

Assessment of the Welsh Government's proposals for the Sustainable Farming Scheme

Submission from Janet Dwyer, Professor of Rural Policy, University of Gloucestershire

1. Thank you for the opportunity to give written and oral evidence to the Committee's inquiry. I would like first to acknowledge that a major contribution to this evidence comes from the work of Theo Lenormand, a PhD student whom I have been supervising since 2019 and whose thesis will be submitted for examination by the time that you are reading this note. His work was co-sponsored by the Welsh Government but I can confirm that it was undertaken independently, and that none of his findings have been subject to any editorial scrutiny or amendment by anyone within the Welsh Government (WG).
2. Theo's topic was the analysis of current farming systems across the principality of Wales, considering how they might respond to the ongoing and proposed changes in Welsh agricultural policy, and particularly the Sustainable Farming Scheme. His work combined detailed farming systems analysis in contrasting Welsh landscapes, with analysis of a wide range of secondary data and literature on relevant topics. It included in-depth interviews with approximately 230 farmers within these contrasting areas, economic analysis of typical farm systems and businesses in each area, as well as modelling how the SFS proposals (2022-3) would be likely to affect them; altogether providing a rich and detailed evidence base. To this, I have added my own experience and insights as an analyst and evaluator of UK and European agricultural policies for the last 35 years.
3. I have organised this submission as follows:
 - overview comments concerning the proposed SFS and the process by which it has taken shape, thus far;
 - more detail on its proposed components and coverage, noting some key issues;
 - a commentary on the way in which the draft SFS and accompanying economic assessment were published in December 2023, considering how this may have affected stakeholder reception of the package;
 - some suggestions for improving the SFS package and responding to the current negative issues surrounding the scheme development and implementation.

A. Overview comments

4. The SFS scheme aims to respond to the Welsh Government's goals for agriculture as set out in the Agriculture Bill 2023. These **goals are very broad, encompassing food production alongside the generation of broader environmental, social and economic benefits** for society. In contrast to the scope of the future schemes in England, Wales is notable for having identified and affirmed the **social and cultural value** of farming and farmed landscapes in Wales, which it plans to support through the scheme in addition to supporting environmentally-sustainable agriculture and food production. Particular mention is made of **the importance of farming communities for sustaining the Welsh language in rural areas, as well as for maintaining rural vitality** more generally. Furthermore, the government has signalled an intention to reflect these broad goals in its approach to setting payments under the new scheme, **to go beyond the WTO green-box 'income foregone' formula for environmental payments** (which is based on a compensatory principle in which business income and environmental goods and services are seen as essentially in competition with one another). Based upon long experience of assessing schemes, **I strongly support these principles and features in WG plans for the new scheme, which offer a more holistic, resilient and sustainable approach than those of other UK nations, currently.**

5. The process through which the SFS proposals were developed also appears positive, involving dialogue and co-development in a series of working groups and events that has been – at least up to 2023 – appreciated by the range of stakeholders involved, including farming, environmental and community interests. However, these groups were suspended for the formal SFS consultation period and it seems that in the months since then, WG has gone through some organisational change and the stakeholder community has felt increasingly concerned and anxious about the future policy. This has been in a context where Welsh farming is facing significant unexpected volatility in markets and operating conditions, due to a complex mix of biophysical (climate-linked) and socio-economic factors including Brexit, Covid and international conflict. As a result, the widespread initial reaction to publication of the more detailed SFS proposals in December, published along with a rather constrained economic impact assessment, has been quite strongly negative. There have been protests and campaigning which have suggested that the Welsh Government has abandoned its interest in food production and farming. Welsh farming unions have called for major changes to the package prior to its roll-out, which was proposed to start in 2024/5.
6. The proposals are hard to judge thoroughly because they lack critical detail on payment rates and definitions, which will be needed before farmers can clearly assess ‘what is on offer’, for their businesses, families and futures. Nevertheless, I have drawn upon Theo’s modelling and analysis to help identify some main issues of concern in the draft SFS (2023), as it stands.

B. Assessing Scheme Details and Farmer Uptake Choices

7. Theo’s analysis considered how different types of farms and enterprise-mixes in Wales might react to the various elements in the scheme. He separately assessed more intensive types of farm in lowland areas including dairying, potatoes and arable; very extensive types of pasture-based farm in the higher uplands focused on beef and sheep or sheep alone; and a mixed range of farms in intermediate areas including grazing livestock, dairying, poultry and highly diversified enterprises. Scenarios were developed based on assumptions concerning the scheme payments (using budgets and payment rates similar to those seen in previous schemes), also other requirements, including regulatory changes (notably, extension of NVZs across Wales) and with sensitivity analysis for trends in input, output and land markets (e.g. high or low prices) as farms adjust to the new policies. We then discussed how the SFS would be received, in this context.
8. The first conclusion is that the scheme is overly complex, and sending very mixed signals to farms about what the WG is really seeking to achieve. Joining the scheme requires actions which take a relatively blunt ‘land-sparing’ approach; requiring 10% of the farm area to be woodland/under tree cover (argued as being for both carbon and biodiversity reasons) and requiring (perhaps a further) 10% to be under some form of ‘habitat’. These requirements have implications that overall agricultural land use will be reduced – although it would be possible to envisage agricultural options for tree cover, including new orchards or agroforestry, and many types of ‘habitat’ will likely remain farmed. On the other hand, the scheme rhetoric and its suite of management options place emphasis on ‘land-sharing’ approaches, where funding promotes management to maintain agricultural production across Wales whilst simultaneously generating environmental benefits. However, the payment rates are not specified, so there is no guarantee that they would offset any negative economic impacts of a reduced farmed area, for those coming into the scheme. This will be an up-front concern for any farms which cannot already meet the required 10% thresholds prior to entry, and could also be a concern for any farms which anticipate growth in the near future, as this could also affect their requirements. The complex mix of the obligatory but not fully specified 10% entry requirements and a range of 17 very varied and uncosted obligatory management actions in the Universal layer of SFS is impossible for a reader to assess in a robust way, as it stands. Emphasizing compliance

requirements over incentives, in this way, creates an impression that scheme entry could be challenging and onerous, with unclear rewards.

9. Despite supportive rhetoric, the SFS menu lacks a specific element to support organic farming, and there is no concrete proposal for targeted support to help attract new entrants. We see these as gaps in the offer, because they back-track on elements which the WG has previously committed to, and for which there has been widespread support. Whereas a typical 'conventional' farm can potentially benefit from choosing from the mix of options available in the basic SFS Universal layer, organic farms face lower payments than under current schemes, within which they are already delivering a higher level of sustainable management than SFS Universal layer will offer. Similarly, new entrants to farming may face a range of specific, added challenges to SFS entry compared to established farm businesses, including how to meet their 10% requirements, as they tend to build up their holdings gradually through a mix of rental arrangements, in which allocating land to non-agricultural uses and even developing a concrete business plan against which to raise investment, can be costly and difficult.
10. Recognizing that SFS will be launched at the same time as the WG proposes to extend its regulations on nitrate pollution from farming (formerly the NVZs/nitrates regulations) to cover the whole of Wales, Theo's analysis suggests that farms on the most productive and versatile land, in dairying, arable and mixed areas of the lowlands, are unlikely to be attracted to the scheme because of the opportunity cost of either reducing their farmed area or having to rent or buy-in some woodland and semi-natural areas in order to enter the SFS. For the time being, they seem likely to avoid scheme constraints and focus on maximising market revenues whilst adjusting to the stricter conditions imposed by the new regulations, which will involve additional costs for many. The SFS will likely be viewed as unhelpful in these contexts.
11. By contrast, farms in the most marginal landscapes of the higher uplands and Welsh mountains will have to join the scheme in order to survive economically, as the funding from the BPS transfers into the SFS. However, in the short term they will be joining a scheme which pays them less than current schemes (i.e. BPS plus Glas Tir), relying on the proposed 'transition' payments to bridge that gap and having to trust that, as the higher layers of the scheme are rolled out, they will be able to find enough new options to rebuild their payments without compromising their income from agricultural and other outputs. The lack of specific details about higher tier options could be a significant source of stress and challenge for farms in these situations, given its central role in determining their future viability and resilience.
12. In between these two extremes, Wales has a lot of 'intermediate upland' areas where recent farm change has been quite marked and in which restructuring and new enterprise types have been prominent. Among these, there are grazing livestock farms with poultry units where income from the latter helps to support the former. These may have to rethink their strategies once nitrogen restrictions come into effect as the poultry/egg production systems also generate high levels of nitrogen surplus, which will have to be exported or reduced *in-situ*, somehow. These intermediate areas also have many farms that use pastures in quite 'intensive' or specialised systems, for whom the 10% requirements of the SFS could be particularly difficult to meet: these include beef and sheep finishers, dairy young-stock rearers, and spring-calving dairy systems using tight management of rotational grazing over a long season to maximise the value of their grass. Many of these farms are more labour-intensive than those in the high uplands because they add more value to their outputs, meaning that they make a significant contribution to rural communities and the continuation of Welsh-speaking in rural Wales.
13. Compared to the current support system, SFS appears to offer these intermediate-area farms some options to maintain the income that they derive from public funding, but in return for a more demanding set of actions and constraints. It is possible that they will be able to increase this income when the more ambitious scheme layers are launched, but as yet this is uncertain as

they cannot scrutinize the full package or assess its overall contribution to their income. We are therefore concerned that their immediate reaction could be either to look for more certain short-term income-enhancing strategies based on market opportunities currently favouring higher-input, higher output enterprises, or to decide to quit farming and sell or lease their land to neighbours, to be absorbed into fewer, larger farms with less labour use or higher environmental and carbon footprints. Either way, the result could be a reduced level of environmental and social/cultural benefit to wider society. Lower employment will also mean lower land management capacity, fewer families being able to stay in farming and support these communities and their use of the Welsh language, and a loss of indigenous knowledge about the cultural landscape which could be critical for sustaining ecological value and ecosystem services.

14. These risks of negative outcomes are related in part to the basic SFS design, but also to the incomplete nature of the scheme details so far published, and the proposed strategy for roll-out. The next section considers these issues in more detail.

C. Scheme development and implementation issues

15. The consultation explains that the plan is to start already, in late 2024, reducing BPS in order to launch the new scheme with the funds generated by the reductions, in a gradual way. SFS will start with just the Universal layer and then introduce higher layers in later years. In contrast to the process in England, the WG says it will offer a transition payment to protect the level of public funding that individual farms have previously received, if their cuts to BPS cannot be replaced by the payments and options on offer to them under SFS, in the short-term. In principle this is designed to be reassuring. However, without publishing the actual rates of payment for any scheme layers, nor the menu of options that will make up higher layers, it fails to reassure.
16. At the same time, the 10% area requirements to enter the SFS Universal layer appear as significant new conditions, compared to the current situation. In the consultation document, these lack the critical detail that is necessary to enable farmers to gauge how significant they would be for each farm's individual circumstances: e.g. how the 10% is measured (trunk or canopy extent and density, total farm area inclusive of farm buildings/other non-productive land; how will scrub on fridd be treated?), and what kinds of tree cover can qualify (linear as well as blocks, agroforestry, energy coppice and orchards as well as dedicated woodlands, non-native as well as native species?). I understand that WG has since clarified that the definition will include a variety of types of tree cover, but as past experience with cross-compliance conditions has demonstrated, this sort of detail can often prove costly and contentious to monitor and enforce in a fair and timely fashion. Indeed, considering the whole package of the Universal layer suggests that controls and penalties could become a major cost and challenge for farmers and funders alike, at least in the initial years, which seems unlikely to be a cost-effective or popular strategy.
17. Finally, the publication of the economic assessment (Moxey, Thomson and Lewis-Reddy, 2023) alongside the SFS consultation may have sought to demonstrate WG transparency by comparison with Defra's approach in England, where no such assessment was published for the agriculture transition and ELMs. However, the assessment is subject to a number of assumptions which have particularly negative implications for its readership, and appear to contradict some of the broad and more positive commitments given in WG statements about the future scheme and their goals for Welsh agriculture – particularly their social and economic goals.
 - The assessment's assumed SFS payments are not generous because only the Universal layer is modelled in full, and it takes current scheme budgets, removes a share for new transaction costs and then assumes no-loss (but also no gain) uptake by all Welsh farms at once, meaning that the available funding is spread very widely and more thinly than current Glas Tir (and BPS is widespread, but with lower transaction costs). It also includes no dynamic

adjustment of businesses in response to the changes in funding; i.e. measuring a one-off, unmitigated impact of the new package (in economic terms, a comparative static 'shock').

- As the authors explain, its assumed transition funds would not 'bridge the gap' for farms who enter SFS Universal layer and then await the higher layers whilst their BPS is being reduced, because it assumes the additional costs of compliance with Universal layer management would not be covered.
- It assumes that the 10% land under trees would not produce agricultural income and the 10% in semi-natural cover would require some land to produce lower output than before, thus reducing the value of total Welsh agricultural output and returns to farms from this source, in direct proportion to the areas of land affected. It therefore estimates that the policy change will lead to reduction in the number of farms and the agricultural workforce as well as the volume and value of agricultural output and farm business income across Wales.

18. Taken together, it is not difficult to understand why the general reaction to these publications and proposed processes has been markedly negative among farmers and their representative organisations. However, it is also relatively simple to identify how these things could have been differently planned and published, so as to encourage a much more positive reception.

- Providing more detail on the critical points of payment rates and definitions of the 10% conditions could have been valuable in reassuring farmers that the commitment to continued support was still strong and that the WG was willing to accommodate a variety of environmentally-positive and creative ways to achieve the 10% conditions without losing significant agricultural production potential.
- Modifying the assumptions made in the impact assessment to ensure a more accurate 'like for like' approach to the funding actually on offer to farmers, independent of transaction costs and administrative overheads, and considering the new management costs involved, as well as assuming a more realistic level of uptake of the new scheme and its various elements over time, could have significantly reduced the predicted fall in farm and farmer numbers, and agricultural output, thereby giving a much more positive signal to the sector about its future trajectory.

D. Suggested modifications to improve scheme design and implementation

19. Theo Lenormand's modelled scenarios of SFS uptake by different farms across Wales, using slightly more generous assumptions than those of the economic assessment, concluded that SFS could play a valuable role in the short and medium-term in reducing farms' exposure to price volatility in markets and offering slightly greater added-value from agricultural production, even for relatively 'intensive' farms in the intermediate and lowland landscapes of Wales (with the exception of the largest specialist dairy and other indoor livestock systems). However, the greatest economic gains from the scheme would take some years to become evident, as structures are modified to maximise incomes from the new offer. This suggests that **in the first few years of implementation it will be essential to offer more than just the Universal layer to applicants, as it will be in the higher scheme tiers (optional and collaborative) where they have the opportunity to build a package of options to suit their own particular situation and their business aspirations.**

20. However, he also found that organic farms and the largest extensive hill farms would see reductions in overall support compared to the current situation. With his assumption that SFS would, like BPS, operate a redistributive payment to give a boost to small farms, overall scheme payments would then be spread more evenly across the farmed landscape than the current pattern of support. Currently, those in the most marginal areas actually get better funding than those elsewhere, and there is evidence that this gives them advantages in the land market which can 'squeeze out' smaller farms with slightly better-quality land who might wish to expand.

21. I therefore suggest that **SFS could be modified to avoid disincentivising organic farms, by including targeted additional payments to cover both transition to organic farming and to sustain it, following transition – along similar lines to the previous provisions.** There would seem to be no benefit in removing this provision from the future package, as its overall impact on scheme budget seems unlikely to be significant but it sends a reassuring message to the organic sector about its continued value and relevance to WG goals for agriculture.
22. I suggest it should also be a priority to address the concerns of farmers on the issues surrounding the 10% woodland conditions. **If the main aim of requiring 10% tree cover on all SFS farms is to increase carbon sequestration as a climate mitigation measure, the conditions of the provision should give maximum flexibility to farmers to determine how they could achieve it with minimal loss of farming area/capacity.** So, linear features must qualify towards the 10%, as well as orchards, short-rotation coppice and agro-forestry, and the scheme should allow for neighbouring farms to make and agree plans together to reach the 10%, rather than insisting that each individual farm achieves this threshold, alone. Provision should also be made to exempt new entrants or others whose holdings are wholly held on FBT tenancy agreements or short-term grazing licences, from this condition, as it will often be beyond their responsibility. Finally, it could be helpful to offer those farms for which carbon storage in peaty soils plays a much more significant climate mitigation role, an alternative to tree-planting which can better restore and protect the carbon within their soils, as a condition of scheme entry. The current position is apparently that peat areas are simply excluded from the assessment of the 10% requirement for trees; in my view this does not go far enough to signal where priorities lie, for these kinds of farm, i.e. focusing positively on peatland protection and restoration.
23. I believe that a case can be made for some **additional provisions for young farmers and/or new entrants within the scheme** – perhaps to offer additional advisory support to integrate sustainable farming into their business models and to encourage networking and peer-to-peer learning, and also to ring-fence some funds for special case support to overcome potential barriers linked to accessing investment in the early years of establishing a new farm business, that SFS entry might otherwise pose. WG could specifically work on the details of such an offer through a co-design process, in the current planning period.
24. **The value of transition payments should be guaranteed as offering ‘like for like’ replacement support to those who enter SFS at a short-term loss,** compared to what they currently receive from BPS and other schemes, but also **taking into full account the additional management costs that SFS will entail.**
25. **The menu of items and payments that will be on offer under higher layers of the scheme should be confirmed as soon as possible this year, before farmers have to make their initial decisions about SFS entry, and roll-out of these elements of the scheme should follow closely on, in the same year that the scheme is officially launched.** This should reduce the risk of significant structural change in the sector that will work against WG goals, as the new scheme is rolled out.
26. **The overall structure of the scheme seems unnecessarily complex, as it stands. I think the Universal layer could be presented in a simpler way with fewer individual elements, to achieve equally positive outcomes** and to give farmers more assurance that entry will be quick and straightforward for them. There is a risk with the current model that a lot of initial time is spent on ensuring compliance with thresholds and conditions, rather than focusing on stimulating active management for environmental and social benefit, on the farmed area.
27. **Good quality and impartial advice should be made available to all farmers alongside scheme launch, at low or no-cost to each farm business, using trusted providers that can cover both agronomic/economic and ecological/climate aspects of the scheme and its application on-farm,** including farming connect and FWAG Cymru as well as other respected and relevant NGOs.

Integrated provision of this breadth of advisory support at the farm gate would be essential. Some common standards of CPD/training should be required for all assessors, enabling them to be 'certified' in this key role. I applaud the WG's continuing commitment to the importance of public funding for this kind of advice, which represents an investment in better securing the public benefits that the scheme aims to deliver. Opportunities for high quality and regular peer-to-peer learning in the early years of scheme rollout should also be eligible for WG support.

28. The Welsh Government should commit to continuing work in the co-design groups that earlier helped to develop and scope the SFS, initiating a process of rapid review and modification to different elements of the scheme to better address stakeholder concerns and aspirations. These groups' membership must combine those who can benefit financially from SFS with those whose interests are directly affected by the extent and variety of environmental and social/cultural benefits that SFS seeks to generate. As part of this partnership approach, the WG should also publicly acknowledge the shortcomings of its publications to date on SFS, and commit to listening and learning from its stakeholder partners as it completes the package on offer, prior to scheme launch.

My own view is that the process from here on is as important as the scheme design. Both will require new effort now by WG to re-engage the wider stakeholder community in constructive partnership, to give the scheme the best chance of success, in meeting WG's goals and attracting a good uptake following its launch.

Professor Janet Dwyer OBE, 22 April 2024, Cheltenham.

Reference:

Moxey, A., Thomson, and Lewis-Reddy, E., 2023. Potential economic effects of the Sustainable Farming Scheme. Phase 4 Universal Actions Modelling Results. A report to Welsh Government under project C280/2019/2020. Welsh Government, December 2023, Cardiff.