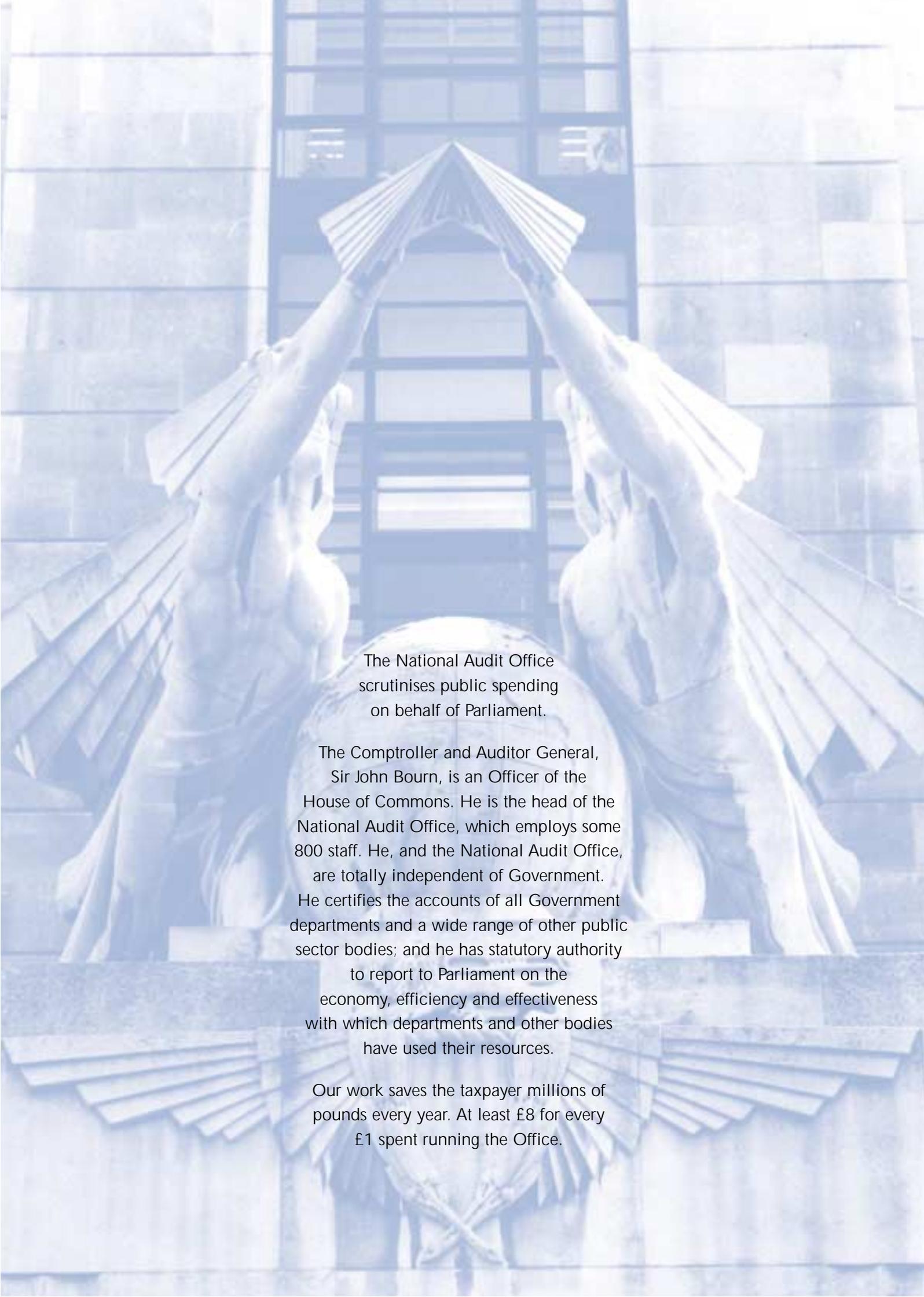


Helping Farm Businesses in England

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
HC 1028 Session 2003-2004: 16 September 2004





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This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act.

John Bourn National Audit Office
Comptroller and Auditor General 7 September 2004

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executive summary

- 1 Farmers in the United Kingdom currently receive nearly £3 billion a year in subsidies under the Common Agricultural Policy. The reforms to the Policy agreed in June 2003 are the most radical in its history and will mean a step-change in the way subsidies will be paid in the future. From 2005, all existing subsidy schemes will be rolled into a single payment to each farm not linked to either types or levels of production. Initially, payments in England will be based largely on historical production levels. Between 2005 and 2012 payments will move gradually to be based entirely on the number of hectares managed. All payments will be subject to meeting a range of environmental standards.
- 2 At the heart of the reforms lies the concept of "decoupling" - breaking the link between production and subsidy. Decoupling will give farmers the opportunity to re-connect with their markets, freeing them to produce what consumers want rather than what the subsidy regimes dictate and enabling them to reduce costs by maximising profit rather than production.



- 3 The Common Agricultural Policy reforms are a key development in the delivery of the Strategy for Sustainable Farming and Food which was launched by the Department for Environment, Food and Rural Affairs (the Department) in December 2002. The Strategy sets out a vision of a competitive and efficient farming sector, which protects and enhances the countryside and wider environment, and contributes to the health and prosperity of all communities. The Strategy identifies how industry, consumers and government can work together to create a farming sector which:
 - increases competitiveness within the industry as a route to better profitability;
 - is reconnected with the market, with stronger links throughout the food chain;
 - does not rely on subsidies based on production, but instead ensures that continued public support is used to deliver public benefits; and
 - encourages restructuring for long-term economic and environmental sustainability.

- 4 The transition to a more open, competitive market, allied with new environmental requirements, will be difficult for some farmers and the Department is committed to supporting them through this period of change. The Department has a range of measures to help the industry adapt to the changing environment including the provision of advice, capital grants and where appropriate regulation. In particular, the Department has four schemes whose objectives include helping farm businesses reconnect to the market and become more competitive, diverse and flexible (Figure 1). Three of these schemes are part of the England Rural Development Programme, half of which is funded by the European Union. The Farm Business Advice Service is funded entirely by the United Kingdom government. Some £250 million has been allocated to the four schemes between 2000 and 2006. Farm business support under these schemes is currently on top of subsidies provided under the Common Agricultural Policy. It will remain so once the reforms of the Policy have come into effect.
- 5 The government also provides general help for small businesses, through the Department of Trade and Industry's Small Business Service, the Small Firms Loan Guarantee scheme (not available to farm-based businesses), and other mechanisms. The Department for Environment, Food and Rural Affairs is keen for farm-based businesses to be seen as part of the economic mainstream, and for them to have access to the range of help available to all businesses.

1 The four main Departmental schemes which contribute to farm business development

Rural Enterprise Scheme

The Scheme's coverage is wide-ranging (it implements 10 separate measures under the European Union Rural Development Regulation) but a primary aim is to help farmers adapt to changing markets and develop new business opportunities. The Scheme also has a broader role in supporting the adaptation and development of the rural economy, community, heritage and environment. The Scheme offers grants of up to 50 per cent of costs for commercial projects and up to 100 per cent of costs for non commercial projects. The Department has allocated £146 million to the Scheme between 2000 and 2006.

Processing and Marketing Grant

This scheme is aimed at developing processing and marketing facilities for primary agricultural products to encourage farmers to improve product quality and add value. It is available to individual farmers, processing companies and marketing groups formed of primary producers. However, all projects must benefit primary producers. The scheme offers grants up to £1.2 million. Awards are available for investments over £70,000 and are normally made at a rate of 30 per cent of costs. The Department has allocated £44 million to the Grants between 2000 and 2006.

Vocational Training Scheme

The Scheme aims to improve the occupational skills of farmers and foresters. The Department sees a broader skills base of people involved in agriculture and forestry as a key factor in ensuring greater diversification and competitiveness. The Scheme offers grants of up to 75 per cent of training costs. The Department has allocated £22 million to the Scheme between 2000 and 2006.

Farm Business Advice Service

The Service exists to promote, to full time farmers in particular, the benefits of carrying out a business health check and business action plan and the need to adopt this fundamental business skill. It is aimed at farmers who have not had farm business advice before and who are unsure of the strategic direction their farm business should take. The Service provides up to three days of an adviser's time for free and is open to all registered farmers in England who spend at least 75 per cent of their time working on their core farm business. The Service was originally designed to run from 2000 to 2004, but has been extended to run to 2005. The Department has allocated £36.5 million to the Scheme.

Source: Department for Environment, Food and Rural Affairs

- 6 Farming remains important, although its direct economic significance has been in decline for years:
- Agriculture employs some 530,000 people and is worth some £8 billion a year.
 - Farming and food accounts for nearly 8 per cent of the United Kingdom's gross domestic product and employs nearly 4 million people.
 - Agriculture occupies around 70 per cent of the land area in England and is essential to maintaining the landscape, natural resources and wildlife.
 - It is also important to the prosperity of the rural economy, which contains over 5 million households and employs more than 5 million people.

The Department plans major changes, in part informed by our review

- 7 The Rural Delivery Review (Lord Haskins' Report), published in November 2003, looked at the arrangements for delivering the government's rural policies in England, with a view to making them more effective.¹ The Review recommended significant and wide-ranging changes to modernise the way in which the government delivers rural policy. It set out a vision where rural policies were delivered in a more decentralised way, with key decisions being taken at regional and local levels.
- 8 The Department's Rural Strategy 2004², published in July, responds to the various challenges facing rural England. In particular, it contains the Department's detailed response to the Haskins' Review and sets out actions in response to a number of the issues and recommendations identified by our examination.
- 9 To help deliver its objectives for farm businesses, the Department is also introducing a "Whole Farm Approach" in 2005. Once in place, this Approach will join up all the Department's contacts with farmers, such as those covering payments, regulation and advice.

Our key findings

Independent evaluations of the Department's farm business development schemes suggest a number of areas for development

- 10 The Department commissioned a review of the Farm Business Advice Service in 2002 and, as required by the European Commission, an independent evaluation of the England Rural Development Programme in 2003.³ The main findings from these evaluations relating to the farm business development schemes were:
- In spite of the impact of Foot and Mouth Disease on the initial implementation of the programme, take-up of the Rural Enterprise Scheme, Processing and Marketing Grants and the Vocational Training Scheme at September 2003, roughly the half way point, ranged from 13 to 260 per cent of target levels for the whole Programme period (2000-2006), and take-up is continuing to increase. The proportion of scheme budgets spent ranged from 29 per cent to 50 per cent.

¹ *Rural Delivery Review, A report on the delivery of government policies in rural England, C. Haskins, November 2003.*

² *Rural Strategy 2004, Department for Environment, Food and Rural Affairs, July 2004.*

³ *ADAS and SQW consultants, "The Mid-Term Evaluation of the England Rural Development Programme", 2003 (a copy of the report is available at www.defra.gov.uk/erdp/reviews/midterm/default) and University of Cambridge Rural Business Unit review of the Farm Business Advice Service.*

- Awareness of the Rural Enterprise Scheme was good, but nearly three quarters of farmers did not know about the Vocational Training Scheme or Processing and Marketing Grants. Nearly half of non-participants had not heard of the Farm Business Advice Service. Despite this the Service has often been over subscribed and has met its target of assisting 15,000 farmers.
 - For the Rural Enterprise Scheme, Processing and Marketing Grants and the Vocational Training Scheme, the application and assessment procedures were perceived by some to be complex and to impose costs on applicants. Nevertheless, a survey of successful Rural Enterprise Scheme applicants found that 72 per cent considered the grant claiming process to be reasonably straightforward. In a similar survey, 76 per cent of successful Processing and Marketing Grant applicants rated the administration of the application process to be good or excellent.
 - It is likely that many Processing and Marketing Grant projects would have gone ahead in some form without grant assistance, although on a smaller scale, and some may have simply displaced existing businesses. The majority of projects had involved off-farm processing, and direct farmers' involvement or benefit in these projects had been limited, although indirect benefit (through improved markets for local agricultural production) was an important element in the appraisal process.
 - There was limited evidence so far to suggest that the Rural Enterprise Scheme had been successful at encouraging diversification.
- 11 Some of the issues raised by the evaluations had already been identified by the Department and much work is underway to improve the delivery of the schemes. This includes actions under the Modernising Rural Delivery programme and work underway to improve the delivery of schemes, for example "fast tracking" small scale applications and pre-application clinics.⁴
- 12 To supplement these evaluations, and inform the design of the next generation of farm business support schemes, we examined good practices in other countries from which the Department might learn. In considering such good practices, we did not review all forms of support available for farms in those countries or carry out direct evaluations of support schemes in their entirety. Instead we sought to identify those aspects or features of schemes or initiatives which offered potential lessons for the development of farm businesses in England, drawing on whatever evidence was available about scheme effectiveness. Our reviews do not, therefore, provide a comparison of a country's approach as a whole to farm business development.
- 13 The main lessons from our review are outlined below. More detailed reports on the main countries reviewed - Denmark, France, Germany, Ireland, New Zealand and Sweden - and a separate more detailed summary are available at the National Audit Office website (www.nao.org.uk).

Professional help, known as facilitation, can make it easier for farmers to apply for farm business development schemes

14 One factor hindering the take-up of the schemes is the perceived complexity of the application procedures. The procedures are to an extent necessarily complex, reflecting the need to meet the European Commission's strict funding and reporting requirements. It is also right that the Department should seek the reasonable information it needs to be able to secure the best value for money from public expenditure. We found that some other countries manage to overcome these issues by providing professional advice (known as facilitation) to help farmers' applications, although the way it was provided varied. The Welsh Assembly provides access to all schemes through a single point (Farming Connect), Denmark pays for facilitation through a national, largely private sector Agricultural Advisory Service and Sweden subsidises individual private sector advisers.

Advice and training can be effective ways for farms to develop their business and help reconnect to the market

15 The Department has allocated most of its farm business development budget (79 per cent, nearly £200 million over six years) to two project based schemes, Processing and Marketing Grants and the Rural Enterprise Scheme. The remaining £50 million goes to advice and training. However, while a shortage of capital prevents some farmers from developing their business, many farmers face other, more serious difficulties:

- an inability to identify market opportunities;
- uncertainty about the direction in which to take the business;
- an inability to develop a long term business plan; and
- a reluctance to take an investment risk.

16 We found that the approaches taken in Denmark, France, Germany, Ireland and Sweden focused on addressing these issues. The approaches entailed getting together with farmers to help them identify opportunities; equipping them with the skills to develop these opportunities into viable projects; and giving them the confidence to take them forward. We found such approaches had been taken in Germany (Farmer and Entrepreneur Training), Ireland (the Opportunities for Farm Families Programme) and Sweden (the Laft project). Initiatives such as the pre-application clinics run by the Department's Rural Development Service go some way to address this issue.⁵

A well developed network of farm advisers is important in reaching those farmers who most need help

17 A well developed advisory network is important to any strategy to help farmers adapt. Without such a network, it is difficult to reach the farmers who most need help, difficult to help them identify their opportunities and difficult to direct them into the training needed to exploit these opportunities. In this respect, there were well developed public and private advisory services in Ireland (the National Training, Education and Advisory Service for Agriculture), Denmark (the Danish Agricultural Advisory Service) and Germany (the Advisory Rings). There is no longer a state farm advisory service in England, but the provision of standard small business advice can be delivered through the Department of Trade and Industry's Small Business Service. There may be a need to ensure that this standard advice meets the needs of farm businesses more effectively.

⁵ Rural Strategy 2004, Department for Environment, Food and Rural Affairs, July 2004, paragraph 32.

Support for innovation and loan guarantees offer creative ways to support farm business capital investment

- 18 Although advice and training are vital to helping farmers overcome the obstacles preventing them from adapting, support for capital projects still plays an important part. The Department needs to have a range of options to support businesses with capital investment. We found that other countries offered creative ways to support farmers' development - Denmark (through support for innovation) and the United States (through loan guarantees). In England, farm-based businesses are ineligible for government loan guarantees available to other rural business.

Farm business development schemes need to link to other forms of support available to farmers, such as those for developing the environment

- 19 It is important that different farm business development schemes link well to other forms of assistance to farmers, such as support for protecting the environment, to help them make best use of the support available. We found examples in other countries where there were good connections between the different schemes available. In Wales, almost all farm-based business development assistance is delivered through a single service, Farming Connect. The Swedish Öland initiative is a good example combining business development schemes and agri-environmental issues. Similar approaches have already been trialled in England, for example in Bodmin and Bowland, with positive results.
- 20 Lord Haskins' Rural Delivery Review concluded that bringing economic development together would reduce the number of organisations offering comparable products to customers. The Department is already working more closely with other regional organisations, such as the Regional Development Agencies, to produce integrated targeted strategies.

Farm business development schemes can be more effective if local interests are given a say in their design and operation

- 21 Allowing local interests a say in the design and operation of farm business development schemes is also important. Germany's approach, for example, is more devolved, as might be expected in a federal state; farm development programmes are governed by a national framework, with implementation agreed between the Federal government and the States. Decentralisation is not just characteristic of federal states. In Sweden, for example, rural development objectives are nationally approved but decisions on local activities are devolved to the 21 County Administrative Boards. Decentralisation allows rural development schemes to be better tailored to local circumstances and to generate greater local support.

Assistance to food processing businesses can also help to develop individual farm businesses

- 22 Farm businesses are one part of a supply chain that links to processors, retailers and consumers. Farm business assistance therefore needs to be tied into the development of the food chain as a whole. The Department recognises this with, for example, the *Food Chain Centre*, the *Food from Britain* initiative and *English Food and Farming Partnerships*. We found Germany has introduced a scheme to develop the organic farming sector which combines support to individual farmers, processors, retailers and consumers.



RECOMMENDATIONS

23 Our report looks at the scope to improve the operation of the existing farm business development schemes, which run to 2006, and the next phase of schemes, to run from 2007 to 2013. Our recommendations are consistent with the Department's objective to create a farming sector which is reconnected with the market, environmentally responsible, and part of a viable and diverse rural economy. The recommendations are not intended to suggest that all forms of support should be made available to all farm businesses in the target group; instead we suggest shifting the balance within available funds. In summary, we recommend the Department considers:

- a** Increasing the proportion of the farm business development budget spent on advice to those farm businesses that most need help to adapt, to assist them in identifying business opportunities and reconnect them with their markets (*paragraphs 3.7 to 3.24*);
- b** Ways to make it easier for farmers to apply for support, in particular by ensuring that they can get help where necessary with applications, and by continuing to maximise the common elements in applications to the different schemes (*paragraphs 3.2 to 3.6*);
- c** Merging farm business development schemes for the 2007-2013 programme so that farmers can access them as a single package, whilst recognising any implications for how well the non-farm elements of these schemes are made available to customers (*paragraphs 4.2 to 4.6*);
- d** Widening the types of support available to farm businesses by considering the introduction of a loan guarantee scheme for farm-based businesses (*paragraphs 3.25 to 3.28*);
- e** Encouraging the use of local partnerships to join up agri-environmental initiatives and farm based business development (*paragraphs 4.5 to 4.16*);
- f** Giving farmers and others in the local community a greater role in deciding how farm business development support is delivered, for example by allowing local administrations and forums more influence or authority over how schemes are designed and awarded (*paragraphs 4.7 to 4.16*);

g Switching some support away from individual farms to increase the funds available to wider local initiatives to promote demand, such as processing and marketing operations which provide more direct benefit to a greater number of farm-based businesses, or marketing of quality agricultural produce (*paragraphs 4.17 to 4.19*).

More detailed recommendations are listed in Appendix 1.

24 The Department is already taking forward some of these recommendations in its Rural Strategy 2004.⁶ In particular, the Strategy:

- Recognises that some application processes are seen to be complex. The Department will be streamlining funding and the associated administrative procedures.
- Provides additional funding for business advice and support in economically lagging rural areas.
- Includes proposals to ensure that the support offered by Business Link Operators is valuable and accessible to farmers and to increase the take-up of learning opportunities by rural businesses. These proposals also respond to the Department's Learning Skills and Knowledge Review, published in March 2004.⁷
- Proposes greater devolution of responsibility for rural development, including farm business support, to the Regional Development Agencies and the proposed Integrated Agency, including a number of "pathfinder joint ventures" to pilot mechanisms below regional level to deal with social and economic issues in rural areas, and to link into countryside access and environmental issues.

Other recommendations above will need to be reflected in current work to design the 2007-2013 England Rural Development Programme.

⁶ *Rural Strategy 2004, Department for Environment, Food and Rural Affairs, July 2004. More information about the Department's Modernising Rural Delivery Programme is set out at <http://defraweb.defra.gsi.gov.uk/rural/ruraldelivery/programme/default.htm>.*

⁷ *Learning, Skills and Knowledge Review, Department for Environment, Food and Rural Affairs, February 2004. The Department of Trade and Industry's Small Business Service manages Business Link Operators, a network of advice centres run by local providers for small business around England. Business Link Operators administer the Farm Business Advice Service.*

Part 1

Farm business development support in England

Farming is in transition

- 1.1 Farmers in the United Kingdom currently receive nearly £3 billion a year in subsidies under the Common Agricultural Policy. The reforms to the Policy agreed in June 2003 are the most radical in its history and will mean a major period of change for all farm-based businesses (Figure 2).
- 1.2 At the heart of the reforms lies the concept of "decoupling" - breaking the link between production and subsidy. From 2005, the existing plethora of Common Agricultural Policy subsidy schemes will be rolled into a single payment not linked to either types or levels of production. Initially, payments in England will be based largely on historical production levels. Between 2005 and 2012 payments will move gradually to be based entirely on the number of hectares managed. All payments will be subject to meeting a range of environmental standards.
- 1.3 Breaking the link between subsidy and production will give farmers the opportunity to re-connect with their markets, freeing them to produce what consumers want

rather than what the subsidy regimes dictate, and enabling them to reduce costs by maximising profit rather than production. The new arrangements should:

- Bring economic benefits to the sector: the Department has estimated that on average farm incomes could rise by about 5 per cent compared to 2003 levels.⁸
- Reduce the burden of bureaucracy on farmers: the new single payment should simplify the paperwork required under existing subsidy schemes.
- Deliver environmental benefits: decoupling will both reduce the negative environmental impacts of over-production and, from 2005, will require farmers to meet a range of environmental standards (known as "cross-compliance").
- Redirect subsidy towards wider rural development and environmental objectives (known as "modulation"); modulation will, for the first time, be compulsory across the European Union, shifting funds away from subsidies and towards investment with more direct public benefits.

2 Reform of the Common Agricultural Policy

The Common Agricultural Policy, introduced in 1962, was driven by a strategic need for food security in Europe and led to a deliberate increase in domestic food production and reduced dependence on imports. The key objectives of the Policy are to:

- increase agricultural productivity to ensure a fair standard of living for agricultural producers;
- stabilise markets;
- assure availability of supplies; and
- ensure reasonable prices to consumers.

The main changes to the Policy agreed in 2003 are:

- subsidies to be "decoupled" from production;
- subsidies to be paid in a lump sum each year as a "Single Farm Payment";
- subsidies to be linked to compliance with environmental, health and animal welfare standards (known as "cross-compliance"); and
- a proportion of subsidies to be redirected to fund rural development policy across the European Union ("modulation"); and
- additional rural development options covering new areas.

Source: National Audit Office



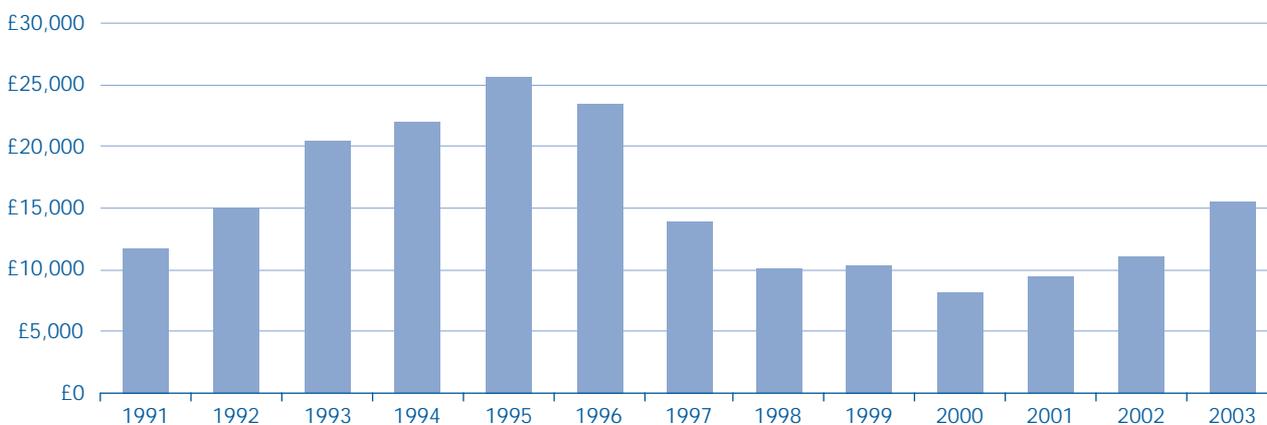
- 1.4 The Common Agricultural Policy reforms will require the farming industry to change, to take advantage of the opportunities opened up and meet its new environmental responsibilities. But this change is unlikely to be easy. The industry has recently gone through an extremely difficult period with, for example, the BSE crisis in 1996 and the Foot and Mouth epidemic in 2001. Farm incomes have fallen sharply since 1995 although there are encouraging signs of improvement. The Total Income from Farming per full time person equivalent in 2003 is estimated to have been some £15,500, an increase of 32 per cent in real terms on the 2002 level (Figure 3). And farm incomes in 2003 rose for the third year in a row. Important factors in determining farm incomes over the next few years are likely to be the Euro-Sterling exchange rate and the implementation of the Common Agricultural Policy reforms.
- 1.5 More generally, after years of dependence on subsidies, many farmers have become unaccustomed to competing in a fully open market. A review of agricultural businesses in 2002 found that while around a third of farmers adapted well to change, most either needed help adapting or were resistant to change (Figure 4).
- 1.6 The key groups needing assistance are the individuals and farm families who operate smaller and intermediate sized farms. Although there are around 303,000 agricultural holdings in the United Kingdom, over 60 per cent of these are run by part-time farmers. For these people, farming is not their only, or even their main, activity. Of the remaining 114,000 full-time farms, 21,000 are large commercial agri-businesses. This leaves

around 93,000 small and medium sized holdings, run largely by individual farmers or farm families.⁹ They are heavily dependent on agriculture and are the most likely to struggle to adapt to the changing environment.

- 1.7 Although farming has been in decline for years, and now employs less than two per cent of the United Kingdom workforce and accounts for less than one per cent of the economy, it remains important. Agriculture still employs some 530,000 people and is worth some £8 billion a year. It plays an important role in the United Kingdom food sector, which accounts for nearly 8 per cent of United Kingdom gross domestic product and employs nearly 4 million people. It is important to the prosperity of the rural economy, which contains over 5 million households and employs more than 5 million people. Above all, agriculture occupies roughly 70 per cent of the land area in England and is essential to maintaining an attractive landscape, keeping natural resources like water and soil in good health, and preserving wildlife habitats.
- 1.8 The Department's objective in its Public Service Agreement for 2003-06 is to "promote sustainable, diverse, modern and adaptable farming through domestic and international actions". The target linked to this objective is to "Deliver more customer-focused, competitive and sustainable food and farming as measured by the increase in agriculture's gross value added per person excluding support payments; and secure Common Agricultural Policy reforms that reduce production-linked support, enabling enhanced European Union funding for environmental conservation and rural development".

3 United Kingdom farm incomes fell sharply after 1995

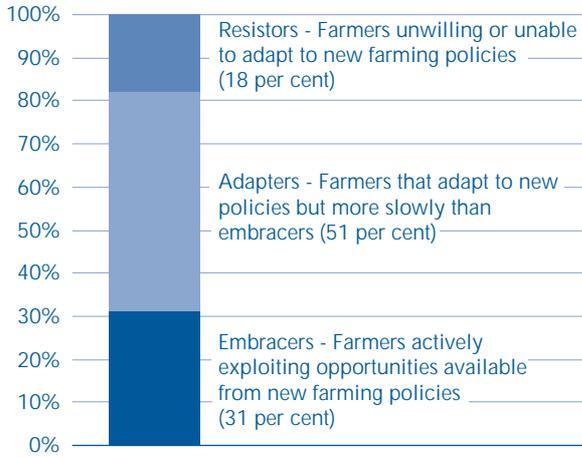
Total income from farming per whole time person equivalent



Source: Department for Environment, Food and Rural Affairs

⁹ Small and medium sized farm businesses are defined as those between 8 and 100 European size units. These units measure the financial potential of a holding in terms of the margins which might be expected from crops and stock. The threshold of eight units is judged to be the minimum for a full-time holding.

4 Around half of farmers react relatively slowly to new farming policies



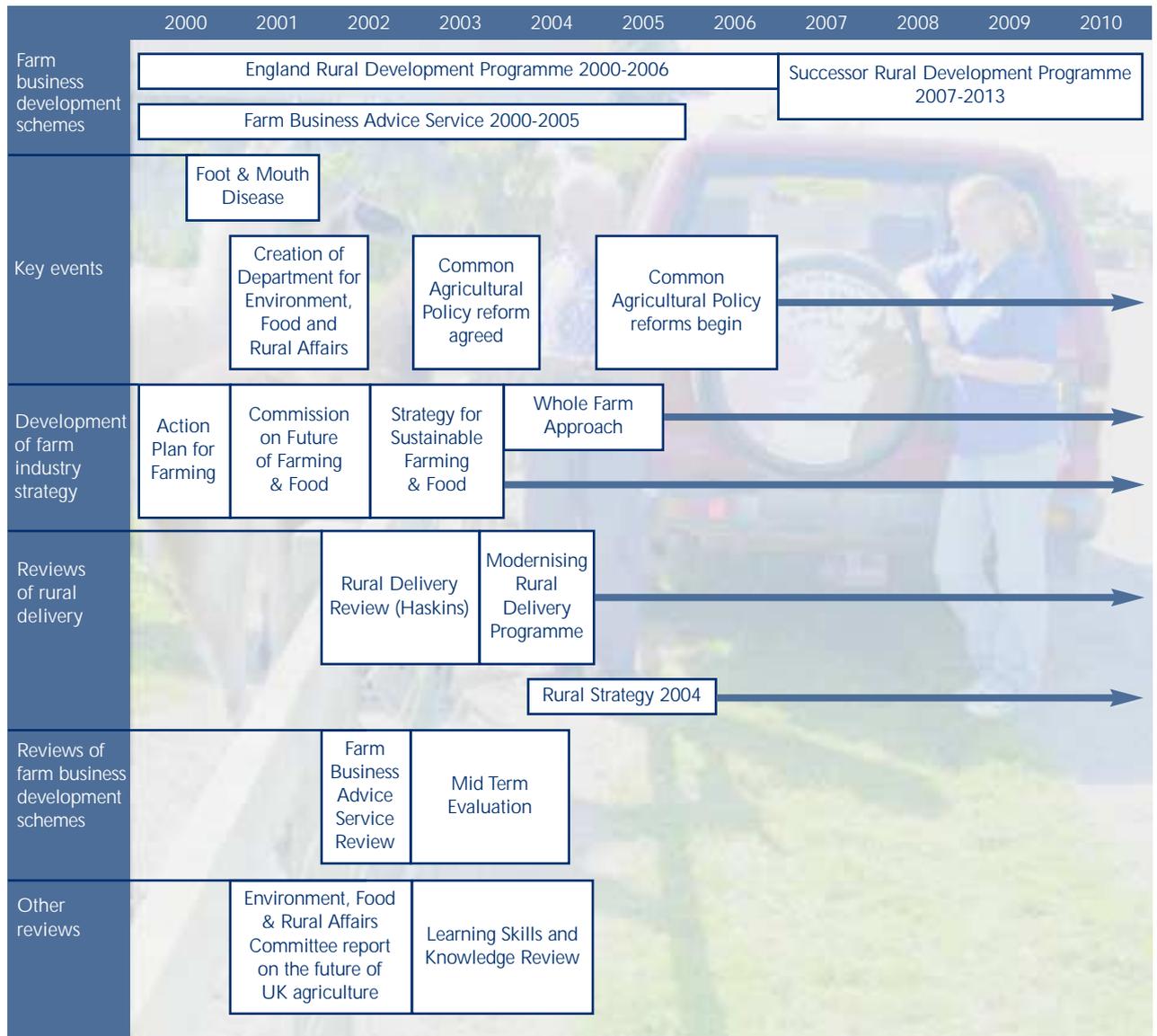
Source: Department for Environment, Food and Rural Affairs

The Department has a strategy for the future of farming and food

1.9 In recent years there have been a number of reviews and developments which have shaped and taken forward the Department's policy towards farm-based businesses (Figure 5). The diagram shows the timescale of these events alongside the development and operation of the Department's schemes to help the farming industry adapt to the changing environment. The events are set out in more detail in the rest of this report.

1.10 Following the effects of the BSE and Foot and Mouth crises on the farming industry, and in preparation for Common Agricultural Policy reform and European Union enlargement, in 2001 the government set up the Policy Commission on the Future of Farming and Food to identify ways in which the farming and food industries should adapt to create a more sustainable

5 Key events affecting the development of farm businesses since 2000



Source: "The future of UK agriculture in a changing world", Environment, Food and Rural Affairs Committee, Ninth Report, 2001-02, November 2002, HC 550-I, p6

future for the sector. The vast majority of recommendations from the Policy Commission's Report are now embedded in the Department's Strategy for Sustainable Farming and Food, launched in December 2002. The Strategy promotes a vision of a competitive and efficient farming sector which protects and enhances the countryside and wider environment, and contributes to the health and prosperity of all communities (Figure 6).

1.11 The Common Agricultural Policy reforms are a key driver and component of the Strategy. The Strategy sets out how industry, consumers and government should work together to create a farming sector which:

- increases competitiveness within the industry as a route to better profitability;
- is reconnected with the market, with stronger links throughout the food chain;
- does not rely on subsidies based on production, but instead ensures that continued public support is used to deliver public benefits; and
- encourages restructuring for long-term economic and environmental sustainability.

1.12 Recognising the difficulties likely to face farm businesses in England, the Department gave early warning that change was on the way. This involved consulting stakeholders about the options for implementing the reform and choosing a seven year period (2005 until 2012) to move the basis of payments from historical production levels to land area. Other initiatives, such as the Learning Skills and Knowledge Programme, are intended to ensure that, for farmers in England, the transition is less painful.¹⁰

1.13 At the end of 2002, the Environment, Food and Rural Affairs Committee produced a report on United Kingdom agriculture which set out the primary role of farming and the conditions for any future interventions in the marketplace (Figure 7).

1.14 Although the experiences of other countries suggest that farmers can adapt without help, they also suggest that unsupported transitions cause significant distress for rural communities (Figure 8).

The Department's Strategy for Sustainable Farming and Food includes a range of schemes to help farmers deal with the transition to a more open and competitive market

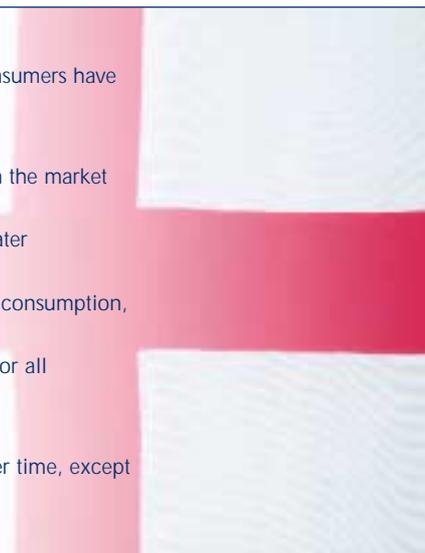
1.15 Within the Strategy for Sustainable Farming and Food, the Department is using a range of measures to help the industry adapt to the changing environment, including the provision of advice, capital grants and where appropriate regulation. In particular, the Department has four schemes designed to help individual farmers to respond better to consumer requirements and become more competitive, diverse and flexible. These are the Rural Enterprise Scheme, Processing and Marketing Grants, the Vocational Training Scheme and the Farm Business Advice Service (Figure 9). More than £250 million has been allocated to these schemes for the period from 2000 to 2006. Farm business support under these schemes is currently on top of subsidies provided under the Common Agricultural Policy. It will remain so once the reforms of the Policy have come into effect.

6 The Strategy for Sustainable Farming and Food

The Department set out the following key principles for sustainable farming and food:

- produce safe, healthy products in response to market demands, and ensure that all consumers have access to nutritious food, and to accurate information about food products;
- support the viability and diversity of rural and urban economies and communities;
- enable viable livelihoods to be made from sustainable land management, both through the market and through payments for public benefits;
- respect and operate within the biological limits of natural resources (especially soil, water and biodiversity);
- achieve consistently high standards of environmental performance by reducing energy consumption, by minimising resource inputs, and use renewable energy wherever possible;
- ensure a safe and hygienic working environment and high social welfare and training for all employees involved in the food chain;
- achieve consistently high standards of animal health and welfare; and
- sustain the resource available for growing food and supplying other public benefits over time, except where alternative land uses are essential to meet other needs of society.

Source: Department for Environment, Food and Rural Affairs



¹⁰ The Learning Skills and Knowledge Programme is a cross cutting initiative led by the Department for Environment, Food and Rural Affairs aimed at helping those running or employed in rural businesses to improve their capacity for delivering sustainable development through their work. The Programme began in November 2002.

7 The Environment, Food and Rural Affairs Committee's view of the primary role of farming and the conditions for future intervention

The Environment, Food and Rural Affairs Committee set out the primary role of farming and the conditions for any future interventions in the marketplace in their 2002 report "*The future of UK agriculture in a changing world*". The Committee's views are reproduced below.

The primary role of farming should be to produce food that consumers want to buy, in an open and competitive marketplace. We believe that any future interventions in the marketplace should be made only when:

- a an assessment has been made of the problem the intervention is addressing, and it has been established whether or not it is a short-term problem or structural issue that is being tackled;
- b the desired outcome of the intervention has been made known, such as to allow an assessment of the effectiveness of the intervention;
- c clear indications have been given about the length of time for which any financial support offered will be available;
- d there is absolute confidence that reform is consistent with our international obligations;
- e they allow for the international competitive environment within which much of United Kingdom agriculture operates - while it is unrealistic to expect every policy instrument to be mirrored elsewhere in the European Union;
- f they are, as far as possible, consistent with fostering an entrepreneurial culture - competition for support and rewards for effectiveness are legitimate features of programmes; and
- g the impact of any intervention on the wider rural economy has been fully taken into account.

Source: "*The future of UK agriculture in a changing world*", Environment, Food and Rural Affairs Committee, Ninth Report, 2001-02, November 2002, HC 550-I, p6

1.16 Processing and Marketing Grants, the Rural Enterprise Scheme and the Vocational Training Scheme are part of the England Rural Development Programme, with half the budget financed by the European Union from Common Agricultural Policy funds under the Rural Development Regulation. The schemes are administered by the Department's Rural Development Service.

1.17 Schemes co-financed under the England Rural Development Programme need to qualify under one or other (or a combination) of the measures set out in the European Union Rural Development Regulation (Council Regulation 1257/99). The Rural Enterprise Scheme, for example, covers 10 measures. However, some of the measures set out in the Regulation - such as those for early retirement, setting up of young farmers, land improvement and land re-parcelling - have not

been used in the England Rural Development Programme. And the "Investment in farm holdings" measure is only used to fund diversification into niche or novel agricultural products, and some energy crops.

1.18 The United Kingdom receives a relatively modest budget for rural development from the European Union. Its allocation, based on its percentage share of spending from 1994-1999, is only 3.5 per cent of the European Union total. This has been supplemented with funds generated through modulation (which cannot, however, be used to support farm business development) and national match funding from the Department's budget to create a more worthwhile funding package. The Government has made it clear that it will argue firmly for a higher share of funding for the United Kingdom over the next programme period.¹¹

8 New Zealand's farming sector is unsubsidised and thriving, although the transition to this point has been difficult

Transition: Government support to New Zealand's farmers has fallen from 35 per cent of the value of agricultural output in 1983 and now stands at 1 per cent. The initial effects of the reforms were severe. The agricultural sector experienced significant losses and many people left farming. Those that remained reduced livestock numbers, minimised inputs and abandoned land. Many rural communities suffered economic downturns.

Recovery: As subsidy levels fell, less profitable sheep farms were replaced with more profitable beef farms. Agricultural productivity grew rapidly. Processing and marketing channels also became more efficient. The value of the agri-food sector has grown by about four per cent a year over the last 15 years, outpacing the national economy.

Outcome: Today, New Zealand has a large, thriving agri-food sector with almost no government support. Agriculture contributes 17 per cent of New Zealand's gross domestic product and employs 13 per cent of the population. About 85 per cent of agricultural production is exported. These exports account for 55 per cent of total exports.

Source: National Audit Office



¹¹ Response to the Report of the Policy Commission on the Future of Farming and Food by HM Government, December 2002, Cm 5709, Response to Recommendation 64.

9 The four main Departmental schemes which contribute to farm business development and examples of farmers who have used them

Rural Enterprise Scheme

The Scheme's coverage is wide-ranging (it implements 10 separate measures under the European Union Rural Development Regulation) but a primary aim is to help farmers adapt to changing markets and develop new business opportunities. The Scheme also has a broader role in supporting the adaptation and development of the rural economy, community, heritage and environment. The Scheme offers grants on a selective basis of up to 50 per cent of costs for commercial projects and up to 100 per cent of costs for non commercial projects. The Department has allocated £146 million to the scheme between 2000 and 2006.

Types of activity funded that might help farms adapt their business:

- **Diversification of agricultural activities to provide alternative incomes** - this could include producing or marketing new or non-mainstream crops or livestock products, or the conversion of agricultural buildings to new non-agricultural uses and non-farming activities on the farm;
- **Marketing of quality agricultural products** - this could include projects to develop quality products to meet market needs, the formation or development of collaborative groups to market quality products, consumer and quality assurance schemes, speciality foods, regional or local branding of foodstuffs.

Processing and Marketing Grant

This scheme is aimed at developing processing and marketing facilities for primary agricultural products to encourage farmers to improve product quality and add value. It is available to individual farmers, processing companies and marketing groups formed of primary producers. However, all projects must benefit primary producers. The scheme offers grants on a selective basis of up to £1.2 million. Awards are available for investments over £70,000 and are normally made at a rate of 30 per cent of costs. The Department has allocated £44 million to the scheme between 2000 and 2006.

Types of activity funded: developing new outlets for agricultural products; improving or rationalising marketing channels or processing procedures; improving the presentation and preparation of products; achieving better use of, or eliminating, by-products or waste; applying new technologies; improving quality; improving health conditions.

Vocational Training Scheme

The Scheme aims to improve the occupational skills of farmers and foresters. The Department sees a broader skills base of people involved in agriculture as a key factor in ensuring greater diversification and competitiveness. The Scheme offers grants on a selective basis of up to 75 per cent of training costs. The Department has allocated £22 million to the Scheme between 2000 and 2006.

Types of training funded: information and communications technology; business skills; marketing; conservation and environment skills; diversification opportunities; managing resources; self and staff management; new ways of working; technical skills; on farm food production and processing skills.

Farm Business Advice Service

The Service exists to promote, to full time farmers in particular, the benefits of carrying out a business health check and business action plan and the need to adopt this fundamental business skill. It is aimed at farmers who have not had farm business advice before and who are unsure of the strategic direction their farm business should take. The Service provides up to three days of an adviser's time for free and is open to all registered farmers in England who spend at least 75 per cent of their time working on their core farm business. The Service was originally designed to run from 2000 to 2004, but has been extended to run to 2005. The Department has allocated £36.5 million to the Scheme.

Types of activity funded: The Service provides one-to-one, basic business advice resulting in the development of an Action Plan suggesting how to take the farm business forward.

Source: National Audit Office

EXAMPLES

Example of a farmer who has successfully used the Rural Enterprise Scheme

Mixed livestock farm, North West England

The farm - is in the Lake District National Park, a few miles from an attractive market town and tourist centre, on a relatively main road. The business has been run as a tenant farm since 1971, and has about 100 hectares plus 720 hectares on fells. There is a dairy herd of 50, a beef herd of 30 and 1,200 sheep on the fells. There is no arable output as the land is unploughable. The farm also has a bed and breakfast business.

Current situation - seen as very poor, especially for milk production.

Options for change - the farmer would emigrate if he were younger, or give up if there was no-one to take on the farm. Changes to farming practice are limited by the nature of the land. The business has diversified into bed and breakfast but the tourist market is very competitive in the area. Planning constraints are a major issue in the National Park. The business had received a Rural Enterprise Scheme grant for converting a camping barn. This was a useful development and the Department's staff were helpful with the application.

Source: National Audit Office

Example of a farmer who has applied for a Processing and Marketing Grant and a grant from the Rural Enterprise Scheme

Arable Farm, South East England

The farm - is in attractive rolling wooded countryside, but not in a major tourist area. Farmed by the family since the 1960s, the business moved out of livestock before the Foot and Mouth Disease crisis as the income was too variable. Since then it has concentrated on arable. The farm operates around 100 hectares, rents a further 190 hectares, contract farms around 160 hectares and harvests a further 400 hectares. The Farm also supplies small bale hay for the horse market.

Current situation - sees farming business as quite precarious and the farmer worries about the future. The farmer has invested heavily in expansion.

Options for change - already aims to get the optimum use out of every part of the land, thus ready to consider other ideas for non-farming diversification as well as further farming improvements. Choices range from down-sizing, to being a part-time farmer, to continuing to expand. The farm already has redundant buildings let for industrial use. The business has several plans in the pipeline: an outdoor leisure facility; introducing a significant area of miscanthus (Caribbean Elephant Grass) with a processing unit; and expanding existing horse facilities. The business has applied for Rural Enterprise Scheme funding and Processing and Marketing Grants. The farmer is using a specialist company to help with these plans and deal with the grant applications.

Source: National Audit Office

1.19 The Farm Business Advice Service is a time-limited (in line with the Environment, Food and Rural Affairs Select Committee's intervention criteria) national state aid to agriculture wholly funded by the Department. It is delivered by Business Links, the delivery arm of the Small Business Service, an agency of the Department of Trade and Industry. For the limited pool of full-time farmers receiving support under this measure, the aid is in addition to European Union commodity subsidies. It was originally due to close in March 2004, but has been extended for a further year. Nationally funded schemes are, by their nature, subject to fewer organisational constraints than those co-funded by Europe.

We focused on good practice in farm business development support in other countries

1.20 Under European Union rules, all Member States had to commission an independent "Mid-Term Evaluation" of their Rural Development Programmes during 2003.¹² The Department also commissioned a review of the Farm Business Advice Service during 2002.¹³ These reviews provided a good evaluation of the schemes' effectiveness and the problems encountered. We therefore focused on international comparisons to identify good practices from which the Department might learn. Against this background, our report covers:

- the Department's response to the issues identified in the evaluations of farm business development schemes in England (Part 2 of this report);
- ways to help develop individual farm businesses (Part 3); and
- ways to make farm business development support more joined up (Part 4).

1.21 In considering good practices in other countries, we did not seek to review all forms of support available for farms in those countries. We instead sought to identify those aspects of schemes or initiatives which offered potential lessons for the development of farm businesses in England. Our reviews did not, therefore, provide a comparison of a country's approach as a whole to farm business development.

¹² ADAS and SQW consultants, "The Mid-Term Evaluation of the England Rural Development Programme", 2003. The report is available at www.defra.gov.uk/erdp/reviews/midterm/default.

¹³ University of Cambridge Rural Business Unit review of the Farm Business Advice Service.

EXAMPLE

Example of a farmer using the Farm Business Advice Service and the Rural Enterprise Scheme

Sheep Farm, North West England

The farm - In an upland area, remote. The farm is tenanted. The husband runs around 300 sheep, and does contract landscaping work. The wife runs a cake making enterprise.

Current situation - Falling income from the core farm business, opportunities to increase the revenue generating potential of non sheep farming activities.

Options for change - Options are restricted by nature of the land, tenancy agreement and participation in environmental enhancement schemes. The Farm Business Advice Service was used to evaluate how the business could be improved. After receipt of the Service it was decided to apply for funding from the Rural Enterprise Scheme and move the cake making enterprise into a refurbished redundant traditional farm building to expand the operation. Expansion of the business has increased local employment opportunities in a remote area and enabled the business to sell to both the wholesale and retail trade.

Source: Department for Environment, Food and Rural Affairs

- 1.22 The approaches we found in other countries were considered to be effective for the problems identified in those locations, given the available funding and organisational structures. It is important to note that the situations, funding and organisations in other countries are not necessarily the same as in England. The good practices identified, therefore, could only be applied in England once these various factors have been taken into account.
- 1.23 General government policy for farm businesses seeks to ensure that they have proper access to mainstream business advice services and entrepreneurial skills training, tailored where appropriate to fit their needs. This report focuses on the responsibilities of the Department for Environment, Food and Rural Affairs in supporting farm businesses. However, it should be noted that the Department is not the only source of government support for farm businesses and a number of other Departments, such as the Department of Trade and Industry, have responsibilities in these areas.
- 1.24 This report draws on a wide range of sources of evidence, including the independent reviews of England Rural Development Programme schemes and the Farm Business Advice Service; our own reviews of scheme documentation and applications; observation of Departmental meetings to approve scheme applications; interviews with Departmental staff; interviews with farmers; written consultations and interviews with stakeholders; and reviews of the experiences of other countries (principally Denmark, France, Germany, Ireland, New Zealand, Sweden and Wales). Our methodology is described in more detail in Appendices 2 and 3. Basic data on the agricultural sectors of the countries we reviewed are set out in Appendix 4. A summary of our interviews with a sample of United Kingdom farmers is given in Appendix 5. More detailed reports on the main countries reviewed (Denmark, France, Germany, Ireland, New Zealand and Sweden) and a separate more detailed summary are available at the National Audit Office website (www.nao.org.uk), along with a more detailed report on our interviews with United Kingdom farmers.
- 1.25 In carrying out our reviews, and in preparing the report generally, we are very grateful for the valuable assistance given by our consultants Dr. Janet Dwyer, of the Countryside and Community Research Unit, University of Gloucestershire, David Baldock, of the Institute for European Environmental Policy, and the rest of their team, and Sue Griffith, Rosalind Tennant and Alison Palmer from NOP.

Part 2

Addressing the issues raised in the evaluations of English farm business development schemes

2.1 This Part of the report summarises the findings of the independent evaluations relating to the farm business development schemes in England and sets out the various Departmental initiatives addressing the issues raised. It covers:

- take-up levels and budget spend;
- application and assessment procedures;
- scheme impact; and
- Departmental action related to the issues raised in the evaluations

Take-up levels and budget spend

2.2 Take-up of the Rural Enterprise Scheme, Processing and Marketing Grants and the Vocational Training Scheme at September 2003 ranged from 13 to 260 per cent of target levels for the whole Programme period (2000-2006) and are continuing to increase (**Figure 10**). Take-up of the Farm Business Advice Service at March 2004 was 101 per cent of the 2004 target. The proportion of scheme budgets spent so far for the Rural Enterprise Scheme, Processing and Marketing Grants and the Vocational Training Scheme ranged from

10 Progress toward scheme targets

Scheme	Target ¹	Progress against target ²	Percentage of budget spent
Rural Enterprise Scheme	Assist 6,000 - 7,000 projects by 2007 4,200 jobs created or sustained	920 grants approved (13 per cent of target) 6,200 jobs created or sustained (148 per cent of target)	29 per cent ³
Processing & Marketing Grants	Assist 370 businesses by 2007 Create 2,200 jobs	110 grants approved (30 per cent of target) 4,500 jobs created (205 per cent of target)	50 per cent ³
Vocational Training Scheme	Run 2,400 training courses/workshops by 2007 Assist 48,000 training days by 2007	6,250 training courses/workshops run (260 per cent of target) 54,800 training days approved (114 per cent of target)	39 per cent ³
Farm Business Advice Service	Assist 15,000 farmers by 2004	15,200 farmers assisted ⁴ (101 per cent of target)	72 per cent ⁵

NOTES

- 1 These figures provide a sample of progress against targets. There are a number of other indicators against which the schemes are assessed.
- 2 Data for the Rural Enterprise Scheme, Processing and Marketing Grants and the Vocational Training Scheme are up to September 2003. Data for the Farm Business Advice Service are up to March 2004.
- 3 Budgets for the Rural Enterprise Scheme, Processing and Marketing Grants and the Vocational Training Scheme were for 2000-2006.
- 4 This figure represents the number of Action Plans completed.
- 5 Percentage of budget spent between October 2000 and March 2004. Budget underspend largely due to a disruption to the programme arising from the FMD outbreak.

29 per cent to 50 per cent. Given the time needed for projects to get up and running and for payments to become claimed, it is likely that proportionately more will be spent in the latter half of the budget period.

2.3 The administration costs of the Rural Enterprise Scheme, Processing and Marketing Grants and the Vocational Training Scheme in 2002-03 ranged from 15 per cent to 46 per cent (Figure 11), although it should be noted that the percentage figures relate to expenditure, rather than to the value of grants allocated in that year. This compared with an average of 19 per cent across the England Rural Development Programme as a whole. The average cost of administering approved grants ranged from £5,200 to £6,200. The schemes are relatively young and costs include promotional work and guidance to applicants. As more awards are approved and lead to payments across subsequent years, the proportion of the scheme budgets spent on administration is likely to fall. Efforts are also underway to reduce costs further through the introduction of a new computer system (Genesis). A condition of the Farm Business Advice Service contract is that the Business Link administrative cost should account for no more than 10 per cent of spend.

2.4 The Mid-Term Evaluation identified some potential obstacles to greater take-up:

- For the Rural Enterprise Scheme and Processing and Marketing Grants, there were inevitably withdrawals and, as the Programme had limited funds at its disposal and the Department aimed to approve the projects that offered the best value for money, rejections. As of June 2003, nearly 20 per cent of applicants to the Rural Enterprise Scheme had withdrawn prior to appraisal and 40 per cent of those who continued to appraisal were rejected. For Processing and Marketing Grants, nearly a quarter of applicants had withdrawn and a quarter of those who

continued to appraisal were rejected. Steps have been taken to address this issue, including the use of pre-application workshops and by piloting an England Rural Development Programme facilitation service in the North West of England using Farm Business Advice Service advisors. An Expression of Interest facility has also been piloted in one region to advise applicants how well their potential project fits with requirements before they embark on the full competitive process, enabling customers to make a more informed decision before proceeding.

- Although a large number of training days had been funded under the Vocational Training Scheme, some training providers had difficulty filling places. The Department has attempted to address this situation by changing some of the Scheme's rules to make it easier for individuals to apply for support such as removing the minimum number of training days and introducing a 'fast-track' application procedure for individual trainees. The blanket exclusion for funding for training required by legislation has also been removed.
- All of these England Rural Development Programme schemes were relatively new, having only been set up in late 2000, and awareness of them was not yet widespread. Surveys of farm-based businesses found that, although awareness of the Rural Enterprise Scheme was good, nearly three quarters of farmers did not know about the Vocational Training Scheme or Processing and Marketing Grants. The Rural Development Service has worked to raise the awareness of these schemes by promoting scheme literature and holding joint workshops covering all three schemes. Nearly half of non-participants had not heard of the Farm Business Advice Service. Despite this the Service has often been over subscribed and has met its service target of assisting 15,000 farmers.

11 Average cost of administering applications and approved grants in 2002-03

Scheme	Running cost of scheme	Running cost proportion of scheme cost	Administration cost cost of each application ¹	Administration cost cost of each grant approved ²	Average grant
Rural Enterprise Scheme	£4.9 million	31 per cent	£2,100	£5,200	£51,100
Processing and Marketing Grants	£0.7 million	15 per cent	£3,000	£6,200	£177,700
Vocational Training Scheme	£1.1 million	46 per cent	£2,600	£5,300	£40,300

NOTES

- 1 Cost calculated by dividing total running cost over the number of eligible applications in Figure 10.
- 2 Cost calculated by dividing total running cost over the number of approved grants in Figure 10.

Source: National Audit Office

- 2.5 Promotion of the schemes was also disrupted by problems outside the Department's control. The outbreak of Foot and Mouth Disease severely disrupted operations during 2001. Farmers may also have been unwilling to apply for schemes until more details of the Common Agricultural Policy reform were announced.
- 2.9 For the Farm Business Advice Service, participants were broadly satisfied with the way it was administered. The assessment covered various aspects of the Service's administration including the speed with which applications were handled, the time taken to be referred to an adviser and the general administration of the Service.

Application and assessment procedures

- 2.6 For the Rural Enterprise Scheme, Processing and Marketing Grants and the Vocational Training Scheme, the application and assessment procedures need to meet both the European Commission's strict funding and reporting requirements, and the Department's desire to secure good value public benefits for the public expenditure invested through sound business plans. To overcome the sometimes daunting nature of the challenge posed to potential applicants, the Department has worked to provide clear information and advice, for example through pre-application clinics which provide information on the grants available, how to apply, sources of information and a business plan template.
- 2.7 The challenging nature of the procedures can impose costs on farmers, although the evaluation of the Rural Enterprise Scheme noted that the comprehensive application process may be beneficial, with some applicants stating that it raised important issues that they might not otherwise have considered. For some schemes, the requirement for a suitable business plan meant that many applicants felt that it was almost essential to employ a professional consultant to deal with the paperwork. For a large application (over £100,000), such as for a Processing and Marketing Grant, this could cost up to £5,000. In such cases, applicants generally recognised the need to pay for professional help. Reasonable costs associated with project development are eligible for funding under the Rural Enterprise Scheme and those costs will be covered by grant for successful applications.
- 2.8 The Department has already taken steps to improve the customer usability of the schemes. A "fast-tracking" procedure has been introduced for small-scale Rural Enterprise Scheme projects and for individual trainee applications to the Vocational Training Scheme. Guidance for the Vocational Training and Rural Enterprise Schemes has also been reviewed to make it more customer friendly, including an expansion of the business planning section to include a new business-planning template. Nevertheless, the Department should continue to investigate ways of improving application procedures as announced in the Rural Strategy 2004.¹⁴

Scheme impact

- 2.10 The Mid-Term Evaluation was based on figures up to the end of 2002. Therefore, some of the recommendations were based on the very early years of the Programme's operation and further progress has now been made. The Evaluation found that some of the Processing and Marketing Grant projects would have gone ahead in some form without grant assistance, and some may have displaced existing businesses. In a survey of the successful applicants, approximately half of respondents said that their projects would have happened anyway, albeit on a smaller scale or longer timescale. Although the scheme's assessment process examines additionality and displacement effects, analyses of a selection of projects suggested that grants may have enabled recipients to expand at the expense of other United Kingdom businesses, and evaluators estimated that this could account for as much as 80 per cent of impacts. However, the Evaluation acknowledges that it was not possible to reach robust conclusions about displacement and deadweight from the research it undertook.
- 2.11 Where the scheme had had an impact, it might not be achieving the expected benefits. Grants under the scheme are dependent on improving the situation of primary producers. Whilst there is positive evidence of this happening in practice (see example below), the evaluation's survey of successful applicants suggested that the majority of projects had involved off-farm processing, that farmers' direct involvement in these projects had been limited and that farmers had not received significant direct financial benefit from them. The Department has, however, pointed out that the scheme's purpose is to improve the situation of the agriculture sector, and that the appraisal process looks for clear evidence of positive impacts on primary producers. More generally, although stimulating innovation is one of the objectives of the scheme, analysis of approved projects suggested that most expanded current activities and few developed or exploited innovative ideas.

¹⁴ Rural Strategy 2004, Department for Environment, Food and Rural Affairs, July 2004, paragraph 35.

EXAMPLE

Example of a successful use of a Processing and Marketing Grant

Crisp making business - Processing and Marketing Grant of £126,000 awarded to convert a potato store into a small scale, high quality crisp factory. The project created 14 full time and nine part time jobs, increasing the profitability of the underlying farm business and providing a premium outlet for local growers of potatoes. The crisps are now sold throughout the country and exports to other countries account for 30 per cent of sales. Annual production of crisps is seven times that originally forecast in the project application.

Source: Department for Environment, Food and Rural Affairs

2.12 The evaluation found limited evidence so far to suggest that the Rural Enterprise Scheme had been successful at encouraging diversification. The evaluation's survey of Scheme recipients suggested that, while most were positive about it, it was unclear whether it was yet having a significant impact on farmers. However, though the scheme is still relatively new, there is evidence of positive outputs such as helping farmers add value to their products and reconnect with consumers.

2.13 The evaluation of the Farm Business Advice Service found that most participants thought it was worthwhile. Some 85 per cent of those that agreed an action plan had either implemented part of it or were planning to do so. The main areas of development were diversification projects (33 per cent) and changed stocking levels (23 per cent).

The Department has various initiatives under way addressing the issues raised in the evaluations of its farm business development schemes

2.14 The Department is taking forward its response to these evaluations in a number of major initiatives which concern and will affect the whole way in which farming and departmental support is to be delivered in future.

“ The grant has allowed this project to proceed at a high level of operation and to establish itself as a viable business from the outset. If launched on a smaller scale, it is doubtful that our firm would have been able to make the impact that it has in the quality beef supply chain. ”

Meat Processor, North East, Rural Enterprise Scheme beneficiary

2.15 The Rural Delivery Review (Lord Haskins' Report), published in November 2003, looked at the arrangements for delivering the government's rural policies in England, with a view to making them more effective.¹⁵ The Review recommended significant and wide-ranging changes to modernise the way in which the Government delivers rural policy. It set out a vision where rural policies were delivered in a more decentralised way, with clearer lines of accountability and with key decisions being taken at regional and local levels. In particular the Review recommended that funding for rural businesses should be simplified and delivery, advice and assistance to rural businesses located more closely within the regional economic context.

2.16 The Department has also reviewed rural funding schemes with the aim of:

- reducing the number of schemes and simplifying administrative arrangements;
- improving value for taxpayers' money;
- charting how to devolve funding programmes regionally and locally; and
- ensuring that funding is aimed at the Department's strategic objectives.

- 2.17 In July 2004, partly as a result of these initiatives and the results of our review, the Department announced its Rural Strategy 2004, which has the following new elements relating to support for farm businesses:
- The present 100 or so rural, agricultural and environmental funding schemes will be replaced by a framework with three major funding programmes linked to strategic priorities, to remove unnecessary rules and simplify application processes.
 - An extra £2 million into the Business Link network, to improve support and assistance to businesses especially in lagging rural areas, including agricultural businesses and businesses diversifying from agriculture - to help them through the existing maze of services and grants that are available.
 - More devolution of decision-making and funding for economic and social regeneration to the Regional Development Agencies, increasing the funding the Department provides to the Agencies from £45 million to £72 million in 2005-06. Regional Development Agencies will be expected to promote sustainable development across government and the country as a whole. In addition they should ensure productivity measures support rural areas, contribute to a customer-focused, competitive and sustainable farming and food industry, and contribute to improving the accessibility of services for rural people.
- 2.18 The Department's Strategy for Sustainable Farming and Food emphasised the importance of a "Whole Farm Approach" to consider business practices, husbandry and sustainability as a whole and so improve standards. The Approach is designed to encourage participation in Farm Assurance schemes, bring farmers closer to markets and stimulate improvements in on-farm practices to reduce adverse social or environmental impacts of farming. The Approach, which starts with a self-assessment process, is due to begin in 2005 and be fully in place by 2007. Benefits to the development of farm businesses are likely to include:
- an on-line opportunity to check and update information already held by the Department;
 - promotion of good practice in farming operations; and
 - better data for farm business planning.
- 2.19 Within the context of these developments, the Department is considering the Mid-Term Evaluation's recommendations to determine what lessons can be learnt and what future adaptations, if any, should be made to the implementation of the existing Programme to ensure customer benefits and achievement of Programme objectives. This work will build on the outcome of the funding streams' review commissioned in response to the Haskins' report. As referred to above, much work is already underway to improve the administration and accessibility of the existing schemes. The findings of the Evaluation will also feed into discussions on the 2007-2013 successors to the England Rural Development Programme schemes.



Part 3

Improving the development of individual farm businesses

3.1 This Part examines experiences from other countries which might allow the Department to improve the way it helps individual farm business manage the transition to a more open and competitive market. It covers:

- helping people apply for farm business development schemes;
- using advice and training to tackle the problems facing farmers;
- the role of advisory networks in helping farmers adapt; and
- allowing flexibility in the support of capital projects.

Farm businesses often need help when they apply for schemes

3.2 As noted above (paragraphs 2.6 and 2.7), the application and assessment procedures for the Rural Enterprise Scheme, Processing and Marketing Grants and the Vocational Training Scheme can be complex. The complexity of producing business plans may be deterring some from applying for assistance. Nevertheless, the Mid-Term Evaluation of the Rural Enterprise Scheme noted that the comprehensive application process may be beneficial as some applicants stated that it raised issues that they might not otherwise have considered. The stakeholders we consulted told us that applications to the schemes were bureaucratic, complex and time consuming (**Figure 12**).

12 Farmers' views of the barriers to applying for the schemes

We spoke to a small group of farmers about their experiences in applying for the Department's farm business development schemes. They identified barriers to applying to the schemes as including:

- the complexity of the application process;
- a belief that limited availability might mean a wasted application; and
- concerns about deadlines, both in applying and in completion of any work necessary to get the grant.

“ I've seen the paperwork about so many schemes and it looks quite long and complicated and very strict, and 'ifs' and 'buts' and 'maybes' and if you do this you can't have that... Likely to be some little, tiny criterion near the end that blows it all out. ”

Arable farmer, North East England

“ You have to put such a complicated scheme forward to justify getting these grants and it ends up costing you money at the end of the day - you're paying for the grant. ”

Dairy farmer, North West England

“ It was very helpful. ”

Farmer attending Departmental workshop to help applicants understand the information required to support a grant application

“ It was hard work but satisfying that it was all our own effort which had proved successful. ”

Grant applicant's comment on the application and preparation of a business plan

Source: National Audit Office and Department for Environment, Food and Rural Affairs (more details are in Appendix 5)

The Department has attempted to improve the situation by, for example, simplifying Vocational Training Scheme applications and introducing a fast track application procedure for both the Rural Enterprise and Vocational Training Schemes. New more customer-friendly scheme literature is about to be printed which, for the Rural Enterprise Scheme, will provide more guidance on business planning. As stated in Rural Strategy 2004, the Department is also making available funding and working with a number of partner organisations to ensure that business advice and support meets the needs of rural businesses.¹⁶

- 3.3 Wales, Denmark and Sweden attempt to overcome the issue of scheme complexity by using professional advisers at all stages of the application process (known as facilitation). The Welsh Assembly's Farming Connect service provides a single point of advice and support and has this approach at the heart of its service (Figure 13). The Assembly spent some £9 million on Farming Connect in 2003-04, a little less than 10 per cent of its total expenditure on the agriculture sector in Wales (excluding direct subsidies).
- 3.4 Our interviews with staff, stakeholders and participants suggested that Farming Connect functions well, with high take-up levels and significant numbers of farmers in Wales receiving help. It appears to be an effective way of making sure that farm business development assistance reaches the farmers who need it most, helping them through the process, and ensuring that they receive all the assistance that they need to adapt their holdings.
- 3.5 We found that professional facilitation was seen as even more important in countries with fragmented rural development schemes, because it was one way that different schemes could be joined up, despite the need to deal with a number of different processes. Denmark, for example, regards support for applicants in the pre-proposal phase as critical to the success of some of its more complex schemes (Figure 14).

- 3.6 Professional facilitation is also extensively used in Sweden (Figure 15). This provision of professional advice appears to be an effective way of ensuring that the complexity of scheme processes does not inhibit farmers from accessing support that they need to adapt.

Advice and training are good ways to help tackle the problems facing farmers

In England the Department spends most of the funding available on grant schemes

- 3.7 The Department has allocated most of the funding available (79 per cent, nearly £200 million) to its two main grants schemes, Processing and Marketing Grants and the Rural Enterprise Scheme (Figure 16). The remaining £50 million goes to advice and training schemes.
- 3.8 However, while a shortage of capital prevents some farmers from developing their business, many farmers face other, more serious difficulties. Although some find it relatively easy to identify market opportunities and develop corresponding business plans, many farmers are uncertain about the direction in which to take their business, lack the skills to develop long term business plans or are reluctant to take the associated investment risk. Developing a new venture will require a culture change for many farmers. As the Curry Commission concluded, "Farmers need - as some have already done - to rediscover their businessman's mind, their marketing skills and their eye for new opportunities".¹⁷

“ You need *ideas* - that's why you had a careers master at school ”

Arable farmer, South East

13 Farming Connect, in Wales, provides a single point of advice and support which helps farmers apply for grants

Approach: A service centre deals with initial enquiries and puts farmers in contact with a farm business adviser. The adviser helps the farmer prepare a "farm business development plan" and identify available grants and training needs. An appropriate training provider will then contact the farmer. At this stage, the farmer is eligible to apply for grant aids - mainly Farm Improvement Grants and Farm Enterprise Grants for diversification.

Outcomes: Of approximately 20,000 full time farmers in Wales, over 6,000 have registered with Farming Connect. Over 2,800 have prepared Farm Business Development Plans. Most have received training - over 1,600 have taken information technology courses. And nearly 1,200 have been awarded grants to improve their businesses, with 98 per cent of applications being successful.

Source: National Audit Office



¹⁶ Rural Strategy 2004, Department for Environment, Food and Rural Affairs, July 2004, paragraphs 20 to 22 and 32.

¹⁷ "Farming & Food a sustainable future", Report of the Policy Commission on the Future of Farming and Food, January 2002, page 20.

14 Denmark provides professional help for applicants to its innovation scheme to make it easier for farmers to apply

Rationale: In the early stages of the Danish innovation programme, it became clear that problems, such as budgeting and form-filling, were stopping farmers from applying.¹ The Danish Agricultural Advisory Service provides advice, often on-site, to help potential applicants prepare and submit applications for grants.² The total cost of the Service is some €210 million (£140 million) a year, of which some 12 per cent is met by the Danish Government.

Outcome: In 2002, the Advisory Service helped approximately 40 per cent of applicants to the innovation programme. The success rate for these applicants was 66 per cent, compared to 45 per cent for other applicants.

Future development: At present, the facilitation service stops when an applicant submits a proposal to the government. However, the success of the service has been such that the Ministry is planning to help successful applicants with project management, although it is likely that farmers will have to pay for this service.

Examples of projects assisted

Video controlled weeding - The project developed techniques using video cameras to control mechanical weeding.

Animal welfare in pig stables - Experiments with stable systems allowing sows and piglets to move around freely. The project focused on giving the piglets opportunities to hide to avoid the high mortality caused by the sows lying on the piglets.

Row size in wheat - Experiments with different size of rows in wheat crop to see the effects in relation to weed control and on protein content and yield depression.

Cheese from water buffalo milk - Support for establishing the production of cheese from water buffalo milk.

Animal welfare in free-range pig systems - Experiments with plastic mats to improve the climate in free-range pig huts.

NOTE

- 1 The innovation programme aims to enhance research and development in the agri-food sector.
- 2 Dansk Landbrugsrådgivning Landscentret.

Source: National Audit Office

15 Sweden provides professional help for scheme applicants to overcome the complex requirements of the schemes

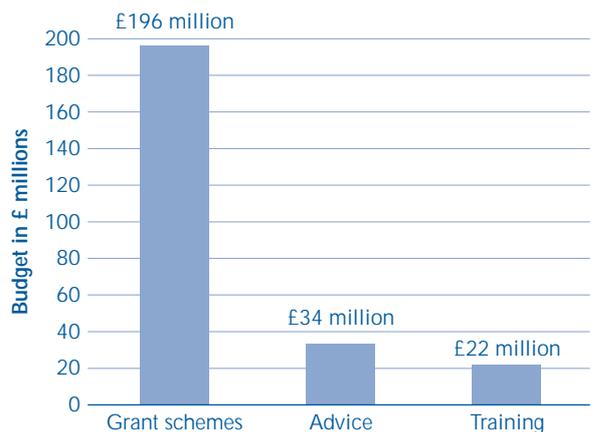
Rationale: Sweden has a large number of different farm support schemes, many with relatively complex requirements. To help farmers apply for schemes, some local authorities pay for professional advice about the grant process.

Example: The Södermanland County Board has employed two advisers, from the local Agricultural Society and the National Farmers Union's consultancy company, to act as "rural development catalysts". They have acted as a first contact for farmers interested in getting government support to develop a project, and they help the farmer to apply.

Outcome: The "rural development catalysts" are considered to have been successful in improving accessibility to the schemes because they come from established organisations that the farmers trust and because they can provide individual advice to farmers.

Source: National Audit Office

16 Most of the Department's farm-based business development budget goes on capital grant schemes



Source: Department for Environment, Food and Rural Affairs

3.9 We spoke to a small group of farmers about their experiences in developing their business. They identified a range of barriers to diversification (Figure 17).

17 Farmers' views of the barriers to diversification

Barriers to diversifying farming activities, such as different types of crop or livestock:

- lack of time: farmers are fully occupied already, and labour is expensive;
- the time and the land required would reduce other farm activities, with perhaps questionable benefits in returns;
- changes are hampered by the uncertainties surrounding Common Agricultural Policy reform;
- risks are high if a change goes wrong; and
- adding value by processing and marketing is seen as difficult, time consuming and risky - it might be more appropriate for a co-operative venture.

Barriers to diversifying into non-farming activities, such as holiday property, restaurants or haulage:

- shortages of time and labour;
- unwillingness to make significant investment;
- doubts about making ventures profitable or better value for money than investing in farming activities;
- lack of skills or experience in a potential new area;
- resistance to having strangers on the farm, for tourism or leisure activities; and
- being a tenant makes it difficult to take the necessary longer-term view since there is usually a three year Farm Business Tenancy.

Source: National Audit Office (more details in Appendix 5)

3.10 A well thought through plan is a vital part of an effective business proposal, but developing one is not easy. Grant schemes assume that the farmer already has the ability to formulate a suitable business plan and the willingness to take the risks associated with carrying it out. Such schemes are consequently unlikely to be effective in themselves in promoting *widespread* adaptation within the sector. They may, however, be effective in helping individual projects which generate wider public benefits, and which can be used as examples of the sorts of ways in which other farm businesses might consider diversifying.

3.12 Many of the other European countries we looked at have made extensive use of this type of approach and found it an effective way of stimulating change in their farming sectors. It is particularly common in Scandinavian countries, such as Sweden, which have long traditions of investing in education and training. However, it is also widely used elsewhere, such as in Germany and Ireland.

18 Advice and training are as important ingredients as finance in supporting the development or adaptation of a farm-based business

Advice and training can be more effective ways of tackling these problems

3.11 To be effective, intervention needs to take place earlier in the process, helping those farmers who struggle to identify opportunities and develop business plans to overcome these hurdles. This suggests the Department should shift resources away from grant schemes and put greater emphasis on developing the entrepreneurial capacity of farmers by investing in awareness-raising, advice and training, as well as strengthening farmers' networks (See Figure 18).

“ It's a frightening thing to invest in farming at the moment because there doesn't seem to be a clear way forward for anybody ”

Poultry farmer, South East



Source: National Audit Office

Examples from Sweden, Germany and Ireland show how advice and training can help farmers adapt

3.13 Sweden is a good example of the use of advice and training to help farmers adapt. Swedish agriculture was heavily subsidised until the early 1990s, when the Government withdrew support. To help farmers with the transition, the Government launched and funded an ambitious "restructuring programme". Central to this was business training for farmers. This included courses in change management, starting a business, business leadership, marketing, and business law, as well as more traditional courses covering areas such as tourism, small scale food processing and forestry (see Figure 19). Many of the key developments which define farm-based businesses in Sweden today - a strong emphasis on branded products, direct selling through farmers' markets and diversification into farm accommodation - stem from this period. Once Sweden joined the European Union in 1995 farmers became eligible for subsidies under the Common Agricultural Policy and the programme was ended as it was no longer considered necessary.

3.14 Germany uses a similar approach to help farmers adapt, most notably through its Farmer and Entrepreneur Training programme (See Figure 20). The programme aims to build up farmers' business skills and foster more entrepreneurial attitudes. Farmers are taught how to evaluate their business, identify opportunities and develop a strategy to exploit these, as well as how to develop business partnerships. The programme appears to have been effective in stimulating adaptation.

3.15 Attending the programme costs the participant around €720 (about £475). The Andreas Hermes Academy, which operates the programme, runs some 900 courses a year covering some 10,000 participants. The total cost of the programme is around £6 million a year. The programme is mainly funded from participants' fees. The remainder, about £1.2 million, comes from the European Social Fund and the German Rentenbank. The programme receives no funding from the German government.

19 The Laft project in Sweden stimulated entrepreneurship among farmers through training in business management¹

Approach: The Laft project attempted to stimulate entrepreneurship among farmers to encourage self-sustaining rural development. All participants had to be either planning or running a new business venture. They were given training to develop business management skills, foster confidence and generate ideas. The Swedish University of Agricultural Sciences ran the Laft project over a period of five years in the early 1990s with support from the Swedish restructuring programme.

Outcome: Project evaluation found that most of those going through the programme had higher levels of self-confidence, more competence in business planning and more entrepreneurial attitudes.²

NOTE

- 1 Strategier för lantbruksföretagets anpassning och tillväxt: alternativ för framgång inom traditionella och nya områden.
- 2 Evaluation by Gustav Olsson and Erik Fahlbeck, Department of Economics, Swedish University of Agricultural Sciences, 2003, for the National Audit Office.

Source: National Audit Office

20 Farmer and Entrepreneur Training in Germany seeks to develop farmers' business skills and networks¹

Approach: The programme seeks to develop farmers' management concepts, as far as possible independently. Trainers provide only guidance and support. The programme is also used to build networks between participants as a basis for future collaboration. Groups remain active for two years after the end of the formal seminars and a coach is assigned to support them.

Outcome: Participants report that they understand their position better, can make decisions more rationally and have more self-confidence. Studies have found that they have been more successful at realising their plans and have gone on to tackle larger projects, often using contacts that they developed during the programme.

NOTE

- 1 Bauern und Unternehmer Schulung.
- 2 Evaluation by Gust Karlheinz Knickel (IfLS Frankfurt/Main) and Andreas Pölking (agroplan, Wolfenbüttel), 2003, for the National Audit Office.

Source: National Audit Office

3.16 Ireland makes extensive use of advice and training to foster adaptation, primarily through the Irish Farm Families Programme. This Programme is targeted at smaller family farms which are in difficulty. It aims to help the farm family as a whole take a realistic look at its position, explore the options available and identify the best way to improve its income. The Programme is run and funded by the Irish National Training, Education and Advisory Service for Agriculture, Food and Rural Development (*Teagasc*). *Teagasc* costs some €150 million (around £100 million) a year to run, around 80 per cent of which is publicly funded. The Programme aims to help some 21,000 farmers between 2004 and 2008. *Teagasc* estimates the cost of the Programme to be some €2 million (around £1.3 million) a year, a cost of €500 (around £330) for each participating farm family. The Programme's approach is seen as an effective way of ensuring that struggling farm businesses get the help they need to develop (See Figure 21).

Advisory services can be a valuable source of guidance to help farm businesses adapt

European Union Member States need a Farm Advisory System in place by the start of 2007

- 3.17 A well developed advisory network is important to any strategy to help farmers adapt. Without such a network, it is difficult to reach the farmers who most need help, difficult to help them identify their opportunities and difficult to direct them into the training needed to exploit these opportunities.
- 3.18 The UK had a national advisory service, the Agricultural Development and Advisory Service (ADAS), until its privatisation in 1997. Although there is now no longer a

national advisory service, there are various alternative sources of advice for farmers. The Department supports the Farm Business Advice Service and some free environmental advice. Environmental advice is also available from a number of other public sector sources in connection with specific local initiatives; for example, the Forestry Commission provides advice to farmers on woodland management. Finally, there is a range of private sector provision which is largely production oriented.

- 3.19 However, these services provide limited support to farmers and are poorly linked. The Curry Commission concluded that "we do not think that the current approach to farm advisory services meets the needs of farmers now, or will adequately prepare the industry for the challenges and opportunities of a reformed Common Agricultural Policy. The lack of advice is also hampering effective delivery of the Government's environmental and rural development objectives".¹⁸ The National Farmers' Union told us the lack of an advisory service after ADAS's privatisation created "a black hole in the middle of the government's change agenda".
- 3.20 European Union Member States are required to have a Farm Advisory System in place by 1 January 2007 to help farmers meet the cross-compliance requirements of the Common Agricultural Policy reforms. To help meet this requirement, the Department is piloting the Whole Farm Approach (see paragraph 2.18). The longer-term vision is to give a farmer on-line access to the full range of Departmental services from 2007. It will enable farmers to benchmark their performance against a representative peer group and provide access to targeted on-line advice. The Farm Advisory System will also contain elements of face-to-face advice available to farmers. How best to deliver such advice is at an early stage of planning within the Department.

21 The Opportunities for Farm Families Programme in Ireland seeks out smaller family farms in difficulty to help them develop their business

Approach: The Programme is unusually pro-active, with cold-calling on farms identified as needing assistance. The first stage of the Programme provides the farm family with one to one advice and participation in a series of sessions with other farm families. This helps them understand their current position and explore their options. The second stage analyses the suggested development route, focusing on the financial, physical and social implications of the measures being considered. In the final stage, families get both one to one advice and specially developed training to help them implement their Action Plan. The Programme is run by the Irish National Training, Education and Advisory Service for Agriculture, Food and Rural Development (*Teagasc*).

Outcome: Although resource intensive, particularly as it has proved difficult to get some farmers to accept the need to change, evaluation of the Programme has shown that it is an effective means of transferring skills and encouraging farmers to adapt.¹

NOTE

1 Evaluation by Collier-Broderick Management Consultants, Dublin, 2003, for the National Audit Office.

Source: National Audit Office

3.21 The Department is aware of the need to improve advisory services to farm businesses. Its Learning, Skills and Knowledge Review confirmed the Curry Commission's view that advice services needed to be better co-ordinated. The Haskins' Review recommended that the Department should accelerate the development of the Whole Farm Approach to provide, among other things, better advice to businesses.¹⁹ In advance of the introduction of the Whole Farm Approach, and the Farm Advisory System, the Department is seeking to rationalize the different forms of publicly-funded advice to farmers and improve the co-ordination of delivery by different agencies.

Ireland, Denmark and Germany have comprehensive advisory services

3.22 Ireland, Denmark and Germany have well developed advisory networks. These take different forms. The role that Irish National Training, Education and Advisory Service for Agriculture, Food and Rural Development plays in fostering the development of farm-based businesses suggests how useful such services can be (Figure 22). However, such traditional services are also expensive. The Service's annual budget is over £100 million, nearly 80 per cent of which comes from the state.

22 The Irish National Training, Education and Advisory Service for Agriculture, Food and Rural Development is a good example of a traditional, state run, extension and advisory service¹

The Service employs 1,660 staff. Its budget is some £100 million (€150 million) a year, around 80 per cent of which is publicly funded. The total budget represents a cost of around £700 (€1,100) per farmer. The Service's main functions include:

- Advisory services for commercial farmers (the Technology and Business Service) and for smaller or part-time farmers (the Rural Viability Programme).
- Facilitated discussion groups to enable farmers to learn from each other, stimulate ideas and foster business partnerships.
- A network of 120 "monitor farms" to demonstrate good practice.
- Accredited training courses for farmers covering farming and wider issues (e.g. tourism).
- The Opportunities for Farm Families Programme (see Figure 21).

NOTE

1 Teagasc.

Source: National Audit Office

3.23 At the other end of the spectrum, some countries rely on private, co-operative bodies to provide advice. Denmark is a good example of this, with an advisory service that is owned by its farmer associations, but covers the majority of farmers (See Figure 23). The main advantage of the Danish model is that, while its size and central organisation ensures co-ordination and cost-efficiency - the service has an 80 per cent share of the market for farm advice - farmers tend to have greater trust and confidence in the service because of its "grass roots" character. However, to work, this type of system needs strong farmer associations, a tradition of co-operatives and a strong culture among farmers of using advisory services.

3.24 Between these types, we found some countries, while moving away from state funded advisory services, had retained some government influence over the resulting private sector provision. For example, although most German states have largely privatised their advisory services over the last 10 years, several have retained close links with the resulting private companies. This mixed approach seems to preserve many of the advantages of a traditional service without the high cost (See Figure 24).

23 The Danish Agricultural Advisory Service is a good example of a privately run national advisory service¹

Structure: The Danish Advisory Service is jointly owned and managed by the Danish Farmers' Union and Danish Family Farmers' Association, which represent around 95 per cent of Danish farmers. State subsidies account for about 12 per cent of its budget, and the rest is provided by charging farmers for the services they receive. The Service's National Centre cost some €60 million (£40 million) in 2002, and local centres some €150 million (£100 million). The total cost represents around €4,100 (£2,700) per farmer.

Services: The Service has a national centre, which conducts research and development, and approximately 60 local centres, which service farmers. They provide individualised advice and training courses covering issues such as the use of computer, farm bookkeeping, soil sampling, crop planning and herd management.

NOTE

1 Dansk Landbrugsrådgivning Landscentret.

Source: National Audit Office

24 Advisory Rings in Lower Saxony are a good example of a partially privatised advice service with close links to the state¹

Approach: Advisory Rings in Lower Saxony are part of a partially privatised advisory service. Advisory Rings are part of a national grouping of independent advisory associations. They are paid for by membership subscriptions, with some state funding. The Lower Saxony Ring has 250 advisers, each supporting up to 150 farmers. Ring advisers undergo six weeks of formal training and serve a one year apprenticeship under an experienced adviser. The Ministry of Agriculture retains close ties with the Rings, particularly through training and accreditation.

Outcome: The Ring has a dominant share of the market - approximately 75 per cent of full-time farms in Lower Saxony - while the state has retained an instrument to steer farmers in the direction it wants.

NOTE

1 Beratungsringe.

Source: National Audit Office



Farm businesses' capital projects sometimes require more flexible forms of support

3.25 Although advice and training are vital to helping farmers overcome the obstacles preventing them from adapting, support for capital projects still plays an important part. While some farmers have surplus capital, or sufficient assets to obtain commercial credit, many have problems raising the money to pay for farm improvements or diversification. This difficulty applies particularly to tenant farmers, who often face problems securing credit because they do not have the assets on which to secure a loan. Other farmers are simply reluctant to change, or are risk averse and need incentives to adapt. If advice and training help farm businesses develop innovative strategies for future growth, the Department needs to have a range of options to support these businesses with capital investment.

Denmark uses grants early in the decision making process to support emerging entrepreneurs

3.26 In Denmark innovation is seen as so important to improving the productivity of the agricultural sector that, in 2000, the government switched the focus of its national farm improvement programme to providing financial support to businesses developing innovative projects (see Figure 25). In England, the Rural Enterprise Scheme offers support at up to 50 per cent for feasibility studies related to potential projects.

The United States provides loan guarantees to help farmers adapt

3.27 In the United States the Farm Service Agency offers a wide range of supervised loan guarantees to farmers who are unable to obtain commercial credit. The programme is designed to help applicants enter farming or recover their commercial viability (Figure 26).

3.28 Although loan guarantees can expose Departments to greater risks, they can have considerable advantages over grants. Loan guarantees can stimulate greater private investment than grants. Money that might fund one grant to a farmer, producing a relatively small matching investment on their part, could, as a loan guarantee, enable several farmers to get commercial credit. Loan guarantees also avoid some of the negative side effects of grants. While grants can perpetuate a culture of dependency, and distort market imperatives, loans can help promote a more entrepreneurial culture. Other departments, such as the Department of Trade and Industry, have introduced such an instrument, the Small Firms Loan Guarantee scheme, to support small businesses. However, state aid restrictions mean that this scheme may not be used for projects involving the production, marketing and processing of agricultural products; although other diversification opportunities for farm-based businesses are in principle eligible. Insofar as state aid restrictions allow, the Department for Environment, Food and Rural Affairs might consider introducing a loan guarantee scheme for farming and food projects.

25 Denmark provides support to encourage new farming approaches and stimulate agricultural improvements

Approach: The Danish Innovation Law offers 50 per cent support for early stage feasibility studies, market research, external consultants' fees, marketing and training.¹ It does not support investment in fixed assets. It is given only to the first enterprise to use a new process or introduce a new product. Farmers or small and medium sized enterprises must be involved in projects for them to be eligible. In 2002, the government provided some £6.7 million (€10 million) to support some 110 projects.

Outcome: Although the scheme is relatively small - the annual spend is around 10 per cent of the Danish rural development budget - most stakeholders believe that it has played an important role in stimulating the development of the agricultural sector.

Example: A dairy farm introduced seasonal calving based on principles from New Zealand. The farm received Innovation Law funding to build new cattle housing and support facilities. This allows more milk to be produced in August, when the milk price is highest. Work can also be planned better, allowing the farmer to go on holiday.

NOTE

1 Innovationsloven.

Source: National Audit Office

26 The United States Loan Guarantee Programme provides support to farmers who are unable to get commercial credit

Approach: The United States Farm Service Agency offers a variety of loan guarantees to farmers. Farm Ownership Loans can be used to purchase farmland, develop farmland and construct facilities. Operating loans help farmers to purchase livestock, farm equipment and consumables such as feed, seed and pesticides. New entrant loans help incoming farmers to purchase farmland. At September 2000, 138,000 farmers had loans worth £9.2 billion (\$16.6 billion) under the programme as a whole. The Agency has encountered some problems with loan defaulting (some £1.2 billion (\$2.1 billion) of the total loaned is owed by farmers who are having problems repaying).

Operation: Although commercial lenders administer the loans, the Agency guarantees up to 90 per cent of the principal. It can also subsidise the interest rate for farmers unable to repay at commercial levels. The Agency gives borrowers considerable support, including farm and financial training, credit counselling and credit supervision.

Source: United States General Accounting Office, Farm Service Agency Updated Status of the Multibillion-Dollar Farm Loan Portfolio, GAO-01-202, January 2001



Part 4

Making farm business support more joined up

4.1 This Part examines experiences from other countries which might allow the Department to make its farm business development support more joined up and thus effective. It covers:

- delivering farm aid schemes as a package rather than a set of individual measures;
- tailoring schemes to take account of local interests; and
- tying assistance to farmers into the development of the food chain as a whole.

Business development schemes can be linked with other forms of support available to farms

4.2 A lack of explicit linkage between farm business development schemes and other schemes can make it difficult for farmers to know what to apply for. However, we found good examples in Wales and Sweden where farm business development schemes were delivered through a single, linked structure.

The schemes in England are not always effectively joined up

4.3 A single farm-based business development project in England might need separate applications to the Farm Business Advice Service to develop a business plan, the Processing and Marketing Grant for capital investment, the Rural Enterprise Scheme for revenue funding and the Vocational Training Scheme for training. Yet it is not possible for farmers to access aid as a seamless package. They often provide the same information several times, although a single business plan covering all the aspects would suffice. Furthermore, the schemes can appear to overlap and it can be difficult for farmers to know which to apply to. Farmers and stakeholders we consulted complained that it was difficult to know what "all these schemes" did and which they could apply to. They had little sense that the schemes worked together as a package. Stakeholders stressed that until the schemes are

more effectively joined up, it will be difficult to make the best use of the resources available. The Department has, following Lord Haskins' Rural Delivery Review, reviewed the funding of its rural objectives and announced, in Rural Strategy 2004, that it intends to streamline the number of schemes and to simplify administrative procedures to reduce complexity for customers.²⁰

Wales has joined up its business development scheme in a structured programme

4.4 The lack of linkage between schemes which characterises English farm business development assistance is mirrored in many other countries. It appears to be a product of two main factors: the design of the European Union Rural Development Regulation and the tendency to roll forward existing programmes into a rural development programme. However, some countries have tried to improve accessibility by using a single delivery mechanism to offer assistance to different measures. The Welsh Department for Environment, Planning & Countryside delivers almost all of its farm-based business development assistance through a single service, Farming Connect. This service links farm business advice, training and capital grants in a single structure (see Figure 13 on page 24).

Sweden shows how business development support can be linked with agri-environmental schemes

4.5 In England, the Department provides "agri-environmental" support to agriculture to protect the environment and to maintain the countryside. However, the link between agri-environmental schemes and business development schemes is limited. It is not possible for farmers to access the two types of schemes as a seamless package, although there have been cases where, for example, an agri-environment scheme has funded the restoration of an historic farm building, and the Rural Enterprise Scheme has funded internal work connected with a business venture.

- 4.6 The Swedish Öland initiative is a good example of an initiative scheme combining business development and agri-environmental issues (Figure 27). The initiative seeks to recognise that investment in the environment is a means to an end (i.e. a better farm-based business), not just an end in itself. The initiative suggests that a voluntary approach can effectively exploit the synergies between farm-based business development and environmental land management; although even so it does not amount to combined delivery of rural development measures. Similar approaches have been run on an experimental basis in England (for example the Bodmin and Bowland initiatives) and the Department should consider expanding them.

27 The Öland initiative in Sweden jointly promotes the development of both business needs and the environment

Approach: The Öland approach seeks to recognise that investment in the environment is a means to an end rather than an end in itself for farmers. The Swedish University of Agricultural Sciences has formed a partnership with local authorities and businesses to promote sustainable development in the area. Environmental credentials have been tied to local products to create a regionally specific brand of foodstuffs. The produce is marketed through a new "Michaelmas" festival.¹ The festival, held in September, has enabled the region to lengthen its tourist season by about a month.

Outcome: The Öland region has expanded its tourist economy by attracting new types of visitors, particularly hikers and nature watchers, as well as the traditional beach holiday makers. The Öland initiative has contributed to the region's regeneration and is seen as a prototype that might be transferred elsewhere.

NOTE

1 Ölands Skördefest.

Source: National Audit Office

Farm business support schemes can be more effective if they are more closely tailored to local needs

- 4.7 Our examination of approaches elsewhere suggests that farm business development schemes would be more effective if they were designed and delivered using a more devolved approach. Such an approach would be to allow English farmers and others in the local community a greater say in the design and delivery of support programmes. We found schemes in Germany, Sweden and France which were closely tailored to local needs.

The England Rural Development Programme is run in a relatively centralised way

- 4.8 The Department seeks regional and local input to the England Rural Development Programme, from bodies such as the Regional Development Agencies and the Countryside Agency, in a number of different ways:

- Regional Planning Groups, which helped to design the Programme;
- Regional Programming Groups, which oversee regional contributions to the Programme and which agree priorities and budgets for the different measures which comprise the Rural Enterprise Scheme (Regional Programming Groups evolved from Regional Planning Groups); and
- Regional Consultation Groups, which canvas views from key stakeholders on implementation and development of the Programme.

- 4.9 However, there is no clear link between the England Rural Development Programme and other bodies' rural development schemes, such as those of the Regional Development Agencies and the Countryside Agency. And although stakeholders have welcomed the above mechanisms, there is a perception that the Programme is largely the Department's policy, run top-down rather than bottom-up.

“ If there is one lesson to learn early it is that a "one size fits all" solution is rarely effective. ”

National Farmers' Union

- 4.10 A similar message was echoed in the Rural Delivery Review in November 2003. The report found that customers were dissatisfied with the delivery of rural services, which they felt did not address their needs or expectations. The report outlined how rural delivery arrangements should evolve, taking account of the Government's commitment to make public services more locally responsive. The report envisages rural delivery in England becoming much more decentralised, with key decisions taken at regional and local levels. One of the report's main recommendations was that the Department should bring delivery closer to the customer by devolving greater responsibility to regional and local organisations, particularly the Regional Development Agencies. In particular, the report recommended that Regional Development Agencies should have the lead responsibility in co-ordinating public sector rural business support and advice.²¹ The Department agreed this recommendation in its response to Lord Haskins' Review. The Regional Development Agencies will assume responsibility for

managing the Business Link network on 1 April 2005. The Department's aim is to make available to rural businesses "a quality 'first port of call' service that is tailored to their circumstances".²²

4.11 A number of joint initiatives are underway between the Department and the Regional Development Agencies to improve regional rural delivery. These include the piloting of the participation of a Regional Development Agency representative on the Regional Appraisal Panels assessing applications for assistance from the Rural Enterprise Scheme, the Vocational Training Scheme and Processing and Marketing Grants. Regional Development Agencies are also required to agree Departmental Regional Targeting Statements to ensure they complement Regional Economic Strategies and reflect local needs. These Statements provide potential applicants with guidance priorities for England Rural Development Programme schemes. They include information on the social, economic and environmental priorities within a particular region to encourage the submission of better quality, targeted applications for funding support. The Rural Strategy 2004 announced the Department's intention to devolve to Regional Development Agencies, from January 2007, control over the social and economic schemes of the successor to the England Rural Development Programme.²³

Germany and Sweden use decentralised approaches to rural development

4.12 Germany's approach to rural development is more devolved, as might be expected in a federal state. Farm development programmes are governed by a national framework, with implementation agreed between the Federal government and the States (Figure 28). The approach allows States to tailor their schemes closely to local circumstances.

4.13 Decentralisation is not just characteristic of federal states. In Sweden, for example, rural development objectives are nationally approved but decisions on local activities are devolved to the 21 County Administrative Boards (Figure 29). This allows Boards to tailor their rural development schemes better to local circumstances and to generate greater local support.

France partly devolves responsibility for schemes to local partnerships

4.14 In France, a significant amount of rural development assistance is delivered through county level committees (Figure 30). This approach gives local interests a say in allocating resources, allows greater consideration of local problems and takes into account potential side effects. It also creates a sense of ownership among local

28 The German National Farm Development Framework allows strong inter-regional variations in farm business development schemes¹

German farm business development schemes are designed by groups representing both national and local interests under the Framework. This allows the groups to set such fundamental factors as scheme eligibility, grant rates, delivery systems and evaluation. This also allows strong inter-regional variations so States can tailor their schemes closely to local circumstances.

Example: Lower Saxony has used this flexibility to provide extensive support for potato production because, given the favourable growing conditions, it expects this sector to develop into one of the most competitive in the European Union.

NOTE

- 1 Gemeinschaftsaufgabe Verbesserung der Agrarstruktur und des Küstenschutzes.

Source: National Audit Office

29 Sweden devolves decision making on training to County Boards to better tailor rural development training to local circumstances

In preparing their annual training programmes, Swedish County Boards (*Länsstyrelsen*) must consult local farmers through an "advisory council" to identify the training needed in the local area. Once the Government has studied the plan and approved the training budget, a county board is free to decide how to distribute this between the different rural development activities proposed in the plan.

Examples: In Södermanland County, the local organic association was able to get two one-day courses in slaughter financed through the programme because local slaughterhouses in the area had closed. In Kalmar County, where there is a strong environmentalist movement, farmers were able to get funding for a rural development centre running courses on environmental land management.

Source: National Audit Office

30 French Local Committees of Agriculture allow local interests to influence the allocation of farm support schemes¹

Approach: The Committees include local politicians, farmers and representatives of agricultural and food professions, local planning agencies and environmental organisations. The Committees have a statutory role in designing and awarding support to farmers, though formal decision-making powers remain with Ministry of Agriculture's local officials to comply with European Union rules.

NOTE

- 1 Commissions Départementales d'Orientation de l'Agriculture.

Source: National Audit Office

²² Rural Strategy 2004, Department for Environment, Food and Rural Affairs, July 2004, response to Recommendation 13, page 80.

²³ Rural Strategy 2004, Department for Environment, Food and Rural Affairs, July 2004, paragraphs 34 to 39.

stakeholders and, in particular, farmers. Although there are clear advantages to this approach, it would be important to avoid any one interest group having too great an influence in the process and a reduced emphasis on securing the effective use of departmental grants.

Rural development schemes can be fully devolved to local partnerships

4.15 Some forms of decentralisation fully devolve authority to local partnerships (Local Action Groups under the "Leader approach", **Figure 31**). At present, European farm-based business development funds cannot be delivered through Local Action Groups, but some countries, notably Germany, are now using a Leader-style approach to deliver state funded farm-based business development assistance (**Figure 32**). This helps the assistance retain more value locally.

31 The Leader programme encourages local stakeholder networks to sustainably develop their communities

Aim: The Leader programme is designed to encourage the formation of networks amongst rural stakeholders capable of developing innovative and linked strategies to develop their communities on a sustainable basis.

Approach: The Leader programme devolves responsibility for rural development assistance to Local Action Groups, composed of local activists and stakeholders. Each Group covers an area with approximately 50,000 inhabitants. The programme is co-financed by Member States and the European Union.

Source: National Audit Office

32 The Active Regions programme in Germany uses local stakeholder bodies to help farm business development support retain more value locally¹

Approach: Stakeholders have formed bodies similar to Local Action Groups under the Leader programme. The bodies seek to link development to retain more value locally. Approaches include local companies processing local agricultural products, marketing them and linking with the local tourism sector.

Stakeholders: Farmers, processing companies, public authorities (particularly those responsible for agriculture), representatives of other sectors (such as tourism) and interest groups (such as environmental bodies).

Outcome: It is too early to assess the success of the programme, but early indications suggest that it is proving effective. More than 200 projects have been implemented across 18 areas, and 25 have been completed. The approach may replace traditional state-level Rural Development Programmes as soon as 2007.

NOTE

¹ Region Aktiv.

Source: National Audit Office

4.16 The Leader initiative has encountered some problems in England and some caution is needed in adopting such an approach. A review in 2003 of Leader II in England and Wales, which ran from 1994 to 1999, found that it had been only partially successful in encouraging local activism. This was partly because England lacks the local institutional infrastructure that is found in a country such as France. Lessons have been learnt from the Leader II Programme and are reflected in the current England Leader+ Programme. The Mid-Term Evaluation of the England Leader+ Programme, submitted to the Commission at the end of 2003, noted that there were encouraging signs that the Programme was starting to build capacity in rural areas and that it was providing accessible support to smaller rural organisations that would not otherwise have been able to access such assistance. On a smaller scale than the Swedish example, a number of local action groups have focused on the theme of "adding value to local products", allowing tourism, local products and the environment aspects to be interlinked.

It is helpful to link support for individual farmers to a broader strategy covering the food chain as a whole

4.17 Farm-based businesses are one part of a larger supply chain that links to processors, retailers and consumers. Their economic success is ultimately dependent on the success of this chain. Support to develop farm businesses must consequently look at farmers' relationships with processors and retailers. The Department has introduced a number of strategic measures to improve the working of the supply chain as a whole, such as the *Food Chain Centre*, the *Food from Britain* initiative and *English Food and Farming Partnerships*.

“ Just isn't the money there - too many people taking too much out - we're not getting our fair proportion of what the finished product's worth. ”

Dairy farmer, North West

Germany's organic scheme combines support to farmers, processors, retailers and consumers

4.18 Other countries we looked at have linked support to individual farmers with measures to develop the supply chain they serve, supporting processors and marketing organisations to stimulate demand, and incentivising them to collaborate with farmers. In Germany, for example, the Federal government has introduced a scheme to develop the organic farming sector which combines support to individual farmers, processors, retailers and consumers (Figure 33). This type of approach appears to be effective at encouraging farmers to be more responsive to their markets and to develop their businesses. Promoting links with processors and retailers can improve producers' access to information, encourage them to improve product quality, and incentivise them to collaborate.

33 The German Federal Organic Scheme combines support to farmers, processors, retailers and consumers to develop the organic farming sector¹

Approach: The Scheme emphasises complementary measures on processing, market development and consumers including:

- support to farmers who want to convert to organic;
- support for processors to help them comply with organic rules and to encourage innovation;
- advice and training for the retail and catering sectors; and
- information for consumers.

Although Germany has promoted organic farming with public funds since 1989, growth was slow because of a lack of support from farmers and low retail involvement. New organic farms often found insufficient demand for their produce or insufficient retail outlets.

Outcome: The organic sector has begun to restructure, more organic food is now in supermarkets and sales of organic foods have increased. In 2001, land under organic management grew by 16 per cent to 635,000 hectares. This represents some 4 per cent of the total farmed area (17.2 million hectares).

NOTE

1 Bundesprogramm Ökologischer Landbau.

Source: National Audit Office

Germany runs a processing and marketing scheme which ensures that local farmers benefit

4.19 Assistance to processors and retailers needs to produce tangible farm level benefits. Some countries have tried to achieve this by attaching conditions to grants. In Germany, for example, Lower Saxony runs a processing and marketing scheme in which food processors must take at least 60 per cent of their raw materials from local farmers (Figure 34). This approach gives farmers a secure market for their product and encourages them to become more market-oriented and competitive. Because farmers have to produce to a certain standard, processors have a strong incentive to help them to achieve those standards.

34 Lower Saxony's processing and marketing scheme requires processors to take a minimum amount of their raw material from local farmers

Approach: In return for grants to develop its facilities, Bahlsen-Lorenz, a potato processor, is obliged to buy at least 60 per cent of its raw materials from Ikego, a potato producers' co-operative in Lower Saxony. The co-operative must offer its produce to the company before other purchasers. The price for potatoes is agreed before sowing and harvesting each year. The partnership has grown considerably since it began in 1971. The two organisations now occupy adjacent facilities on a large site and potatoes are moved between them by a system of conveyor belts, built with another grant.

Other benefits: The relationship has helped to improve product quality. Ikego and Bahlsen-Lorenz disseminate new technical developments to producers, monitor each producer's output and give producers individual, on-farm advice on improving product quality.

Source: National Audit Office

Glossary

Jargon is used widely in farming, agriculture and rural development. A few of the terms relevant to the issues covered in this report are explained below.

Agri-business (or agri-food)	All the operations of supplying the market with farm produce taken together, including growing, provision of farm machinery, distribution, etc.
Agri-environmental schemes	Schemes designed to promote environmentally friendly land management.
Capacity building	Developing the skills and abilities of farmers.
Co-financing	The splitting of funding between the European Union and the United Kingdom.
Cross-compliance	The explicit linking of government farm subsidies to compliance with European Union standards covering the environment, public and animal health and animal welfare.
Decoupling	Removing the link between government subsidies and farm production levels.
Degressivity	The gradual reduction of subsidy payments to farmers.
Facilitation	Help with grant applications; encouraging joint working between different organisations.
Food chain	The entire range of businesses that make up the food and farming industry, from the farmers growing the food to the shops selling it.
Modulation	Withholding a proportion of subsidies from farmers to fund European Union agri-environment and forestry rural development measures.
Multi-functional agriculture	Agriculture that performs social and environmental roles as well as producing food for profit.
Pluriactivity	The different types of traditional and non-traditional activity that farm-based businesses may use to generate income, such as crops, livestock, farm holidays and leisure pursuits.
Single farm payment	A single payment to farmers to replace all the major farm subsidies, to be introduced from 2005.

Appendix 1

Recommendations

The recommendations below cover the scope to improve the operation of the existing farm business development schemes, which run to 2006, and the next phase of schemes, to run from 2007 to 2013. The recommendations are not intended to suggest that all forms of support should be made available to all farm businesses in the target group; instead we suggest shifting the balance within available funds. The recommendations will need to be set against the Department's desire to create a farming sector which is:

- supported, and viable over the long term;
- reconnected with the market and has stronger links with the food chain; and
- part of a viable and diverse rural economy.

In implementing the recommendations, the Department will need, in some cases, to continue to work with other bodies, such as the Regional Development Agencies and the Department of Trade and Industry. Some of the recommendations below will also be of interest to farmers and their representative bodies in helping to develop farm businesses. In summary we recommend the Department considers the suggestions set out below.

Increasing the proportion of the farm business development budget spent on advice to those farm businesses that most need help to adapt, to assist them in identifying business opportunities and reconnect them with their markets (paragraphs 3.7 to 3.24)

- 1 Consider how existing encouragement for entrepreneurs could be adapted to ensure that farm business needs are more effectively addressed, within the context of wider government support for enterprise. Possible mechanisms could draw on the Swedish, German and Irish approaches, using intensive, small group teaching to help participants develop their ideas, gain confidence and build networks. Funding could come from training options in the England Rural Development Programme. Such an approach could contribute to delivery of the Department's Learning, Skills and Knowledge Programme for rural businesses.
- 2 Strengthen farm advisory services by working with existing farm advisers to encourage and validate the development of minimum standards and accreditation processes, as recommended in the Learning Skills and Knowledge review.

Ways to make it easier for farmers to apply for support, in particular by ensuring that they can get help where necessary with applications, and by continuing to maximise the common elements in applications to the different schemes (paragraphs 3.2 to 3.6)

- 3 Revise the scheme literature to improve its useability by potential applicants.
- 4 Offer help with the completion of applications to the Vocational Training Scheme, Rural Enterprise Scheme and Processing and Marketing Grants under the revised Farm Business Advice Service, diverting resources from business advice if necessary.
- 5 Consider how the scheme literature for the Vocational Training Scheme, Rural Enterprise Scheme and Processing and Marketing Grants can be made more coherent for farm business customers, for example by providing a short covering description of how opportunities under the schemes can complement each other as part of a business plan.

Merging farm business development schemes for the 2007-2013 programme so that farmers can access them as a single package, whilst recognising any implications for how well the non-farm elements of these schemes are made available to customers (paragraphs 4.2 to 4.6)

- 6 Merge the assistance available under the Vocational Training Scheme, Rural Enterprise Scheme and Processing and Marketing Grant into a single scheme. This would allow a single application for any aspect of the different schemes.

Widening the types of support available to farm businesses by considering the introduction of a loan guarantee scheme for farm-based businesses (paragraphs 3.25 to 3.28)

- 7 Consider introducing a loan guarantee scheme for farm-based businesses, perhaps in similar terms to the Small Firms Loan Guarantee scheme provided by the Department of Trade and Industry for small businesses. The Department for Environment, Food and Rural Affairs would, however, need to design such a scheme in accordance with state aid restrictions.

Encouraging the use of local partnerships to join up agri-environmental initiatives and farm based business development (paragraphs 4.5 to 4.16)

- 8 Encourage the use of local partnerships to join up agri-environmental initiatives and farm-based business development. This could, for example, adopt a similar approach to the Swedish Öland initiative encouraging farm business developments to link up with local environmental projects.

Giving farmers and others in the local community a greater role in deciding how farm business development support is delivered, for example by allowing local administrations and forums more influence or authority over how schemes are designed and awarded (paragraphs 4.7 to 4.16)

- 9 Devolve planning and delivery of the new England Rural Development Programme, due to start in 2007, to regional partnerships. Each region could, for example, be required to draw up its own programme of priorities and the types of projects to be supported. Each local programme would be approved by the Department.
- 10 Press for simplified European Union funding rules (the Rural Development Regulation) so that greater local tailoring and mixed forms of support are possible, whilst ensuring that there is a clear added value to the use of the funding in all Member States.

Switching some support away from individual farms to increase the funds available to wider local initiatives to promote demand, such as processing and marketing operations which provide more direct benefit to a greater number of farm-based businesses, or marketing of quality agricultural produce (paragraphs 4.17 to 4.19)

- 11 Provide greater clarity and publicity for conditions to Processing and Marketing Grant recipients so that assistance to processors produces clearer benefits to farmers. Offer incentives for applications to the Processing and Marketing Grant scheme and Rural Enterprise Scheme involving farmer collaboration (perhaps through enhanced grant rates).
- 12 Strengthen support for the promotion of the quality regional food sector at a local level, in collaboration with the Regional Development Agencies.

Appendix 2

National Audit Office methodology

The main methods we used in our examination were:

File and management information

We reviewed:

- records and management information held by the Department on rural development and sustainable food and farming, including information on, and applications for, Processing and Marketing Grants, the Rural Enterprise Scheme, the Vocational Training Scheme, the Energy Crops Scheme and the Farm Business Advice Service;
- the Mid-Term Evaluation of the England Rural Development Programme by ADAS Consulting Limited and SQW Limited; and
- relevant parliamentary, European Commission, stakeholder and academic reports.

Interviews, consultation and visits

We interviewed:

- staff from the Department's Rural Development Division; Sustainable Agriculture Division; Skills and Rural Enterprise Division; Marketing, Competition and Consumers Division; and Rural and Resource Economics Division; and
- representatives of the National Farmers' Union and the British Retail Consortium.

We visited offices of the Rural Development Service in the East Midlands, North East, South East, South West and Yorkshire, and observed the consideration of applications for support under Processing and Marketing Grants, the Rural Enterprise Scheme and the Vocational Training Scheme.

International comparisons

We commissioned a team of experts in rural development to undertake a comparative analysis of rural development schemes across a number of countries, to compare the way that other countries provide farm-based business development assistance with that in England (see Appendix 3). The results of the review are available separately and can be accessed at the National Audit Office website (www.nao.org.uk).

We visited the Agriculture and Rural Affairs Department of the National Assembly for Wales, the Welsh Development Agency, the National Farmers' Union of Wales, and two farmers to review a different system of farm-based business development support.

We consulted the Scottish Environment and Rural Affairs Department and the Northern Ireland Agriculture and Rural Affairs Department.

We obtained information on farm-based business support from Agriculture Ministries in the United States and Canada.

We obtained information on farm-based business support from the British Embassies and High Commissions in Denmark, France, Germany, Ireland, New Zealand, Sweden, the United States and Canada.

We obtained evaluations of farm-based business support schemes from the Supreme Audit Institutions of Denmark, France, Germany, Ireland, New Zealand, Sweden, and the United States and Canada.

Stakeholders' views

We received comments from a wide range of stakeholder bodies on our study issues (the National Farmer's Union, Grassroots Action on Food and Farming, the Country Land and Business Association, the Campaign for the Protection of Rural England, the Royal Agricultural Society of England, the Royal Society for the Protection of Birds, the Countryside Alliance, the British Retail Consortium and the Food and Drink Federation).

We commissioned NOP to speak to a small group of farmers to explore their problems and their options to improve their position. More details of the NOP research are in Appendix 5.

Appendix 3

International Comparisons

Research methodology

- 1 We commissioned a team from the Countryside and Community Research Unit of the University of Gloucestershire, in partnership with the Institute for European Environmental Policy, London, to carry out research into farm-based business development assistance in New Zealand and five European countries - Ireland, France, Germany, Denmark and Sweden.
- 2 These countries were selected on the basis of extensive background research and with the advice of our consultants. The five European countries were selected because they had broadly similar farming sectors and rural conditions to England, and because they illustrated a variety of approaches to farm-based business development funding. New Zealand was selected because, uniquely, it deregulated its agricultural sector in 1984 and has successfully built an unsubsidised, competitive, agri-food industry.
- 3 After the selection of countries, the study comprised five key stages:
 - An initial team meeting to assess the Department's policies to help farmers adapt and identify particular areas that the comparative analysis would focus on.
 - The preparation of a report on each country's farm-based business development policies by local experts. These described the general agricultural and rural context, the policy agenda, and details of schemes of potential interest.
 - Three day study visits to Denmark, France, Germany, Ireland and Sweden by a member of the core research team and an auditor from the National Audit Office to discuss each country's farm-based business development policies with officials, stakeholders and farmers. The visits were organised and accompanied by local experts.
 - A second team meeting to compare the findings from each country, identify key themes for a final comparative report, and identify recommendations to improve the effectiveness of the Department's policies.
 - The preparation of a comparative report drawing together the findings from the different countries we studied and identifying recommendations to improve the effectiveness of the Department's policies.

Team membership

- 4 The core team was led by Dr Janet Dwyer of the Countryside and Community Research Unit, University of Gloucestershire, and consisted of:
 - Professor Bill Slee, Countryside and Community Research Unit, University of Gloucestershire;
 - Professor Henry Buller, Countryside and Community Research Unit, University of Gloucestershire (who also acted as national researcher for France);
 - David Baldock, Institute for European Environmental Policy in London; and
 - Vicki Swales, Institute for European Environmental Policy in London.
- 5 The core team were assisted by local researchers based in the countries reviewed:
 - **Denmark:** Erling Andersen of Skov & Landskab in Copenhagen;
 - **Germany:** Karlheinz Knickel of IfLS in Frankfurt/Main and Andreas Pölking of Agroplan in Wolfenbüttel;
 - **Ireland:** Pat Collier of Collier-Broderick Management Consultants, Dublin;
 - **New Zealand:** Professor Anton Meister and Dr Shamim Shakur of the Department of Applied and International Economics of Massey University; and
 - **Sweden:** Dr Erik Fahlbeck and Gustav Olsson of the Department of Economics of the Swedish University of Agricultural Sciences in Uppsala.

Further information

More detailed information on the team's findings in each country visited is available from the NAO's website - www.nao.org.uk.

Appendix 4

Data on the agricultural sectors of the countries reviewed

Country	Land under cultivation in 2001 (million hectares)	Proportion of land under cultivation	People employed in agriculture in 2002	Proportion of total employment	Value of agricultural production 2002	Proportion of GDP
England	18.6 ¹	78% ¹	533,000 ²	1.8% ²	£5.4 billion	0.6%
Wales			56,000	1.4%	£0.4 billion	0.9%
Ireland	4.4 ³	63%	158,000	7.6%	£1.7 billion	1.8%
Denmark	2.6	61%	71,000	3.5%	£2.2 billion	1.7%
France	29.7	55%	988,000	3.9%	£21.1 billion	1.8%
Germany	17.1	48%	580,000	2.5%	£10.9 billion	0.7%
Sweden	3.0	7%	67,000	2.4%	£1.0 billion	0.5%
New Zealand	15.6 ⁴	52%	169,000	13.0%	£8.8 billion	17.0%

NOTES

1 UK figure. 2 2003 figure for the UK. 3 1999 figure. 4 2002 figure.

Country	Number of farms (2000)	Average farm size (hectares, 2000)	Proportions of European Union production for selected products (2002)					
			Wheat	Milk	Cattle	Pigs	Sheep and goats	Poultry
England	233,000 ¹	67.7 ^{1, 2}	13.5% ¹	9.7% ¹	14.0% ¹	4.8% ¹	24.1% ¹	17.8% ¹
Wales								
Ireland	142,000	31.4	0.7%	3.6%	6.6%	1.3%	4.7%	1.4%
Denmark	58,000	45.7	3.6%	3.9%	1.4%	10.1%	0.1%	1.7%
France	664,000	42.0	33.0%	19.9%	28.5%	12.3%	13.2%	28.5%
Germany	472,000	36.3	19.9%	22.1%	11.9%	21.2%	3.5%	8.9%
Sweden	81,000	37.8	1.7%	2.7%	1.8%	1.7%	0.3%	1.0%
New Zealand	70,000 ²	222.4 ²	Not applicable					

NOTES

1 UK figure. 2 2002 figure.

Appendix 5

In-depth interviews with farmers

Research methodology

- 1 We commissioned NOP to carry out some in-depth qualitative research among farmers. The objectives were to explore:
 - the current problems facing farmers;
 - the options they have to do something about these problems;
 - the barriers to realising these options; and
 - how the Department's schemes to help them (the Rural Enterprise Scheme, Processing and Marketing Grants, the Vocational Training Scheme and the Farm Business Advice Service) might be improved.
- 2 Individual face-to-face in-depth interviews were conducted with a sample of 10 farmers in England, selected to broadly reflect the farming population (Figure 35). The interviews were held in July 2003.
- 3 Different degrees of knowledge of, and involvement in, the schemes specified were represented. All respondents were aware of at least one of the schemes, since with such a small number of interviews it would be of limited value to include farmers to whom they were unknown. The sample included farmers who had used, applied unsuccessfully, or considered applying for one or more of the schemes.
- 4 The sample was categorised by type of operation. Since many farms have more than one type of operation (different types of livestock, arable and livestock) quotas were set by flock/herd size or arable hectares for the different categories. This produced a range not only of the individual categories but also of different mixes of farming operation.

35 Selection criteria for the NOP sample of farmers

	Farming category	Size	Definition	Region
1	Dairy	Medium	150 - 200 milking cows	North West
2	Dairy with mixed livestock in a Less Favoured Area	Small	Up to 50 milking cows	North West
3	Sheep & cattle with dairy in a Less Favoured Area	Medium	Up to 200 ewes and hoggets 50 - 60 cattle	North West
4	Sheep & cattle	Medium	200-500 ewes and hoggets over 40 cattle	North West
5	Lowland Sheep & cattle	Large	500-1,000 ewes and hoggets 50 cattle	South East
6	Pigs	Medium	over 100 breeding sows and/or over 1,000 weaners/stores	South East
7	Poultry	Small	over 5,000 hens/pullets in lay and/or over 5,000 broilers	South East
8	Arable	Large	300 hectares and contract land	North East
9	Arable	Medium	150-200 hectares and contract land	South East
10	Arable	Large	250-300 hectares and contract land	South East

- 5 Different geographical areas of England present different problems, opportunities and challenges for farmers. There were limitations on the extent to which these different areas could be incorporated in this sample. However, two regions were chosen to give a variety of different types of countryside in terms of terrain, type of farming land, social factors, proximity to urban areas, levels of affluence, landscape, and conservation: South East (Hampshire) and North West (Cumbria)*. One farmer in a National Park and one in an Area of Outstanding Natural Beauty were included.
- 6 All respondents were working farmers, with farming as their main occupation, and responsible for making business decisions. Farm managers were excluded. The sample included farmers who own their farms, who own their farms and rent other land, who are tenants, and who are tenants and also own some land.
- 10 Barriers to changing farming practice, including agricultural diversification, are:
- the land is unsuitable for a particular use;
 - lack of time: farmers are fully occupied already, and labour is expensive;
 - the time and the land required would reduce other farm activities, with perhaps questionable benefits in returns;
 - changes which require expansion or investment are difficult to fund and are hampered by the uncertainties surrounding Common Agricultural Policy reform;
 - risks are high if a change goes wrong; and
 - adding value by processing and marketing is seen as difficult, time consuming, and risky - it might be more appropriate for a co-operative venture.

Summary findings

Comments on the current situation in farming

- 7 Farmers consider that the current situation is bad, producing a range of emotions from bewildered anger to a determination to survive. There is a feeling that there has been some slight recent improvement, though. The main factors contributing to this situation are: low farm prices; competition from the global market; and an unsupportive attitude from government. There is a cautious welcome for elements of the Common Agricultural Policy reforms. However, uncertainty about these is adding to farmers' current problems, and in particular leading to stagnation, with difficulties in making plans or changes.

Suggested options for change

- 8 Farmers accept that farms have to adapt to changing circumstances, as they have in the past. The key routes to making farms more efficient and profitable are seen as:
- consolidation on areas of strength, activities which can be done most profitably;
 - responding to changing markets and changing needs; and
 - expanding to improve profitability by growth.
- 9 These routes can include adding value by growing different crops or changing breeds of flocks and herds. There is interest in the potential of energy crops, but at the moment the market is very undeveloped.
- 11 Diversification into non-farming activities is seen as a key policy of government. Farmers are not certain if the ultimate aim is to encourage them to add non-farming diversification to their farming activities or to diversify out of farming altogether. There is resentment at the emphasis on diversification. Farmers want to be able to get on with farming and they would like more support and encouragement to do this.
- 12 There is a range of barriers to non-farming diversification:
- shortages of time and labour;
 - unwillingness or inability to make significant investment;
 - doubts about making ventures profitable or better value for money than investing into farming activities;
 - planning restrictions, with specific experiences of failure to get planning permissions;
 - lack of skills or experience in a potential new area;
 - the land, the farm, or the location being unsuitable or inappropriate;
 - resistance to having strangers on the farm, for tourism and leisure activities; and
 - being a tenant makes it difficult to take the necessary longer-term view since there is usually a three year Farm Business Tenancy.

* One of the Northern interviews was in fact in Northumberland in the North East region.

Comments on the Department's schemes

- 13 Knowledge and understanding of the schemes aimed at helping farm businesses to improve economic viability was limited. Farmers lack the time to find out more. There is criticism of levels of training and farming experience among Departmental staff, which raises doubts about their ability to advise on changes and new ideas.
- 14 Those who used the Farm Business Advice Service feel it is of limited use, being too general and lacking in depth. Farmers suggest this should have a first stage to consider the farm as a whole, and communicate information about other schemes. This might be followed by a second tier of more specialised advice on individual ideas and how the schemes might be used. The Rural Enterprise Scheme and Processing and Marketing Grant have limited appeal and farmers are not interested in going in these directions. Little is known about the Vocational Training Scheme. Farmers believe that practical experience is more important.
- 15 Specific barriers to applying for the schemes are:
- the complexity of the application process;
 - a belief that limited availability might mean a wasted application;
 - concerns about deadlines, both in applying and in completion of any work necessary to get the grant;
 - lack of funds to make the necessary investment to qualify;
 - uncertainty about the best course for the farm in the longer term; and
 - reluctance to rely on grants - if an idea is worth doing, farmers prefer to do it themselves.
- 16 Suggestions for developing help within the Department's schemes:
- more information in an easily accessible form;
 - more specialised advice for specific ideas;
 - simpler application processes;
 - make interim grants payments to help cash flow; and
 - use low cost loans instead of grants - grants have a negative image.