National Audit Office

Report
by the Comptroller
and Auditor General

Department for Environment, Food & Rural Affairs

Early review of the new farming programme

HC 2221 SESSION 2017–2019 5 JUNE 2019

Key facts

82,500	€2.4bn	£38.2m
number of farm holdings that government anticipates participating in the new Environmental Land Management System by 2028	amount paid to farmers in England through Common Agricultural Policy (CAP) during the 2017 scheme year and that government has committed to until the end of this Parliament	budget for the Future Farming and Countryside Programme in 2018-19

217,000	farm holdings in the UK in 2017
£8 billion	net annual contribution of agriculture to the UK economy in 2017
72%	proportion of UK land managed by farmers in 2017
474,000	people working in agriculture in the UK in 2017 (including casual workers)
85,000	recipients of CAP direct payments in England in 2017
16%	proportion of farmers who made a loss between 2014-15 and 2016-17, despite receiving direct payments
42%	proportion of farmers who would have made a loss between 2014-15 and 2016-17 if they had not received direct payments and everything else stayed the same

Summary

1 The UK farming industry provides more than half of the food we eat and employs 474,000 people in the UK. The industry comprises 217,000 farm holdings, which use 17.5 million hectares of land, almost three-quarters (72%) of the land in the UK.

2 While the UK remains a member of the EU, it takes part in the EU's Common Agricultural Policy (CAP), the agricultural subsidies and rural development programmes agreed between the European Commission and member states of the EU.

3 Following exit from the EU, the UK will no longer be part of CAP and the government is designing and implementing a new domestic agricultural policy and regulatory arrangements. The Department for Environment, Food & Rural Affairs (Defra) is developing the Future Farming and Countryside Programme (the Programme) to carry out the government's proposals in England.

4 Defra has been developing the Programme at a time when its resources are under immense pressure from its preparations for EU Exit. Its plans for the Programme were drawn up on the assumption that the UK would leave the EU in March 2019. In April 2019, the EU agreed to delay the UK's departure until October 2019, although the UK may be able to leave earlier if a withdrawal agreement is ratified. Government has now put its no-deal preparations on hold, but Defra will still be significantly affected by uncertainty about the outcome and timing of EU Exit.

5 Under CAP, farmers in England received a total of €2.4 billion in subsidy in the 2017 scheme year (which runs from October 2017 to October 2018). Most payments to farmers are based on the amount of land they farm. The government considers that these land-based subsidies undermine incentives for widespread productivity improvement and do not offer value for money. It also believes that the structure of CAP is bureaucratic, imposing unnecessary regulatory burdens and failing to reward some public goods adequately, such as measures to improve water quality and soil health. Defra's objectives for the Programme therefore are to ensure public money is used for public goods, particularly environmental outcomes, and to change the relationship between the government, farmers and landowners to deliver a better environment and a thriving farming industry.

6 Under the Programme, current land-based payments to farmers will be phased out over a seven-year period starting in 2021. They will be succeeded by public funding for public goods at the core of which will be the Environmental Land Management System (ELMS). Under the new system, farmers and land managers can enter into a contractual agreement with the government to produce environmental land management plans providing outcomes, for which they will be paid. However, Defra has not yet determined the level of payments which will be made under the new scheme. The government will encourage farmers and land managers to work collaboratively to produce environmental plans covering wider areas than single farm holdings.

7 In addition to ELMS, Defra is also progressing work which will see farmers and land managers being paid for public goods in areas such as animal health and welfare and receiving new farm productivity payments under the new funding proposed in the Agriculture Bill. Defra is also contributing to the development of the UK Shared Prosperity Fund, which the government is setting up to reduce inequalities between communities. ELMS is the cornerstone of the new agricultural policy and is therefore the focus of this report.

8 Activities to develop the future farming model began with the Health and Harmony consultation, which ran for 10 weeks and generated more than 43,000 responses. The response from stakeholders on the process was positive and the evidence base has subsequently been republished to provide analysis and evidence in support of the Agriculture Bill. The evidence base supporting the consultation won the 2018 Campion Award for excellence in official statistics.

9 Following the consultation, the Agriculture Bill 2017–2019 was introduced to Parliament and received its second reading in October 2018. It was accompanied by a policy statement that committed to a timetable for completion of roll-out of the new system by 2028. Defra has not yet produced a full Programme Business Case, or a complete and detailed critical path. Development of both of these is ongoing, with the critical path now showing Programme interdependencies up to 2021. However, Defra's timetable contains major upcoming milestones, beginning with the national pilot and accompanying reductions in direct payments from 2021.

10 Implementing the new agricultural policy will be complex, difficult and high-risk, and Defra has a lot to do to prepare. It must decide what environmental outcomes it will reward, how it will pay farmers for them, how it will regulate the sector after leaving the EU, and then establish an operational structure and digital systems to deliver a new service to farmers.

11 This report is a review of Defra's early progress in implementing the Programme, based on our experience of reviewing programmes across government. The Programme represents a major policy initiative and a significant and wide-ranging change programme, with a shift away from a traditional farming industry towards a framework for environmental management. The purpose of this report is not to review or question the policy itself, but to outline the key aspects of that change process and the risks that need to be managed at this early stage. We focus on the feasibility of the Programme given the scale of the transformation proposed and the timescales set out in Defra's critical path, and because Defra has a mixed track record of planning and implementing digital programmes, on its proposed approach to digital systems development.

12 Therefore, we are looking at:

- the approach taken to the Programme to date, the objectives it is intended to meet, and the timetable against which Defra plans to deliver it (Part One); and
- aspects of the Programme that we believe need early consideration and where we have identified risks to its successful delivery (Part Two).

13 We set out our audit approach in Appendix One.

Key findings

14 **The success of the Programme depends on key assumptions about take-up and how the farming community responds to these changes.** In introducing a system based on payments for environmental outcomes, Defra is assuming a level of take-up that has not been seen on previous environmental schemes and that the withdrawal of direct payments to farmers will be offset by productivity gains across the sector.

- Defra has recently scaled back its ambitions for the level of take-up that ELMS will achieve. It initially planned 5,000 farmers to sign up to ELMS by the end of the first year of the pilot in 2022 and 15,000 by the end of the pilot in 2024. However, following more detailed assessment, it has now reduced its ambition for the first year of the pilot to 1,250, while still expecting 15,000 by the end of the pilot. By 2028, Defra aims to have enrolled up to 82,500 farmers and land managers. This is more ambitious than the existing Countryside Stewardship Scheme, which offers a range of schemes to manage and improve the environment. It has just under 20,000 agreements in place after four years in operation. Defra's view is that the availability of direct payments through CAP reduces incentives for farmers to take up the Countryside Stewardship Scheme. If take-up of the new system is lower than expected, Defra will need to find alternative ways to achieve the scale of environmental outcomes it intends. Farmers that do not enrol in ELMS may leave farming or adopt more intensive farming methods that could damage the environment (paragraphs 2.11 to 2.15).

- Direct payments currently account for an average of 61% of farms' net profit. Without direct payments, 42% of farms would have made a loss, assuming everything else had stayed the same. Defra has set out the extent to which different types of farms depend on direct payments and has asserted that "there is clear evidence showing that the scope for productivity improvement would enable farms, on average, to remain profitable following a withdrawal of direct payments". It expects that these productivity improvements will be achieved either through farmers improving their business approaches, or by new entrants taking over farm businesses that cease to be viable. Defra's analysis of the impact of removing direct payments is retrospective and, although this contributes to a robust understanding of the current farming model, there is little scenario planning to predict the range of potential impacts of proposals on the agricultural sector and the wider economy. One of the objectives of the scheme is to provide a "thriving farming industry" and, during 2019-20, Defra intends to carry out a separate pilot study that will consider how business support can be provided to more vulnerable farm businesses such as mixed and grazing farms to help them improve productivity (paragraphs 2.16 and 2.17).

15 **Farmers will have little time to prepare for participation in the pilot because the government has not yet made decisions about which outcomes it will pay for or how much it will pay.** For decades, farmers have operated under CAP rules and regulations, and the whole farming community will have to adapt significantly as direct payments are withdrawn. They will be required to act with a potentially greater level of environmental focus than in their existing farming activity. Defra is not planning to set out its payment methodology until March 2020 and its payment rates until June 2020, less than a year before sign-up to the national pilot starts. Defra has worked hard to consult with farmers as it designs the policy and it recognises the need for significant change to farmers' behaviour. However, it has not yet been able to provide the necessary guidance to enable farmers to start planning now how they will adapt their businesses to improve environmental outcomes and to work collaboratively with other farmers. Defra does not expect most farmers to be part of ELMS until 2024 and it plans to offer a simplified Countryside Stewardship Scheme until then. It is important to test the willingness of a wide range of farm operations to engage at an early stage to provide confidence that a reasonable level of take-up can be achieved but there are few individual farmers directly involved in the early tests and trials Defra is currently undertaking (paragraphs 1.17, 2.7, 2.10, 2.11, 2.24 and 2.25).

16 **Defra is starting to specify its digital requirements for the Programme before key decisions have been made, increasing the risk that it will need to make significant technology changes late in the Programme.** The 'agile' methodology that Defra is using is designed to enable changes to be incorporated as systems are developed, for example as lessons are learned from the pilot stage, but this does not take away the need to understand the totality and complexity of the business requirements at the outset. There is much more uncertainty about the business requirements than we would expect at this stage. There is as yet no plan to show when the assumptions Defra is having to make at this stage will become firm decisions so that the digital team can firm up their overall design, and it is not clear what the governance arrangements will be to manage the risks and impact of delays to the design and build. In addition, Defra needs to understand what data are needed for the new systems, but this will not be possible until it has taken key decisions, such as which environmental outcomes will be rewarded and what payment methods will be used. Defra considers that its modular approach and re-use of elements of existing systems will reduce the risk and make change easier to incorporate, but this has yet to be demonstrated, and Defra must guard against using the assumed flexibility of its approach as a justification to delay critical business decisions, meaning that it does not have enough time to make necessary changes to its systems, or that required changes will not be possible (paragraphs 2.20 to 2.24).

17 **Defra does not yet have a plan for how it will use the pilot to ensure the success of the national roll-out in 2024.** There are many elements that need to be tested, including Defra's operating model, its regulatory approach and the level of take-up that can be expected. Even though Defra is only at the Strategic Outline Business Case stage for the Programme, tests and trials are already under way and the pilot is due to start in late 2021. At this stage, Defra does not have a plan for what it needs to achieve in each year of the pilot and has recently reduced the scale of the pilot. It does not know whether this reduced pilot will provide sufficiently robust evidence across the range of farm types and locations to inform further development of the Programme (paragraphs 1.9, 2.8 to 2.10 and 2.15).

18 **Defra aims to reduce the complexity of system enforcement and introduce more self-regulation, both of which increase the risk of fraud in the Programme.** In the current CAP, the European Court of Auditors reports much higher levels of fraud and error for rural development schemes (4.9% in 2016) than for direct payments (1.7%). Simplification of the system may reduce the level of error and allow better targeting of enforcement mechanisms, but these mechanisms must be robust to guard against increased fraud risk. Defra does not currently plan to test mechanisms to combat fraud in the current tests and trials stage of the Programme (paragraphs 2.25 to 2.28).

Conclusion

19 Farming businesses operate on multi-year planning cycles, and so farmers have an understandable desire for predictability. The farming industry has been affected by Defra's previous difficulties in introducing change successfully and the scale of the change Defra is now taking on is much greater.

20 Given a challenge of this scale, it is particularly important that Defra approaches the implementation of its new policy in a careful and considered way, and based on a realistic assessment of its capacity and resilience in the light of how absorbed it has been in planning for a no-deal exit from the EU. This assessment should be based on an understanding of past programmes, both within Defra and elsewhere. These suggest that even the 10-year timeline proposed for the Programme may be insufficient. It has not yet carried out adequate scenario planning to demonstrate the overall impact of its proposals on agriculture or the overall economy. It needs to take decisions at the right time so that activities can be carried out in the right sequence and with adequate preparation. If it does not, we have serious concerns that the Programme will move too quickly and that sensible precautions, information systems and planning will not be in place and farmers will be unable to prepare in the way they need.

Recommendations

21 Defra should:

a get in place a plan with realistic timescales, that is based on a full understanding of interdependencies, and that has sufficient flexibility to allow changes to be made as more is learned about how farmers react to the new framework;

b ensure that its decisions on which outcomes the government wishes to prioritise, and the associated payment mechanisms, are taken in good time for the pilot starting in 2021, so it has a solid basis for preparing the digital infrastructure and farmers have enough time to adapt their businesses and develop their plans;

c extend participation in the tests and trials to include a wider range of farmers and other land managers, to test the willingness and ability of individual farmers to participate in ELMS and so provide more confidence that a reasonable level of take-up will be achieved; and

d determine the level of ELMS take-up it needs to justify its investment in the design and development of ELMS and consider what alternative arrangements are needed if this is not achieved.