

Helping Farm Businesses in England



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

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.*