



National Audit Office

**REPORT BY THE  
COMPTROLLER AND  
AUDITOR GENERAL**

**HC 513  
SESSION 2009–2010**

**31 MARCH 2010**

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# Defra's organic agri-environment scheme

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Design and Production by  
NAO Marketing & Communications Team  
DP Ref: 009240-001

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Ordered by the House of Commons  
to be printed on 29 March 2010

**Report by the Comptroller and Auditor General**

HC 513 Session 2009–2010  
31 March 2010

London: The Stationery Office  
£14.35

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.

Amyas Morse  
Comptroller and  
Auditor General

National Audit Office

26 March 2010

Farmers who join agri-environment schemes receive annual payments in return for managing their land in ways that will protect or enhance the natural environment or historic landscape.

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This report can be found on the  
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[www.nao.org.uk/organic-farming-2010](http://www.nao.org.uk/organic-farming-2010)

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# Summary

## Agri-environment schemes

**1 Farmers who join agri-environment schemes receive annual payments in return for managing their land in ways that will protect or enhance the natural environment or historic landscape.** The Government has set aside £1.7 billion of EU funding and an estimated £1.2 billion of UK matched funding for agri-environment schemes in England. The schemes are due to finish in 2013 and EU funds, including those voluntarily reallocated from money that would otherwise have been paid to farmers through the single payment scheme, need to be used by the end of 2015 or the money cannot be claimed from the European Commission.

**2 Agri-environment schemes are the main part of the Rural Development Programme for England.** The schemes are overseen by the Department for Environment, Food and Rural Affairs (the Department) and administered by Natural England, a Non-Departmental Public Body. The Rural Payments Agency makes payments and carries out compliance inspections.

**3 There are three agri-environment schemes open to new applicants, with a combined budget of £2.1 billion over seven years up to 2013-14.** The Organic Entry Level Stewardship scheme (the Scheme) is typical of English agri-environment schemes in that it pays farmers to implement and maintain environmental land management measures over a five-year agreement. It is also intended to secure further environmental benefits by supporting organic farming. We focus in this report on the Organic Entry Level Stewardship scheme, but many of the lessons learned are likely to be applicable to the Entry Level Stewardship scheme for conventional farmers. Principles of sound financial management have wider application.

**4 Natural England forecast as at March 2010 that the Organic Entry Level Stewardship scheme would make £197.7 million total payments to farmers over the period 2007-08 to 2013-14, made up of the following elements:**

- £30 per hectare per year to reflect the cost of maintaining organic certification.
- £30 per hectare per year to compensate for the cost of implementing environmental management measures. Some examples include hedgerow management, putting in place measures to preserve biodiversity or conserve species, and protecting archaeological features or historic buildings.
- Farmers converting their land to organic farming methods are entitled to claim a further £175 per hectare per year 'conversion aid' for the first two years (or £600 per hectare per year for three years for farmers growing top fruit such as apples, plums or pears). Conversion aid is intended to help offset the transitional costs of changing from conventional to organic farming.



**5 The policy justification for spending UK taxpayers' money on top of EU funding is to achieve environmental benefits over and above the requirements of the single payment scheme to maintain land in good agricultural and environmental condition.** We considered three key risks to value for money:

- **The utilisation of EU funds.** The European Commission will retain any funds not used by the 2015 deadline.
- **Achievement of environmental benefits.** We examined what benefits the Scheme is achieving by encouraging farmers to adopt organic farming methods, and how far it has led to improvements in land management.
- **The quality and efficiency of Scheme administration.** We considered the accuracy and timeliness of payments to farmers, and the reasonableness of Scheme administration costs.

## **Our findings**

On utilising available EU funds

**6 The Department's forecast for expenditure of EU funds on the Scheme assumes constant take-up each year, but our analysis is that this may prove over-optimistic.** Natural England and the Department monitor ongoing expenditure, especially of UK Exchequer funds, very closely. Monitoring of EU funds has, up until December 2009, not been undertaken in such detail. Natural England estimated in July 2009 that expenditure would total £176.3 million over the life of the Scheme. Natural England has subsequently revised its estimate and in March 2010 forecast that total spend would be £197.7 million. This change results from an upward revision in forecast take-up, from 20,000 hectares each year to 22,600 hectares each year up to December 2013. We found that there has been a tailing off in applications for the Scheme. Taking account of this information in our analysis of Natural England's data for spend to date available at the time of our audit, our statistical projection of trends indicated that take-up would total between £159.2 million and £160.4 million, assuming that 90 per cent of farmers would renew agreements due to end during that period. This would mean that all the EU funds made available for the scheme may not be claimed.

**7 The Scheme best supports farming sectors that already have a strong organic contingent, and the pattern of Scheme take-up reflects adoption of organic farming methods in the industry as a whole.** Market prices can be expected to be a greater influence on the viability of farming businesses than support payments. The Scheme nonetheless benefits larger farms, especially in the beef and dairy sectors, more than smaller farms. Farming experts regard conversion aid as the most important component of the Scheme, as it supports farmers through the costly process of converting to organic farming. This support has had a marked positive impact in the beef, sheep, dairy and arable sectors, but is less helpful in more land intensive sectors, such as pigs and poultry. The higher rate of conversion aid for top

fruit, such as apples and pears, does not cover typical additional net costs experienced during the conversion period but is more than needed to compensate for the costs of converting to organic farming taking the five-year agreement as a whole. In the long term, the additional payments for organic certification are sufficient to tip the balance for dairy farmers between losing and gaining money per hectare as a result of converting to organic farming. Payments typically have least financial benefit for soft fruit and poultry farmers, and those with smaller farms, among whom take-up has been low.

**8 The Department and Natural England did not build contingencies into original planning but in response to year on year monitoring have started to take steps to address the potential under-utilisation of EU funds.** The Department can divert under-used funds from one agri-environment scheme in the Programme to another. In June 2009 the Department had reported an underspend to date of over £420 million in the Programme which means, however, that there is limited capacity to rely solely on this option to absorb unused funds. This was in part due to exchange rate movements which made available additional funds. In addition, however, exchange rate movements mean that the UK contribution needed to utilise all the EU funding for the Scheme may be some £20 million higher than the Department originally anticipated. In 2009 the Department started informal discussion with the European Commission with a view to changing the co-financing rate, so as to increase the proportion of payments to farmers reimbursed from European funds. The Department has not yet submitted a formal proposal and the outcome of this approach has yet to be determined. Starting in 2010 Natural England plans to administer a £14 million programme using funds drawn from the Rural Development Programme for England between 2010 and 2013 to provide training and information for farmers. The initiative has broad aims and extends beyond Organic Entry Level Stewardship, but will seek to encourage farmers to renew their agreements and to take up the most suitable environmental options. It will also promote the Scheme to likely new entrants. Natural England has not yet developed a method for evaluating the success of the new training and information programme.

### On environmental impact

**9 To the extent that it has encouraged adoption of organic farming the Scheme has contributed to achievement of environmental benefits, but the Department cannot quantify the impact of the Scheme in securing these environmental benefits.** Research indicates that organic farming delivers environmental benefits, and in particular has been shown to have benefits for biodiversity. The nature and quality of environmental benefits can nevertheless vary by farming sector, and will differ according to the farming practices used. The Department has insufficient research evidence to quantify the extent to which the Scheme has contributed to achieving benefits of this kind, or how the impact may vary between farming sectors.

**10 The money paid to farmers for adopting management measures should have had more demonstrable environmental impact over and above the benefits secured from organic farming.** Some 72 per cent of farmers in the Scheme believe the Scheme has had a positive environmental impact, but do not distinguish between benefits from organic farming or from additional management measures. Many of the Scheme's management options are designed to be easy to implement, with minimal impact on farmers' businesses, so as to encourage farmers to join. We found that 57 per cent of farmers chose some measures that involve managing features already in place on their farm. Many of the more challenging options are rarely implemented. In 2006 the Department had recognised from piloting the Scheme that there was likely to be an element of deadweight in this way, and that 90 per cent of options chosen under the Scheme would continue under Environmental Stewardship guidelines if farmers left the Scheme. The Department made subsequent changes to the environmental management options available under the Scheme, but the majority of agreements nonetheless still focus on a very narrow range of measures. Part of the training and information programme which Natural England will introduce in 2010 will be aimed at encouraging farmers to adopt a wider range of management options most appropriate to the local environment.

**11 Securing environmental benefits depends on Natural England ensuring that farmers maintain Scheme obligations throughout a five-year agreement.** Inspection cases are selected by the Rural Payments Agency based partly on risk criteria, with the remainder chosen at random. Our review confirmed that the proportion of Scheme beneficiaries failing inspections and triggering payment recoveries was higher in the risk-based sample than in the random sample, suggesting that the risk criteria used had been successful in identifying cases most likely to be in breach of Scheme requirements. However, the risk factors applied should continue to be kept under review.

**12 Inspections could be tightened up to give Natural England stronger evidence that all the land entered into the Scheme continues to be registered as organic for the duration of the agreement.** Because of changes to field boundaries, it is common for there to be discrepancies between the land registered as organic at the start of the agreement and amounts subsequently claimed. We found that Rural Payments Agency Inspectors had not always documented evidence that they had examined a farmer's certificate of organic registration, or that they had reconciled the land parcels listed on the certificate to those claimed for under the Scheme.

## **On scheme administration**

**13 Estimated administration costs per claim have reduced over the past four years and are lower than those for the single payment scheme, but IT costs remain high.** Natural England does not separately account for the costs of administering Organic Entry Level Stewardship, distinct from the rest of the Environmental Stewardship scheme, and did not have a robust estimate at the outset of the likely administrative costs of the organic Scheme. We estimate, however, that processing the Scheme cost an average of £637 per claim in 2008-09, of which 84 per cent relates to IT costs recharged to Natural England by the Department. As a comparator, we estimated the cost of administering the single payment scheme in 2008-09 to be £1,743 per claim.

**14 Farmers are satisfied with the quality of service Natural England provides.**

Natural England has considerably reduced the time taken to process Scheme applications and make payments. It has centralised processing in one regional office and has an ongoing programme of efficiency measures. Farmers we surveyed do not see administrative burdens as a barrier to take-up, and although some applicants thought the process could be simplified, only 6 per cent of farmers were dissatisfied with the service they received from Natural England.

**Value for money conclusion**

**15** The Department and Natural England have not optimised the value for money achieved from the EU funding available for the Scheme. Over-optimistic and simplistic straight-line forecasts of take-up, and an inability to make up the shortfall quickly present a risk that EU funds will not all be utilised. The Department is spending more to engage with farmers, but in view of probable high renewal rates we are not convinced that this will necessarily have much impact on Scheme take-up. The Scheme may have delivered some environmental benefits, particularly from organic farming practices, but the Department is unable to quantify these and many farmers appear to have been paid for activities they were previously undertaking. On a more positive note, farmers are satisfied with the quality of service provided by Natural England. The processing cost per claim has been substantially reduced, but IT costs do still remain high.

**Recommendations**

**16** The issues raised in this report centre around the importance of more sophisticated financial management and a stronger evidence base against which to assess performance. We have raised these issues previously on other areas of the Department, such as its management of the Rural Payments Agency and the Business Waste Programme. The Department will need to strengthen staff skills in these areas if it is to learn lessons from these reports and avoid the need for us to raise these points again in future.

**17** On the Organic Entry Level Stewardship scheme, we recommend:

**a To improve the take-up and the effective use of funds:**

- This report highlights concerns about the Department's forecasting, planning and monitoring of substantial projects similar to issues we have raised in previous reports on the Department. The Department should apply a robust framework for methodical scrutiny and challenge of plans and budgets to all its projects; consider the impact of a range of potential outcomes in terms of cost and impact on scheme objectives; put in place from the outset arrangements for monitoring and evaluation; establish contingency plans up front; and set trigger points for implementing them in the event performance falls short of forecast (see paragraph 6).
- The Department should review conversion aid rates, based on a robust analysis of current market conditions in each agricultural sector (see paragraph 7).

- Natural England should specify what impact it expects the training and information initiative to have on Scheme take-up, and on the range of management options adopted. It should consider how it might be used in conjunction with promotional interventions to encourage take-up of a wider range of management prescriptions in a variety of farming sectors, and should put in place measures to evaluate the impact of the initiative in an objective way (see paragraph 8).
- b To improve the environmental impact of the Scheme:**
- The Department should explore whether, for future schemes, the onus could be put on farmers to demonstrate the environmental benefits delivered by their agreements (see paragraphs 9-10).
  - The Rural Payments Agency should remind Inspectors of the need to reconcile land parcels listed on farmers' certificates of organic registration to land parcels on their Scheme agreement. Natural England should robustly challenge inspection documentation received from the Rural Payments Agency in which inadequate evidence of organic certification is provided (see paragraph 12).
- c To improve the cost-efficiency and effectiveness of Scheme administration:**
- To be able to test the value for money of the Scheme, benchmark the efficiency of Scheme administration against other initiatives, and look for further efficiencies, Natural England should measure the cost of administering Organic Entry Level Stewardship distinct from Entry Level Stewardship and the rest of the Rural Development Programme for England (see paragraph 13).

# Part One

## Introduction

**1.1** Reforms to the European Union's Common Agricultural Policy, implemented in the United Kingdom in 2005-06, replaced production-based subsidies with measures designed to encourage landowners and farmers to maintain land in good agricultural and environmental condition. Farmers can claim payment under the single payment scheme, but each Member State is required to reallocate some funds from this scheme to finance other rural development schemes. The amount reallocated is set by the European Union ('compulsory modulation'), although the United Kingdom and Portugal are the only two Member States which have chosen to use an extra allocation ('voluntary modulation') to increase the funding available for rural development. In 2009, on top of compulsory modulation of 5 per cent, England adopted a higher rate of voluntary modulation (12 per cent) than Scotland (6.5 per cent), Wales (2.2 per cent) and Northern Ireland (5 per cent). Portugal started to apply voluntary modulation, at 10 per cent, in 2009.

**1.2** The budget for the Rural Development Programme for England is £3.9 billion over the period 2007 to 2013. Some £2.1 billion of this budget is allocated to three schemes for farmland<sup>1</sup>:

- **Entry Level Stewardship**, with a forecast spend at July 2009 of £1.1 billion, is designed to achieve high take-up among farmers, with modest but widespread environmental gains such as wildlife conservation and natural resource protection. Farmers receive £30 per hectare per year to compensate for the costs of maintaining a number of environmental management measures chosen from a list of options. Commonly chosen options, for example, are hedgerow management, or maintaining wide field margins.
- **Organic Entry Level Stewardship**, with a forecast spend at July 2009 of £176 million, aims to improve land stewardship both through take-up of environmental management options and through increasing the amount of land farmed organically across England. Farmers receive a total of £60 per hectare per year, £30 of which offsets the cost of adopting environmental measures and £30 compensates for the cost of maintaining organic certification. Farmers converting to organic management can receive a further 'conversion aid' grant of £175 per hectare per year for the first two years, or £600 per hectare per year for the first three years for 'top fruit' orchards.

<sup>1</sup> The remainder is used to fund measures to improve the competitiveness of the forestry and farming sectors, improve rural quality of life, diversify the rural economy, and improve the environment and countryside.

- **Higher Level Stewardship**, with a forecast spend at July 2009 of £868 million, pays higher rates of grant for more demanding environmental management. The cost of managing many Sites of Special Scientific Interest, for example, is supported through this scheme.<sup>2</sup>

**1.3** This report focuses on Organic Entry Level Stewardship (the Scheme), because it has many of the same challenges as the larger Entry Level Stewardship scheme, plus the additional requirements of compliance with organic certification.

**1.4** The Scheme is overseen by the Department for Environment, Food and Rural Affairs (the Department). Natural England, a Non-Departmental Public Body, administers applications to join the Scheme, maintains agreements and approves payments under delegated authority from the Rural Payments Agency. The Rural Payments Agency is responsible for making payments to farmers, and is accountable for the Scheme to the European Commission. In addition, Natural England relies on Rural Payments Agency inspections to gain assurance that payments can be authorised (**Figure 1** overleaf). In the event of breaches of the relevant European Commission regulations, costs have to be funded by the UK Government instead of the European Commission.

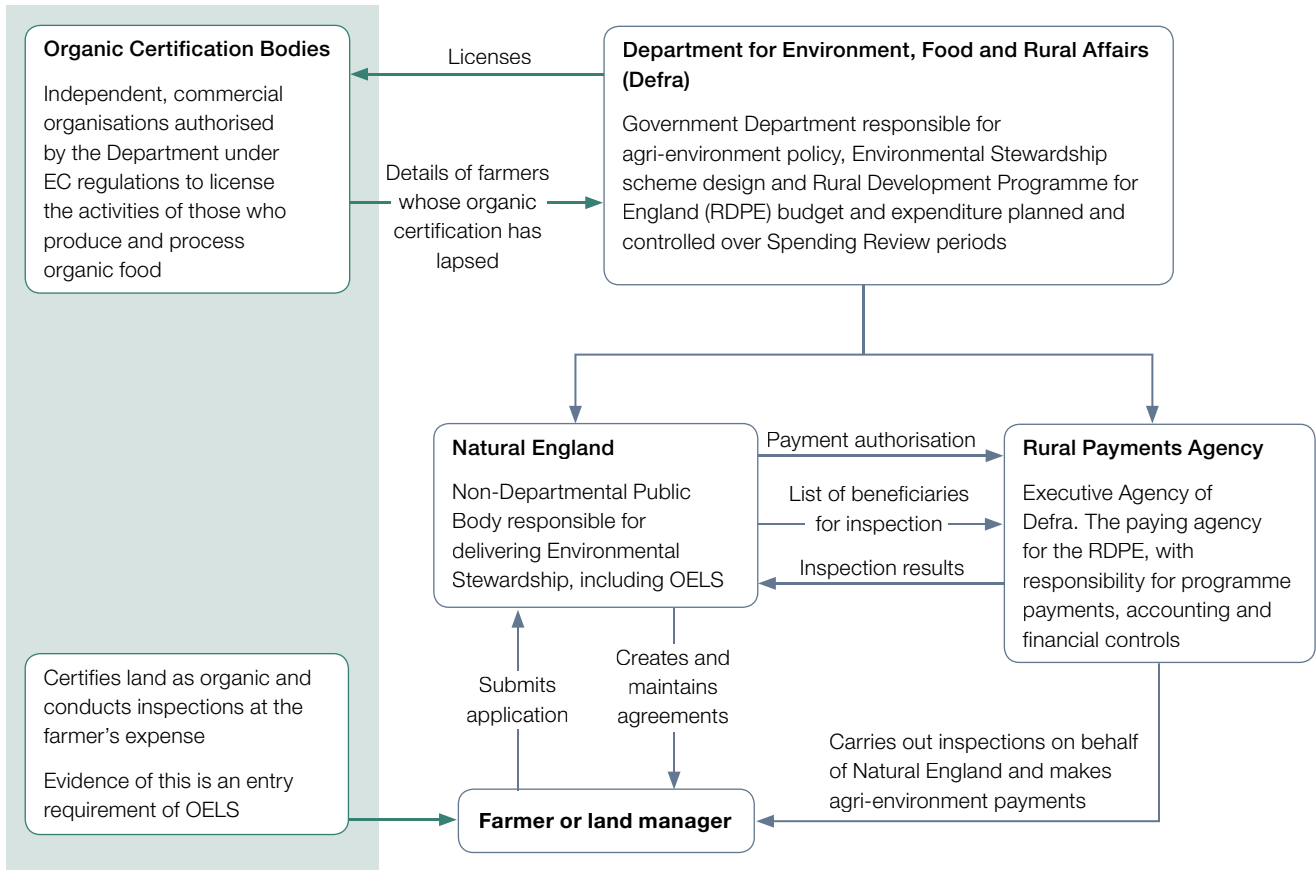
**1.5** This report examines the financial implications of the take-up of the Scheme, the environmental benefits delivered, and the efficiency with which the Scheme is administered. The methods we used to collect evidence, and the ways in which we used it, are summarised in Appendix 1.

<sup>2</sup> *Natural England's Role in Improving Sites of Special Scientific Interest*, HC 1051 Session 2007-08, 21 November 2008.

**Figure 1**  
Responsibilities for managing Organic Entry Level Stewardship (OELS)

**Organic Entry Level Stewardship only**

**Environmental Stewardship  
(Entry Level Stewardship, Organic Entry Level Stewardship, and Higher Level Stewardship)**



Source: National Audit Office



# Part Two

## The effective management of EU funds

**2.1** The effective financial management of the Scheme depends on utilising the EU funds before the European deadline. Some 42 per cent of the funding is provided by the UK taxpayer, 21 per cent from EU funds made available specifically for agri-environment schemes of this kind, and 37 per cent from EU money reallocated by the UK Government from the single payment scheme. The Department can divert under-used funds from one part of the Rural Development Programme for England to another, but any under-utilisation of funds on the Scheme would need to be identified early on, and pre-suppose that there are opportunities for the money to be spent elsewhere. The Scheme is due to finish in 2013 and the Department has until the end of December 2015 to utilise the EU funds.

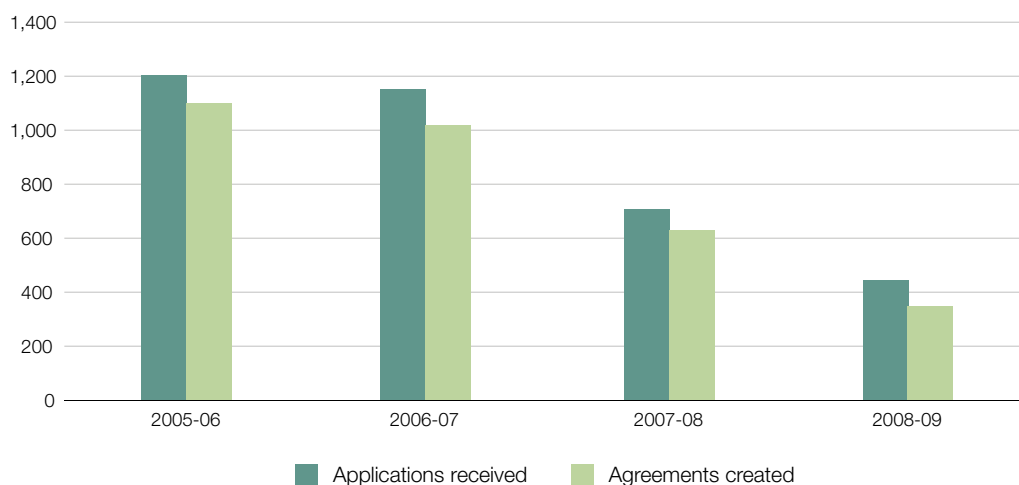
### The number of farmers joining the Scheme

**2.2** The number of new applicants for the Scheme has been decreasing from an average of 100 applications per month in 2005-06, to 40 per month in 2008-09 (**Figure 2** overleaf). This trend looks set to continue. The number of calls to the Organic Conversion Information Service, which is currently contracted by Natural England to provide advice to farmers on converting to organic land management, was 60 per cent lower than expected in the first quarter of 2009.

**2.3** About half of the farmers requesting application packs from Natural England have not gone on to apply. We undertook a survey of organic farmers to establish what deterred them from applying for the Scheme. The administrative burden of applying does not appear to be a deterrent. The stakeholders we contacted considered the Scheme application to be relatively easy and quick to complete, although 38 per cent of farmers who had applied to join the Scheme said that the application process could be improved. The most common reasons for not continuing with an application were that the Scheme's rules and regulations were considered too complex (39 per cent), or that organic farming was not financially viable (23 per cent).

**Figure 2**

Applications for Organic Entry Level Stewardship, August 2005 to June 2009

**Number of applications**

Source: Natural England

**NOTES**

- 1 Years run from 1 August to 31 July, as the Scheme started in August 2005. Figures for 2008-09 are for 1 August to 23 June.
- 2 Figures include farmers who have applied for Organic Entry Level Stewardship with Higher Level Stewardship.

**2.4** The Department's evaluation of Environmental Stewardship in 2006<sup>3</sup> found that farm size was the most significant factor influencing whether a farmer joins the Scheme, and that farmers with smaller farms were less likely to apply. Across all farming sectors, 40 per cent of farmers we surveyed who did not join the Scheme were farming less than 50 hectares. Scheme payments were more likely to cover the costs of maintaining environmental management options on larger farms. Modelling of typical farm income and expenditure across nine different farming sectors, carried out by agricultural consultants on our behalf, shows that in many sectors Scheme payments form a lower proportion of net income for smaller farms.

### Meeting the Department's target for land entered into the Scheme

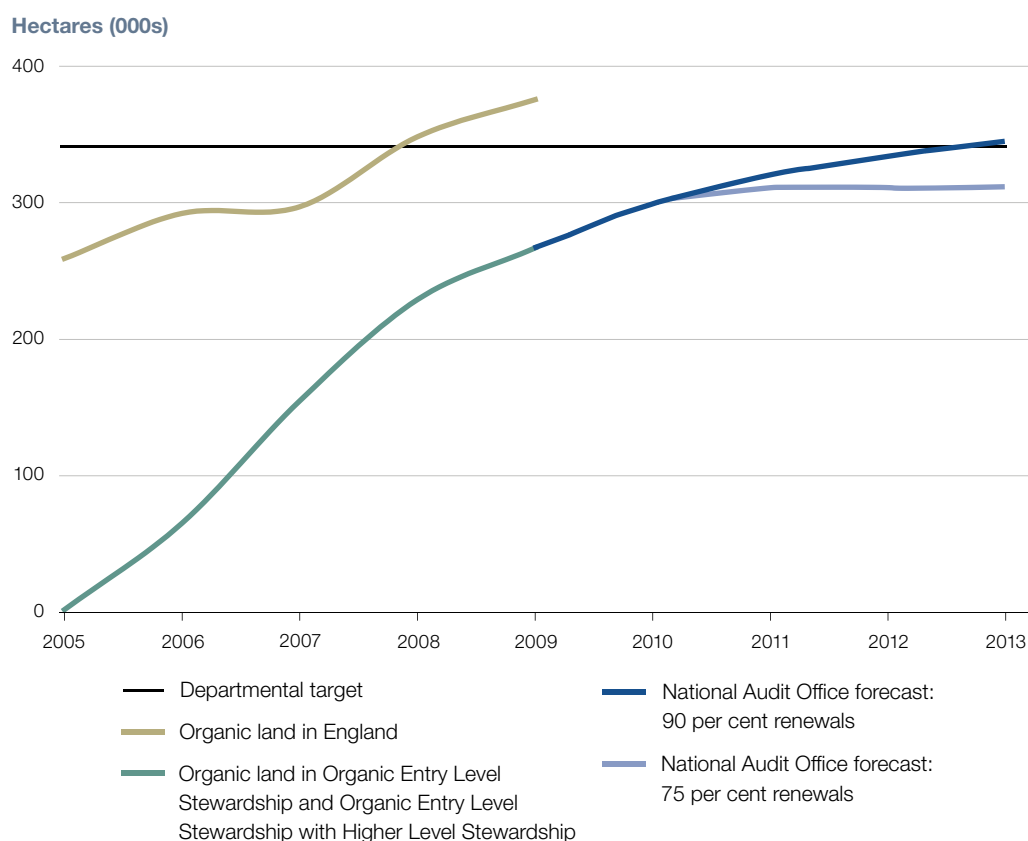
**2.5** By 2013, when the Rural Development Programme for England is due to end, the Department aims to have 340,000 hectares of organic land under agri-environment scheme management. By March 2009, 266,290 hectares of organic land were in Environmental Stewardship agreements, amounting to 78 per cent of the Department's target. By the end of 2009, some 75 per cent of land under organic management in England was covered by the Scheme.

<sup>3</sup> *Evaluation of the introduction and operation of Environmental Stewardship*, Defra, November 2006.

**2.6** As the agreements with farmers for the Scheme run for five years, our modelling of Scheme take-up indicates that meeting the target of 340,000 hectares of organic land under agri-environment schemes will depend on a 90 per cent renewal rate (**Figure 3**). On the basis that our survey of agreement holders found that 90 per cent of farmers plan to renew their agreement, the target should be achievable.

### Figure 3

The area within organic Environmental Stewardship schemes as a proportion of the total organic land in England



Source: National Audit Office analysis of Natural England and Departmental data

#### NOTES

- 1 National Audit Office forecasts of future take-up are based on Scheme take-up trends to date as recorded by Natural England, and do not take the effect of the Department's Entry Level Stewardship Training and Information Programme into account. The likely impact of this intervention is currently unquantified.
- 2 Data on the amount of organic and 'in-conversion' land is for the year to January. Data on the area of organic land under Environmental Stewardship is for the year to the end of March.

## Making use of all the available EU funding

**2.7** The Department forecast in July 2009 that £176.3 million total funds would be required for the Scheme, on the assumption that 20,000 hectares of land would be entered into the Scheme each year between then and 2013. By 2007-08, expenditure on the Scheme had reached almost £50.4 million, of which £28.6 million was from the European Union and £21.8 million from the UK Exchequer. Based on our forecasts of future take-up using trend data for spend to date available at the time of our audit, we estimate that cumulative spend on the Scheme is likely to total between £159.2 and £160.4 million by March 2013, between £15.9 million and £17.1 million less than the Department's July 2009 forecast (**Figure 4**). Some £10 million of this potential underspend is money that would have been provided by the EU. Natural England revised their forecast in March 2010, on an updated assumption that 22,600 hectares a year would be entered into the Scheme and on that basis does not anticipate a shortfall of funds.

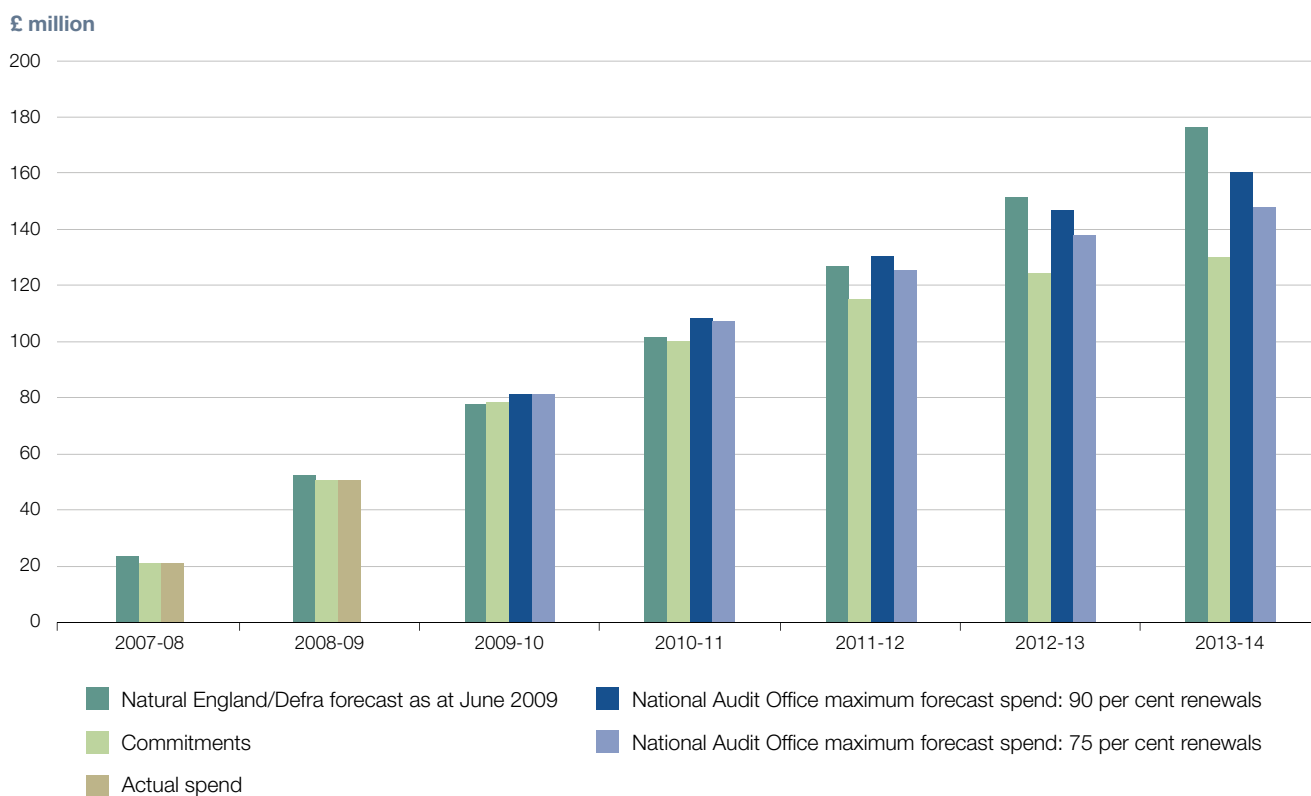
**2.8** The potential shortfall has arisen in part because the original forecasts for the Scheme were too optimistic. This model first encountered problems when the Department experienced delays in securing programme approval from the European Commission. The number of agreements made in 2006-07 and 2007-08 was lower than had been expected, leading to an underspend of £1.6 million for this period.

**2.9** Exchange rate movements mean that the UK contribution needed to utilise all the EU funding may be higher than the Department originally anticipated. Due to financial pressures across Government, there may not be sufficient funds to match the available EU budget. The Rural Development Programme for England Audit and Risk Committee estimated in March 2009 that, if exchange rates remain at the current rate, £2.5 billion of EU funds will be available for the Programme between 2009 and 2013, rather than the £1.8 billion originally expected.

**2.10** To make the most of the funding available, the Department has started informal discussion with the European Commission with a view to reducing the rate of matched funding for voluntary modulation. The outcome of these discussions has yet to be determined. If unsuccessful, and unless further action is taken to use the EU funds, the Department has estimated an additional £438 million of Exchequer funds would be required to match projected EU funding for agri-environment schemes up to the end of the Programme in 2013. For the organic Scheme, estimated additional matched funding from the UK Exchequer would amount to some £20 million at current exchange and co-financing rates. If this matched funding cannot be provided, there is a risk that the EU funds top sliced from single payment scheme claimants would have to be returned to the European Commission.

**Figure 4**

Cumulative annual budget and forecast spend of Rural Development Programme for England funds on Organic Entry Level Stewardship, 2007-08 to 2013-14



Source: National Audit Office analysis of Natural England and Departmental data

#### NOTES

- Figures for 2006-07 are not included because payments made in this period were funded from the English Rural Development Programme 2000-2006.
- Actual expenditure is made one year in arrears in respect of commitments made the previous year. This means that payments to farmers are made one year later than the land is entered into the Scheme.
- Budgets are based on the Department's original forecast budgets for both EU funding and UK Exchequer match funding. These are reviewed on a regular basis to take account of actual and projected patterns of take-up.
- Commitments are higher than budget for 2008-09 because Natural England routinely commits 0.5 per cent over budget to allow for potential closure of some agreements.
- National Audit Office forecast spend is based on the number of current commitments plus estimated spend based on the forecast amount of land likely to be entered into the Scheme at either fully organic or 'in conversion' status.

**2.11** Following a review of Environmental Stewardship in 2008, the Department recognised that achieving sufficient take-up of this scheme to utilise all available EU funds would be challenging. It plans to spend £14 million of Rural Development Programme for England funds, subject to European Commission approval, between 2010 and 2013 on a new 'Entry Level Stewardship Training and Information Programme' aimed at encouraging and supporting farmers to renew their Entry Level and Organic Entry Level Stewardship agreements. The Training and Information Programme also aims to encourage farmers from a wider range of farming sectors and groups to join the Scheme, with better targeted, more locally appropriate land management options. Natural England is currently developing a method for evaluating the success of this initiative.

# Part Three

## The impact of the Scheme

**3.1** The specific environmental objectives of the Scheme are wildlife conservation, maintenance and enhancement of landscape quality and character, protection of the historic environment, and resource protection.<sup>4</sup> The additional costs of administration and the matched funding provided by the UK Exchequer underline the importance of maximising benefits.

**3.2** Payments under the Scheme have three components, which this part of the report examines in turn:

- £30 per hectare per year, over five years, is paid for having a certificate as an organic farmer.
- Farmers converting their land to organic management can receive a supplementary 'conversion aid' grant. The Department intends these payments to support farmers whilst they are converting their land to organic methods over the first two or three years of the agreement.
- A further £30 per hectare per year is paid over five years for maintaining environmental management 'options' (for example, maintaining grassland with low fertiliser inputs). These are intended to secure environmental benefits additional to those provided by organic farming over the five-year agreement.

### **The benefits of the £30 per hectare to support organic farming**

**3.3** Research indicates that organic farming practices can encourage greater biodiversity benefits than conventional farming. For instance, limiting use of chemical pesticides and fertilisers on farmland helps increase the number and diversity of insects and other wildlife. The environmental benefits of organic farming can vary however, by agricultural sector, farm location, crop type, and the adoption of different farm management practices. At present, insufficient evidence exists with which to quantify the environmental benefits achieved through different types of organic farming practices in comparison to carefully targeted land management prescriptions, such as those implemented by conventional farmers under the Entry Level Stewardship scheme.

<sup>4</sup> Entry Level Stewardship has the same objectives. Higher Level Stewardship also has a primary objective to promote public access and understanding of the countryside, and secondary objectives of flood management and genetic conservation, where these contribute to the primary objectives.

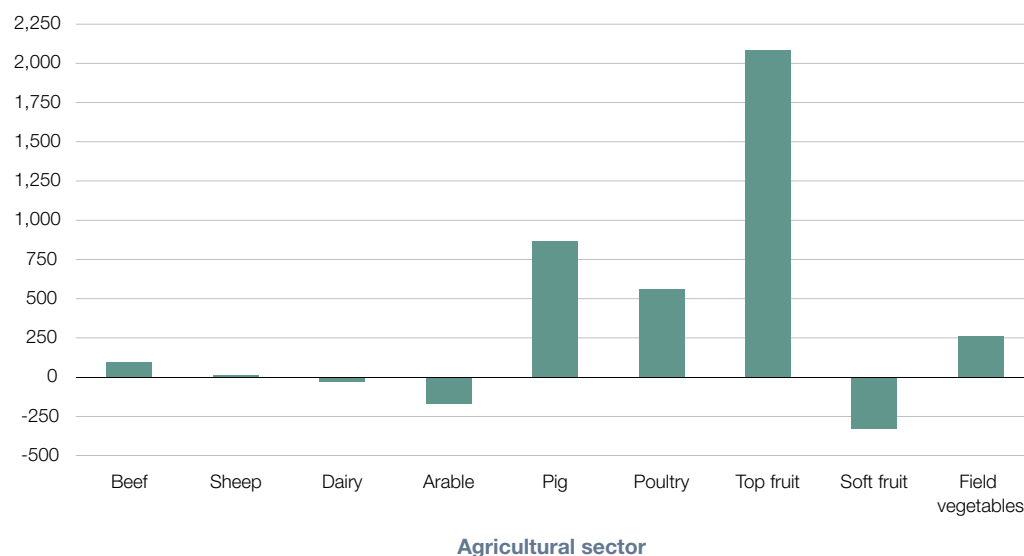
**3.4** Scheme participants are paid £30 per hectare per year to cover the cost involved in being licensed as an organic farmer. The payment was set by the Department, and verified by the Royal Agricultural College. In order to identify the extent to which this payment encourages farmers to continue farming organically, we examined its impact on nine farming sectors (**Figure 5**). The exercise found that in six of the nine sectors, organic farming, even without Scheme payments, generated a greater net annual income per hectare than conventional farming in the long term. In only one sector, dairy farming, did the payment tip the balance between losing and gaining money per hectare as a result of converting from conventional to organic farming.

**3.5** Our survey of farmers established that those with arable crops or field vegetables were less likely to apply for the Scheme than livestock farmers. Scheme take-up is similarly unevenly distributed, and most of the holdings in the Scheme are beef, dairy, sheep, or arable farms. Although this pattern broadly reflects the distribution of organic farming across England, it means that the environmental benefits delivered by the Scheme are unevenly distributed across farming sectors.

### Figure 5

The financial impact of farming organically compared with conventional farming

**Typical difference in annual farm income per hectare for an organic farm compared with a conventional farm (£)**



Source: National Audit Office economic models

#### NOTES

- 1 Net income represents the total income from farming activities and the single payment scheme (but excluding payments from Environmental Stewardship schemes) minus costs and overheads. These figures do not include the costs incurred during the period of conversion to organic farming, or corresponding conversion aid. They are based on agricultural data from the UK.
- 2 This analysis is based on typical costs, and in practice costs and income may vary depending on local environmental factors and management practices.

### The benefits of financial aid in converting to organic farming

**3.6** Farming experts we contacted regard the conversion aid payable to farmers as the key aspect of the Scheme, as it supports claimants through the period when costs are highest and income from farm produce is lowest. Sixty-three per cent of the Scheme applications between August 2005 and April 2009 requested conversion aid, and our survey established that 36 per cent of farmers in the Scheme joined because they required financial support to convert their land to organic status.

**3.7** The conversion aid available varies across the United Kingdom (**Figure 6**). The conversion aid available to farmers in England is broadly similar to that in Scotland, whereas the conversion aid available in Northern Ireland and Wales is much higher.

**3.8** Forty-four per cent of farmers we surveyed who were converting their land said they could not continue without the support available through conversion aid. Our economic models show that business viability typically decreases during conversion, but that conversion aid payments, when combined with the £60 per hectare per year Scheme payment, either increase profits or mitigate losses in all nine sectors over the five-year period of the agreement (**Figure 7** on page 22). Conversion aid payments have the largest impact per hectare in top fruit farms, where the Department chose to pay £600 per hectare over three years of conversion in addition to the £60 payment. This was designed to help farmers respond to consumer demand for organically produced fruit and contribute to the Government target of increasing fruit and vegetable consumption. In setting the payment, the Department also sought to recognise that organic fruit requires a long term investment. The higher level of payment for this sector does not cover typical additional net costs experienced during the conversion period but is more than needed to compensate for the costs of converting to organic farming taking the five-year agreement as a whole. The impact of conversion aid payments at a farm level are most marked in the beef, sheep, dairy and arable sectors, where take-up of the Scheme is highest.

### Achieving environmental benefits through environmental land management measures

**3.9** The Scheme includes a range of land management options designed to achieve environmental benefits. Farmers must choose some of these options, and the cost of implementing them is compensated by a payment of £30 per hectare per year over the five-year agreement. There are 56 non-mandatory management options available, each of which contributes towards a minimum 'points target' based on land area to qualify. These options include activities to preserve habitats such as hedgerows for native plants and animals, protect historic buildings or features, keep water courses and soils in good condition, and maintain the traditional farming landscape, for example through preserving stone walls.



**Figure 6**  
Schemes supporting organic farming in the United Kingdom

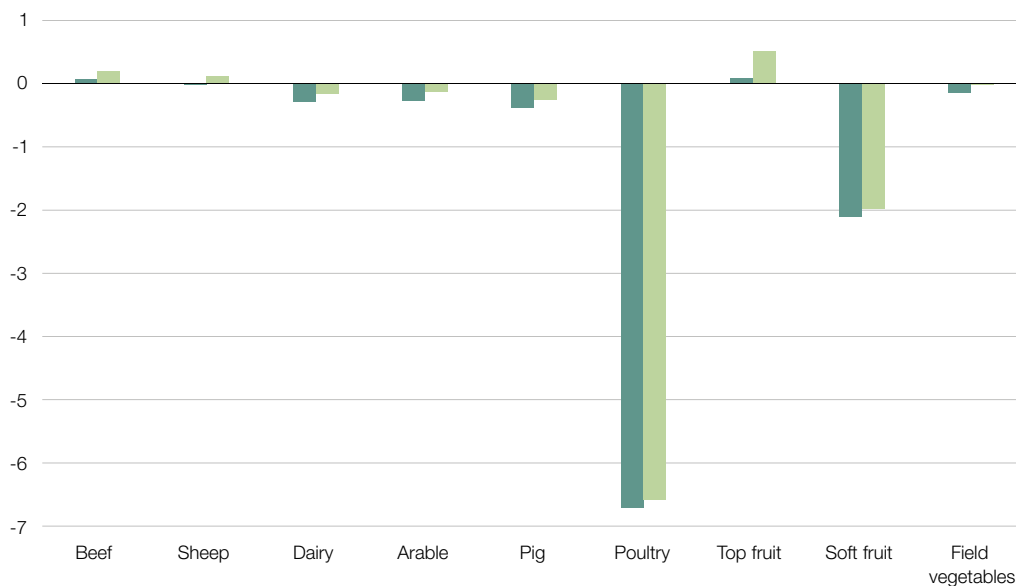
Country	Scheme	Payments	Accessibility	Conditions
<b>England</b>	Organic Entry Level Stewardship	Ongoing: £60 per hectare for five years.  Converting land to an organic system ('conversion'): additional payments of £175 per hectare for land in conversion for first two years (£600 per hectare for first three years for top fruit).	Open to all farmers that already practice organic management, or are converting their land to do so.	Payments conditional on organic certification and delivery of management options.
<b>Wales</b>	Organic Farming Conversion Scheme	Conversion: in years 1-2, a £1,000 establishment payment, plus £12-£350 per hectare depending on land use category. In years 3-5, a £500 establishment payment, plus £5-£14 per hectare, depending on land use category.	Open to farmers undergoing conversion, and Organic Farming Scheme agreement holders wanting to convert additional land.  The Organic Farming Scheme is now closed to new applicants.	Payments conditional on organic certification.
<b>Scotland</b>	Scotland Rural Development Programme – Rural Priorities	Ongoing: £50-£60 per hectare depending on land type (minimum five years).  Conversion: £105-£300 per hectare depending on land type for two years; £50-£60 per hectare for a further three years.	Competitive entry. Organic farming alone is usually insufficient to qualify an application. Qualifying factors may include collaborative working, or encouraging young entrants into farming.	Payments conditional on organic certification and the delivery of additional standards for organic production and care of the environment.
<b>Northern Ireland</b>	Organic Farming Scheme	Ongoing: no specific payments available for organic farmers within this scheme. Those requiring ongoing support can apply to join the Countryside Management Scheme, open to all farmers with eligible land.  Conversion: Payments are front-loaded to compensate for the initial cost of conversion. Total of £470-£670 per hectare available for five years depending on land type.	Open to all farmers with eligible land. Applications invited during specified periods only. Next application window will be in 2010.	Payments conditional on organic certification.

Source: National Audit Office

**Figure 7**

The financial impact of converting to organic farming, both with and without organic Scheme payments, when compared with conventional farming

**Difference in annual farm income (£000s)**



**Agricultural sector**

- Typical difference in annual farm income per hectare for a farm converting to organic management, compared with a conventional farm
- Typical difference in annual farm income per hectare for a farm converting to organic management and receiving Organic Entry Level Stewardship payments, compared with a conventional farm

Source: National Audit Office economic models

**NOTE**

Net income represents the total income from farming activities and the single payment scheme (but excluding payments from Environmental Stewardship schemes unless otherwise stated) minus costs and overheads. Based on UK data.

**3.10** The management options available under the Scheme were informed by environmental research, and each option has the potential to provide environmental benefits, on top of the high level of land stewardship already demanded by organic farming. Our survey found that 72 per cent of farmers believe the Scheme has had a positive environmental impact on their farm, and 74 per cent stated that this would only be sustained through continued financial support.

**3.11** Achieving widespread environmental benefit from the Scheme depends on balancing a requirement for farmers to implement sufficiently challenging land management options with the need to maintain a high take-up rate. Many of the Scheme's options are designed to enable farmers to join the Scheme with minimal impact on their business. Research carried out on behalf of the Department in 2006 found that 74 per cent of features entered into the Scheme were already being managed along the lines required by the Scheme. Since our survey found that 83 per cent of farmers in the Scheme had previous experience of agri-environment schemes, the Scheme may be helping to maintain some of the features which may previously have been managed under predecessor schemes. Our survey in 2009 found, however, that 57 per cent of farmers said they chose some options that were already in place on their farm, even among farmers who had not been members of predecessor schemes.

**3.12** Forty-five per cent of applicants stated that they selected options that are the easiest and cheapest to implement and maintain, and have the least impact on their farming business. This means that the majority of farmers currently choose similar options, such as hedgerow management, while more challenging or expensive options, such as planting nectar flowers for bees, are rarely implemented (**Figure 8**). A broader range of environmental benefits could be gained through the Scheme by increasing take-up of some of the less popular options, and ensuring that these are appropriately located on each farm.

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### Figure 8

The frequency with which Scheme options have been selected

Option category	Take-up (minimum percentage of agreements containing these options)
Hedgerow management	57
Grassland with low/very low fertiliser input	42
Conserving trees and woodland	18
Protecting birds and insects	7
Taking farmland out of production	7
Protecting historic and landscape features	4
Reducing soil erosion	1

*Source: Natural England's records of options selected by Scheme agreement holders; National Audit Office review of environmental research*

#### NOTES

- 1 The option categories used here are based on categories of environmental benefits as defined by the National Audit Office.
  - 2 Some options deliver environmental benefits in more than one category, so have been grouped according to their primary objective.
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**3.13** The Department was aware at the outset that a narrow range of options would be implemented by participants. In its 2003 evaluation of the pilot Entry Level Stewardship scheme the Department found that participants typically selected between four and seven of the 55 options available to them. Further Departmental work in 2006 found that 90 per cent of options chosen under the Scheme would continue under Environmental Stewardship guidelines if farmers left the Scheme. The Department made changes to the available options in response to these findings, but the Environmental Stewardship Review of Progress in 2008 identified that the majority of agreements were still focused around a very narrow range of options.

**3.14** The 2008 review also identified that the environmental impact of the Scheme could be improved by promoting better targeted management options. The Department's new Training and Information Programme, costing £14 million of Rural Development Programme for England funds between 2010 and 2013, and focusing on Entry Level Stewardship, will encourage applicants to select options that have the most environmental benefit when appropriately placed on their farm. It will also provide applicants with information about how to manage their chosen options properly. Support to farmers will include training events, mentoring, written guidance and on-farm demonstrations. Stakeholders have commented that farmers would benefit from additional advice and guidance in implementing measures under the Scheme, and that this would improve the environmental benefit delivered. There is some evidence that advisory support would maximise the benefit from agri-environment schemes. There is a risk, however, that because many applicants do not need to change their farming practices to comply with the organic Scheme, additional information will not significantly change the decisions farmers make when choosing options to implement. Natural England will manage this risk by putting in place measures to monitor the outputs from the intervention, to enable them to tailor the programme accordingly.

### **Compliance with the conditions of the Scheme**

**3.15** Farmers' compliance with their agreements is assessed by on-farm inspections by the Rural Payments Agency Inspectorate and a paper check of the organic status of the farm by Natural England at the beginning and end of the agreement. This process allows Natural England to take assurance that farmers are providing the environmental benefits they have undertaken to deliver under the Scheme.

**3.16** To comply with European Commission regulations, the Rural Payments Agency inspects some 5 per cent of farms under the Scheme each year. Our analysis of inspection results found that the majority of beneficiaries (87 per cent of agreements inspected in 2008) had exceeded the minimum requirements for Scheme membership, but most (up to 76 per cent) were delivering less on their selected options than they had stated in their application. This means that Natural England's records of the options being delivered by Scheme participants is imprecise.

**3.17** In 2008, 4 per cent of agreements failed on inspection. The failure rate could in theory be higher or lower, but the small sample size makes it difficult to extrapolate the results to the entire population. To date, no disallowance notices have been served on the Department in relation to the Scheme.

**3.18** Inspection cases are selected at the beneficiary level by the Rural Payments Agency based partly on risk criteria, with the remainder chosen at random. The risk criteria are assessed every year to ensure that those beneficiaries most prone to failure are more likely to be selected for inspection. As inspection failure can occur when a farmer exceeds the commitments in their agreement as well as when a farmer falls short of the commitments, Natural England reviews the results of all inspections to determine what action is required. Our review confirmed that the proportion of beneficiaries incurring payment recoveries because of unsatisfactory inspection results is higher amongst those selected for inspection in the risk-based sample than those in the random sample, suggesting that the risk criteria used had been successful in identifying cases most likely to be in breach of Scheme requirements.

**3.19** To qualify for the Scheme, all the land included in the application must be registered with an Organic Certification Body. This is checked at the start and end of each five-year Scheme agreement, and Organic Certification Bodies submit a list of farmers whose organic certification has lapsed to the Department each month. Natural England's policy is only to pursue lapses longer than eight months. In 87 per cent of inspection cases we reviewed in which a certificate of organic registration was filed on the inspection dossier (39 out of 45), there was a discrepancy between the amount of land that was registered organic at the start of the agreement and the amount of organic land being claimed for when the agreement was inspected. This was mainly due to small changes to fields recorded on the Rural Land Register. In 8 per cent (9 out of 119) of inspection cases we reviewed, the inspector either had not examined or did not record evidence of having examined the agreement holder's certificate of organic registration.

# Part Four

## Administering the Scheme efficiently

**4.1** Natural England is responsible for administering applications, processing claims, and authorising payments to Scheme participants. The Rural Payments Agency makes payments to farmers and carries out compliance inspections.

### **The accuracy and timeliness of payments to farmers**

**4.2** Natural England has speeded up Scheme processing over the duration of the Scheme, and the average elapsed time it takes to process new applications has reduced by 91 per cent, from 145 days in August 2005 to 13 days in May 2009. Of all applications, 99.5 per cent have been processed within three months of receipt, well above Natural England's service level agreement target of 90 per cent. Over the duration of the Scheme, 90 per cent of payments have been made on time, and 95 per cent of payments were made on time between January and June 2009. The length of time taken to process payments has fallen by 81 per cent, from an average of 31 days in 2005-06 to six days in 2008-09. Natural England attributes this to a range of efficiency measures, including the centralisation of processing in one regional office, regular reviews of targets, and the integration of best practice into staff training modules. Only 6 per cent of the Scheme applicants we surveyed were dissatisfied with the quality of service they had received

**4.3** Over the life of the Scheme, to June 2009, Natural England has initiated 366 recoveries of overpayments it has made in error to farmers. The total value of overpayments recovered to June 2009 is £1.17 million, representing some 2 per cent of total spend. The number and value of overpayment errors as a proportion of the total has risen from 0.7 per cent of the number of payments in 2006-07 to 5.0 per cent in 2008-09, and by value, from 0.4 per cent in 2006-07 to 2.2 per cent in 2008-09. Slightly more than half (191) of these overpayments, with a combined value of £0.63 million, were due to administrative error. Natural England attributes a further 175 overpayments, totalling £0.54 million, to errors made by the claimant. The increase in reported overpayments followed a standard review of payments by Natural England, which identified a number of previously undetected errors.

## The administrative cost of the Scheme

**4.4** The Department does not keep a record of how much it costs to administer the Scheme as distinct from the rest of the Environmental Stewardship programme. Based on Natural England's assessment that the Scheme represents 3.4 per cent of the overall programme's administrative workload, it is estimated that the cost to Natural England of administering the Scheme was £1.5 million in 2008-09, equivalent to £637 for each current agreement (**Figure 9**). Natural England paid £30.2 million out to farmers in the Scheme over the same period, equivalent to £12,790 per agreement. The Department intended Entry Level and Organic Entry Level Stewardship to be relatively simple schemes with a low administrative overhead, and the Scheme is cheaper to administer than the single payment scheme.

**Figure 9**  
The cost to Natural England of administering Organic Entry Level Stewardship

	2005-06	2006-07	2007-08	2008-09
Staff costs	£62,925	£122,704	£158,893	£156,362
Administration costs	£50,897	£53,476	£69,386	£74,802
IT costs	£953,531	£788,697	£1,496,504	£1,221,325
<b>Total processing cost</b>	<b>£1,067,353</b>	<b>£964,877</b>	<b>£1,724,783</b>	<b>£1,452,489</b>
<b>Total processing cost as a proportion of total Scheme costs</b>	<b>17%</b>	<b>5%</b>	<b>6%</b>	<b>5%</b>
Total number of claimants	586	1,279	1,799	2,279
<b>Processing cost per claimant</b>	<b>£1,821</b>	<b>£754</b>	<b>£959</b>	<b>£637</b>
<b>Natural England direct cost per claimant</b>	<b>£194</b>	<b>£138</b>	<b>£127</b>	<b>£101</b>
Single payment scheme: processing cost per claimant	£1,432	£1,486	£1,696	£1,743

Source: Natural England data, based on a National Audit Office model

### NOTES

- 1 The processing cost per claimant is an average, which includes the cost of processing applications as well as maintaining ongoing agreements.
- 2 This table does not include costs incurred by the Rural Payments Agency for administering payments and carrying out inspections as the amounts are not significant.
- 3 Staff costs include: pension costs averaged at 17 per cent of salary; National Insurance contributions averaged at 9 per cent of salary; and agency staff costs where relevant. Non-payroll staff costs are based on a percentage of the total costs incurred in processing Environmental Stewardship (3.4 per cent).
- 4 Administration costs include: apportioned costs for corporate services administration; travel and subsistence; mobile phones; recruitment; and rent on buildings at business rates, including capital charges, VAT, facilities management costs and utilities. Costs are based on total costs apportioned to the Scheme on a per capita basis of 12 per cent.
- 5 IT costs are apportioned costs and not actual costs incurred. The Genesis system, used to process Environmental Stewardship, is a Defra asset for which Natural England incurs a recharge. Costs have been apportioned to the Scheme based on standard processing times with end of year agreement numbers as reported on Genesis for each respective year. The total Genesis recharge cost is taken from Natural England's annual accounts.
- 6 For the year 2008-09, Genesis running costs apportioned to the Scheme consisted of a £619,532 recharge from Defra based on depreciation and costs of capital, £576,248 for the support and maintenance contract, and £25,545 for contractors and licensing.

**4.5** The cost of IT is high in comparison to the relatively small number of agreements, and this significantly increases the average administrative cost per agreement. Natural England has made cost savings in staffing and administration, reducing the direct cost of each agreement to £101 in 2008-09 from £194 in 2005-06. Natural England has little control over the cost of the IT system, however, as it is a Departmental asset for which Natural England incurs a recharge.

**4.6** The Scheme is more time consuming to process than Entry Level Stewardship. Although many of the administrative processes are very similar, the organic Scheme requires additional eligibility checks, such as confirming that all the land in each application is covered by a certificate of organic registration. These checks almost double processing times. Adopting an online system has enabled Natural England to cut processing times for Entry Level Stewardship applications, with those made online taking 1.24 hours, compared to 3.46 hours for Entry Level Stewardship applications made by post and 7.15 hours for organic Scheme applications. Equivalent efficiency savings cannot be made in Scheme processing because it is not currently possible for farmers to initiate applications online. Evidence of organic certification cannot be provided, nor confirmed, electronically. Natural England considers that requiring Organic Certification Bodies to provide electronic certificates would be unduly expensive, and place a disproportionate burden on what are often small organisations.

**4.7** Almost three-quarters (73.5 per cent) of Scheme agreements will come to a close between 2010 and 2012. Natural England anticipates that 90 per cent of farmers will renew their agreements, meaning that some 2,300 new agreements will need to be processed over the two-year period. Natural England predicts that the work involved, including processing final claims and promoting better targeted options, will take about two hours on top of the standard time taken to process a new application (a total processing time of 9.15 hours for Scheme renewals, compared to 5.46 hours for Entry Level Stewardship renewals by paper, and 3.24 hours for Entry Level Stewardship renewals online).

**4.8** Necessary changes to the Rural Land Register currently being made by the Rural Payments Agency will impact on the time it takes to process Scheme payments. All of the maps on which agreements are based will be subject to small amendments. On the basis of a pilot exercise, Natural England estimates it will take one hour to amend each existing Scheme agreement before payments can be made. Larger changes, which will affect eligibility for the Scheme, are expected to affect half of all existing agreements. Processing these is expected to take an estimated extra 2,300 hours, and may require recovery of overpayments. A similar exercise will be necessary for the 32,796 live Entry Level Stewardship and 3,031 live Higher Level Stewardship agreements, involving some further 71,700 hours work. Natural England anticipates spending approximately £1.6 million resourcing this work. Natural England plans to automate some of the mapping changes, but does not consider it possible to implement a fully automated system within the necessary timescales.

**4.9** Natural England is aware of the risks associated with increasing workloads over the next three years, and has plans in place to recruit some 100 additional staff across the whole Environmental Stewardship programme. Four of these staff will work on the organic Scheme. This extra work will be funded out of Natural England's existing budget.



# Appendix One

## Summary of methodology

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### The methods we used to gather evidence

#### 1 Quantitative data analysis

We analysed: Natural England's data on applications for the Scheme, agreement details and performance against targets; the Department's data on organic farmers and growers and organic land in England; and Rural Payments Agency data on Scheme inspections.

#### 2 Financial analysis

We analysed Natural England's data on payments made to farmers and the Department's figures on expenditure and operational costs to date and budget forecasts.

#### 3 File review

We reviewed Departmental literature and academic research relating to the Scheme and organic farming.

#### 4 Process Maps and Natural England staff diaries

We produced process maps of the key stages in processing Scheme applications and agreements, and asked staff at Natural England to record how much time they spend on each stage over a two-week period.

#### 5 Survey

We commissioned PricewaterhouseCoopers to survey from a sample of 3,159 farmers who had applied for information on the Scheme, for which the response rate was 42 per cent (1,321). 939 of these applied for and are now in the Scheme, and a further 72 had applications in progress. 265 decided not to apply for the Scheme and a further 15 applied but withdrew before a decision was made on their application. The remaining 30 farmers were in the Scheme but have now left.

### How we used this evidence

To evaluate: take-up of the Scheme, including transfer from previous agri-environment schemes, delivery timescales and error rates; the environmental and agricultural impact of the Scheme; and inspection and testing results.

To identify the distribution of funding by farm size, sector and region, the overall budget for the programme, the distribution and proportion of EU and UK Exchequer funding and administration costs.

To develop our understanding of Scheme entry and compliance requirements and provide a wider context to the study.

To understand the practicalities of Scheme delivery and assess its effectiveness.

To identify the motivations of farmers for participation in the Scheme and choice of management options. To gain an understanding of farmers' opinions on the application process, the financial and practical impact of maintaining agreements, and the perceived environmental benefits of the Scheme. To identify whether farmers would renew their agreements or apply for the Scheme in the future.

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The methods we used to gather evidence	How we used this evidence
<p><b>6 Staff interviews</b></p> <p>We carried out interviews with senior and operational staff at the Department, Natural England and the Rural Payments Agency.</p>	<p>To gain an understanding of the views of those delivering the Scheme on administration, compliance regime and policy context.</p>
<p><b>7 Stakeholder consultation</b></p> <p>We carried out interviews with key stakeholders and invited written submissions on a number of key issues within the study.</p>	<p>To identify the opinion of stakeholders on the administrative, financial and environmental impact of the Scheme and its influence on conversion to organic farming.</p>
<p><b>8 Case studies</b></p> <p>We visited seven Scheme beneficiaries to discuss their experiences with the Scheme and see how their chosen management options had been implemented.</p>	<p>To inform our practical understanding of the Scheme and the experiences of participants across different farm types, sizes and regions.</p>
<p><b>9 Accompanied inspection</b></p> <p>We accompanied a Rural Payments Agency inspector on an inspection of an Entry Level Stewardship agreement.</p>	<p>To gain a practical understanding of how inspections are conducted and the information required.</p>
<p><b>10 Independent Assessments by Agricultural Economists and Environmental Experts</b></p> <p>We commissioned agricultural consultants Laurence Gould Partnership to complete three pieces of research into: the environmental benefits of the Scheme; the financial impact on participants; and comparisons between the Scheme and schemes in other UK nations and Europe.</p>	<p>To evaluate: the environmental benefits attributable to agri-environment options and the measures taken to gain assurance the Scheme delivers these benefits; and the costs attributable to the Scheme and organic conversion and the impact of farm business viability. To identify the policy context for the approach adopted by the UK to agri-environment schemes and the structure and payments available under comparable schemes.</p>