

## Welsh Government Policy Decisions for the Basic Payment Scheme

### Summary

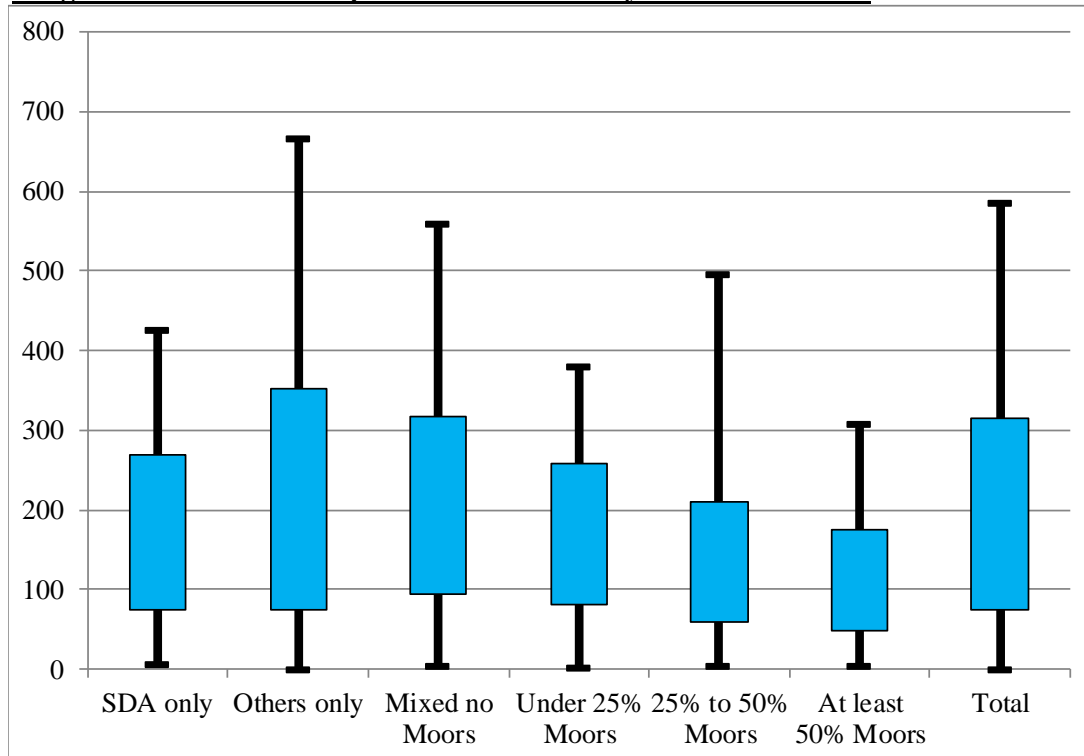
1. This paper explains the Welsh Government’s rationale for decisions taken in 2014 for the Basic Payment Scheme to make CAP Pillar 1 payments to farm claimants from 2015. It sets out the principles for the decisions taken, illustrates the rationale behind the original proposals and provides information about the forecast impact of those decisions, before making brief comment on the impact of recent events.

### Background

2. CAP Reform 2014-20 requires the introduction of a Basic Payment Scheme (BPS) with a move to payments being made on the basis of the area of eligible land actively farmed by a claimant. The regulations provide choice about the speed at which this change must take effect (as long as a minimum level of change is achieved by 2019) and whether all land is treated the same or not; land may be classified into two or more payment regions.
3. Payments under the Single Payment Scheme (SPS) originated from production levels on farms in a reference period circa 2000-2002. With subsequent change in farm activity and opportunity to trade entitlements their value when expressed on a per hectare basis is extremely varied as shown by **Chart 1**. The blue boxes capture 80% of farms in a land classification but the tails show a very wide spread of values (the most extreme 1% of values are actually excluded) with all classifications having at least one farm with entitlement values exceeding €1,000

Chart 1

Range of Scaled Entitlement per hectare for a farm by mix of land claimed



Source: SPS claimants from 2012

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per hectare<sup>1</sup>. Farms are grouped by the three regions in which their land was provisionally classified (Moorland, SDA, Other Land) with further grouping according to the proportion of their land which was Moorland.

4. Two points are very evident. Firstly SPS was an arbitrary system, awarding substantially different sized payments to farms which have the same type of land. Across Wales, some farms paid considerably more for farming in the same circumstances as others who got little if any payment at all. Secondly any move to an area based payment system will result in change to payments – within a fixed budget the fact that some will get more and others less is unavoidable.

### Rationale for BPS Proposals

5. From the outset of CAP reform the Welsh Government worked closely with industry bodies and provided opportunities for them to offer their opinions. It was established early on, and accepted by the farming unions and other stakeholder bodies, that the policy decisions should be guided by the principles of:
  - managing the risk posed by payment change to current claimants' businesses; and
  - recognising the different character of farmland across Wales, with higher support being available for better quality farmland.
6. CAP Reform 2014-20 has taken place against the backdrop of significant pressure on European Union budgets. This will almost certainly continue into the next reform and beyond. The long term Welsh Government policy aim is for the farming industry to become sustainable – in the widest sense – prospering with a lower level of public payment support.
7. Detailed data modelling explored a range of options which were shared and discussed with the farming unions and other stakeholder bodies and consulted upon extensively. This work established that there was no policy option which could avoid change – it was inevitable that some claimants would get higher payments and others less. However the work found that a regional approach, with different payment rates for different regions, was the best way to minimise the level of change for most current claimants as well as recognising the different character of farmland. There was support in the industry for this approach. Various combinations were tested and the option which best achieved the aims set out in paragraph 5 above, used Moorland, SDA and Other Land (ie the DA and Lowland together). These proposals were scrutinised by the European Commission which raised no objection to them. **Table 1** shows what this option was forecast to mean if all current claimants moved to having all their land funded at the target payment rates by 2019. **Table 2** shows the target payment rates, the ratio between them, the area of land in the three regions and the aggregate payments to them.
8. The striking feature of this three region model was that it forecast that 85% of claimants<sup>2</sup> would either gain significantly<sup>3</sup>, have much the same or only a small

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<sup>1</sup> The highest value of all is over €40,000 per hectare.

<sup>2</sup> 13,699 of 16,048 claimants in 2012.

**Table 1: Farms with significant gains or losses under the original policy option**

	Significant gain	Neither	Significant loss	Total
SDA only	263	2,290	202	<b>2,755</b>
Others only	993	5,168	979	<b>7,140</b>
Mixed no Moors	492	2,180	601	<b>3,273</b>
Under 25% Moors	531	926	304	<b>1,761</b>
25% to 50% Moors	198	454	170	<b>822</b>
At least 50% Moors	60	144	93	<b>297</b>
<b>Total</b>	<b>2,537</b>	<b>11,162</b>	<b>2,349</b>	<b>16,048</b>

Source: SPS claimants from 2012

reduction<sup>4</sup>. Only 15% were forecast to face a significant loss<sup>5</sup>. **Table 1** also shows that whether claimants would gain more, or get less, was not linked to the classification of land into three regions and the payment rates forecast for them. Instead the outcomes were driven mainly by the payment value of claimants' SPS entitlements which are, as discussed above, hugely varied (see **Chart 1** again). Claimants in all situations stood to gain or lose, and the same was also true when the forecasts were analysed by farm sector and different counties.

**Table 2: claimed land area and payments for the three regions under the original policy option**

Characteristic	Land region			Total
	Moorland	SDA	DA/lowland	
Area (ha)	157,300	617,700	558,000	1,333,500
% claimed area	12	46	42	100
Payment ratio	1	10	12	n/a
Indicative payment rates €	20	200	240	196 (Wales indicative flat rate)
Indicative aggregate payment €m pa	3.1	123.7	134.2	261

Source: SPS claimants for 2012.

<sup>3</sup> A significant gain was judged to be both an increase of more than €5,000 a year which was also more than 10% of a claimant's SPS payment scale to the budget for BPS.

<sup>4</sup> A small reduction was judged to be both €5,000 a year and less than 10% of a claimant's SPS payment scaled to the budget available for BPS.

<sup>5</sup> A significant loss was judged to be both more than €5,000 a year and more than 10% of a claimant's SPS payment scaled to the budget available for BPS.

9. Moorland was defined by reference to vegetation of that character which was widely agreed by industry bodies to be agriculturally poor quality. The definition limited the Moorland Region to areas at 400 metres altitude or higher in order to ensure that the region excluded that land which had been agriculturally improved since being mapped in the early 1990's. This, backed by an appeal mechanism to allow for land to be reclassified, was recognised by industry bodies as a fair, efficient way to limit the region to the most agriculturally limited areas and to finalise land classification.
10. The Judicial Review was predicated on the basis that the policy proposals were "unfair". In seeking to meet the policy aspirations that were widely accepted amongst stakeholders, the modelling work based on the three regions put simply, showed those claimants who had received high payments (when expressed in per hectare terms) historically to the present day stood to get less with the money being redirected to those claimants who have received less than was arguably an equitable distribution of funds under the SPS including new entrants to the industry. The policy proposals set out in paragraph 5 sought to strike a balanced redistribution of the BPS budget across the industry as a whole. Any option which removed the Moorland region or increased the payment rate for it significantly resulted in greater change to current claimants' payments, with more claimants getting less. It is also overlooked that amongst farms with more than half their land in the proposed Moorland region, the allegedly hardest hit group of claimants, there were many who stood to gain, and others who only faced a small reduction (**Table 3**). Amongst those forecast to have a significant gain the average payment would have been €54,000 a year with one claimant standing to receive €339,000<sup>6</sup>. Even amongst those forecast to have a significant loss the average payment would have been €36,000 a year with one claimant standing to receive €185,000. In fact the average and median payments to this group were forecast to exceed those made to the whole group of farm claimants with half or more of their land in the moorland region. The data do not support an argument that having a Moorland region with a low payment rate automatically reduces payments to farms with a high proportion of their land in that region. Many were forecast to do better and others would have seen relatively little change.

Table 3

Summary statistics of payments to farms with 50% or more land in the moorland region

Payment €'000s	Gain other	Significant gain	Significant loss	Loss other	All 297
<b>Average</b>	17	54	36	15	30
<b>Median</b>	10	38	34	13	23
<b>Maximum</b>	115	339	185	89	339
<b>Minimum</b>	1	14	1	0	0
<b>Number of farms</b>	66	60	93	78	297

Source: SPS claims 2012

<sup>6</sup> Prior to application of the payment capping rules, which set progressively higher levels of deduction with a 100% cap on payments of €300,000 a year or more.

11. Furthermore, it is important to recall that decisions for the BPS were taken in the context of CAP having two Pillars. The prospective RDP for 2015 onwards has been designed to enable targeted support for the farming industry with recognition that opportunities for conventional farming are more limited in the uplands but conversely there is usually greater scope for land being managed for environmental goods and attracting payments for that. Thus as claimants manage farm businesses which potentially receive payments from several sources, fixation on the impact of the BPS alone ignores the wider picture with farms with a high proportion of their land in the Moorland region having much greater potential to attract payments from RDP schemes. **Table 4** summarises data for 93 claimants with half or more of their land in the Moorland Region who were forecast to face a significant loss in their BPS payment by 2019. The table is an estimate of what their total payments from BPS, RDP Schemes and NRW section 15/16 agreements might have provided in 2019 assuming historic levels of activity and support continued. It was forecast that total support would be as high as £256,000 a year, with 37 claimants receiving over £50,000 a year and 34 between £20,000 to £50,000. These are considerable levels of public support and the data also suggest that there was scope for higher levels of participation in RDP schemes amongst the 22 claimants forecast to receive less than £20,000 a year.

**Table 4: forecast total payments in 2019 (BPS, RDP land based schemes, NRW S15/16 agreements) to 93 claimants with 50% or more of the claimed land in the moorland region**

Number of claimants	93
Maximum payment £'000	256
Minimum payment £'000	1
Average payment £'000	51
Median payment £'000	41
Number of claimants receiving >£50k a year	37
Number of claimants receiving >£20k but <£50k a year	34
Number of claimants receiving <£20k a year	22
<i>Of claimants receiving &lt;£20k a year</i>	
Number not in any Glastir Schemes	5
Number in Glastir Commons only	11
Number in Glastir Entry only	2
Number in Glastir Entry and Commons	2
Number in Glastir Advanced	0
Number of Glastir Organic Scheme	2

Source: compiled using data from Pillar 1 modelling sourced from 2012 SPS claimants, Pillar 2 payments from RPW payment records. S15/16 from NRW. Source data may contain minor rounding errors. Calculations from Euro payments to £ Sterling assume an exchange rate of 85 pence to the Euro.

## Implications of the Judicial Review for the BPS

12. The Welsh Government does not propose to pursue a Moorland region for the time being because it would require more work to map Wales to define the necessary boundaries in accordance with the criteria set by the EU legislation. The High Court Consent Order states that the evidence before the Court did not show that it is unlikely that land at particular altitudes below 400 metres had the actual character of moorland. As such, it was not evidenced that excluding land below 400m in altitude from the Moorland Region was a proportionate means of achieving a legitimate aim. In the absence of there being a Moorland region, it is inevitable that whatever is decided for the BPS will now be less balanced for the industry as a whole, will not best achieve the original policy aspirations and will tend to cause higher levels of change to current claimants' payments. It is also inevitable that a greater proportion of the total funding for the BPS will now be spent on upland areas, albeit that the quality of the land farmed is very varied. This will also unavoidably impact farms elsewhere in Wales, which whilst regrettable, unfortunately has been forced on the Welsh Government.
11. The Data Modelling Stakeholder Group has considered alternative models for the BPS which include approaches based on regions and a flat rate model using different time lines for claimants to reach common payment rates. I will consult on these options in March and expect to be able to announce a decision around June, subject to approval by the European Commission of my proposals. In view of the anticipated impact on BPS payments I will also be considering the implications for the RDP, notably the balance of support for different types of farm business within the Schemes outlined in the Programme.

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