. My officials are currently working with NRW to determine what, if any, future downstream costs may be realised as a result of future Sustainable Land Management (SLM) schemes.

As we begin to transition to future SLM schemes, I will work to ensure that any downstream costs resulting from the implementation of this legislation are fully considered.

Work to support the delivery of the Sustainable Farming Scheme will be agreed between NRW and Welsh Government.