National Audit Office

Report
by the Comptroller
and Auditor General

Department for Environment, Food & Rural Affairs

# Early review of the new farming programme

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Department for Environment, Food & Rural Affairs

# Early review of the new farming programme

Report by the Comptroller and Auditor General

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Sir Amyas Morse KCB
Comptroller and Auditor General of the National Audit Office
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Post publication this page was found to contain an error which has been corrected (Please find Published Correction Slip)

This report examines the Department for Environment, Food & Rural Affair's (Defra's) approach to developing the Future Farming and Countryside Programme.



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# Key facts

**82,500**
number of farm holdings that government anticipates participating in the new Environmental Land Management System by 2028

**€2.4bn**
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

**£38.2m**
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.

# Part One

## Government's plans for the farming sector

**1.1** This Part sets out the government's proposals to transform the UK's agricultural sector. It explains the approach taken to the Future Farming and Countryside Programme (the Programme) to date, the objectives it is intended to meet, and the timetable against which the Department for Environment, Food & Rural Affairs (Defra) is planning to deliver it.

### The UK's agricultural sector and the Common Agricultural Policy

**1.2** The UK's farming industry provides more than half of the food we eat and employs 474,000 people (including casual workers). The industry comprises 217,000 farm holdings, using 17.5 million hectares, almost three-quarters (72%) of the land in the UK. The sector makes an annual net contribution of £8 billion to the UK economy.

**1.3** While the UK is an EU member state, it takes part in the EU's Common Agricultural Policy (CAP), the framework for agricultural subsidies and rural development programmes agreed between the European Commission and member states of the EU. CAP accounts for approximately 37% of the EU's budget and is its largest programme. Farmers in England received a total of €2.4 billion in subsidy in the 2017 scheme year.[1] The government considers that, while the UK has participated in CAP, "the environment has deteriorated, productivity has been held back and public health has been compromised".

**1.4** Under CAP, most payments to farmers are direct cash subsidies based on the amount of land farmed. To receive these payments, farmers must carry out certain agricultural activities and comply with standards in areas such as food safety, animal welfare, environmental protection and land maintenance. CAP also funds rural development and environmental programmes in the UK. Farmers and land managers who choose to participate in the environmental schemes receive funding in exchange for certain additional environmental activities such as conserving and restoring wildlife habitats, flood risk management and woodland creation and management.

**1.5** In England, the Rural Payments Agency administers the majority of CAP schemes on behalf of Defra. The Forestry Commission administers legacy woodland schemes. Separate arrangements apply in the devolved authorities. The European Commission reimburses Defra for most payments in the UK.

1 CAP scheme years run from 16 October each year: the 2018 scheme year started on 16 October 2017 and ended on 15 October 2018. Payments are calculated in euros, although farmers may elect to receive payments in Sterling at a set exchange rate. In 2017 this rate was 0.8947, equating to English farmers receiving £2.2 billion.

## The Future Farming and Countryside Programme

**1.6** When the UK has left the EU, it will no longer be part of CAP and the UK government is designing and implementing its own domestic agricultural policy and regulatory arrangements. Each of the devolved governments is responsible for developing its own separate regime to support its agricultural sector and protect the environment following EU Exit.

**1.7** Defra is establishing the Programme to develop and implement the government's proposals in England. 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. The 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. The timelines presented in this report are dependent on the UK leaving the EU, the terms of our initial and future relationship with the EU, and on the assumption that the Agriculture Bill receives Royal Assent in the autumn of 2019. If these assumptions prove wrong, Defra may need to review the pace and scope of the Programme.

**1.8** In February 2018, the government launched a consultation, entitled 'Health and Harmony: the future for food, farming and the environment in a Green Brexit', seeking views on its proposals for future agricultural policy in England. Supporting the consultation was an evidence pack compiled by Defra which won the 2018 Campion Award for excellence in official statistics. The consultation covered a broad range of questions, including the most appropriate way to withdraw direct payments, which environmental outcomes the government should support and how to improve the inspection regime for environmental, animal health and welfare standards. The consultation ran for 10 weeks until May 2018 and generated more than 43,000 responses.

**1.9** Following the consultation, the Agriculture Bill 2017–2019 was drawn up to provide the powers necessary to implement the proposals set out in a policy statement that accompanied the bill. The bill received its second reading in October 2018 and is awaiting confirmation of dates for the report stage and third reading. Defra is now in the early stages of Programme design and planning for implementation (**Figure 1** on pages 14 and 15). It has prepared a Strategic Business Case for the Programme but has not advanced to the full Programme Business Case. The Agriculture Bill's policy statement sets out a clear timetable against which the Programme is expected to deliver.

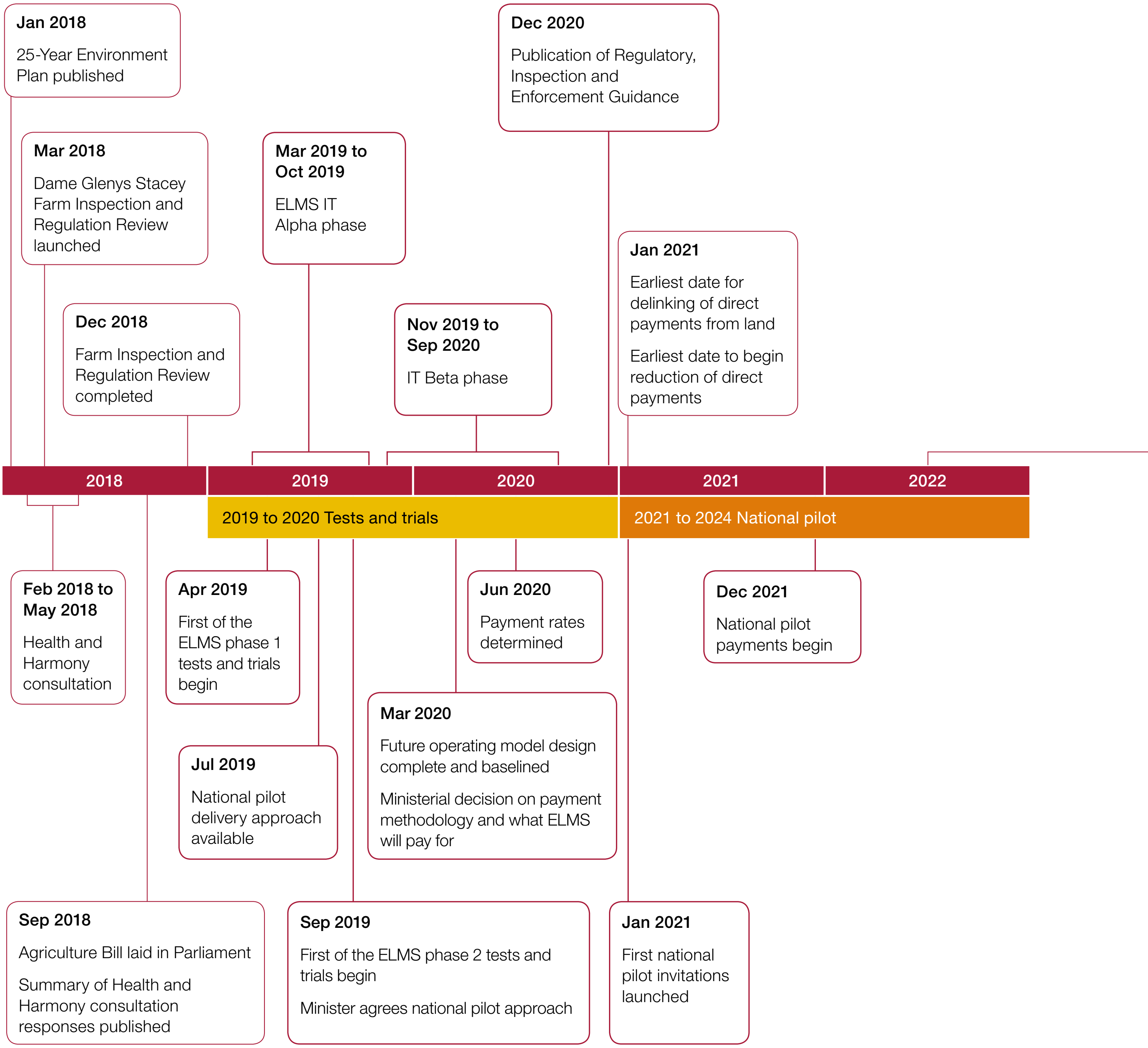
**1.10** Defra has set two key objectives for the Programme:

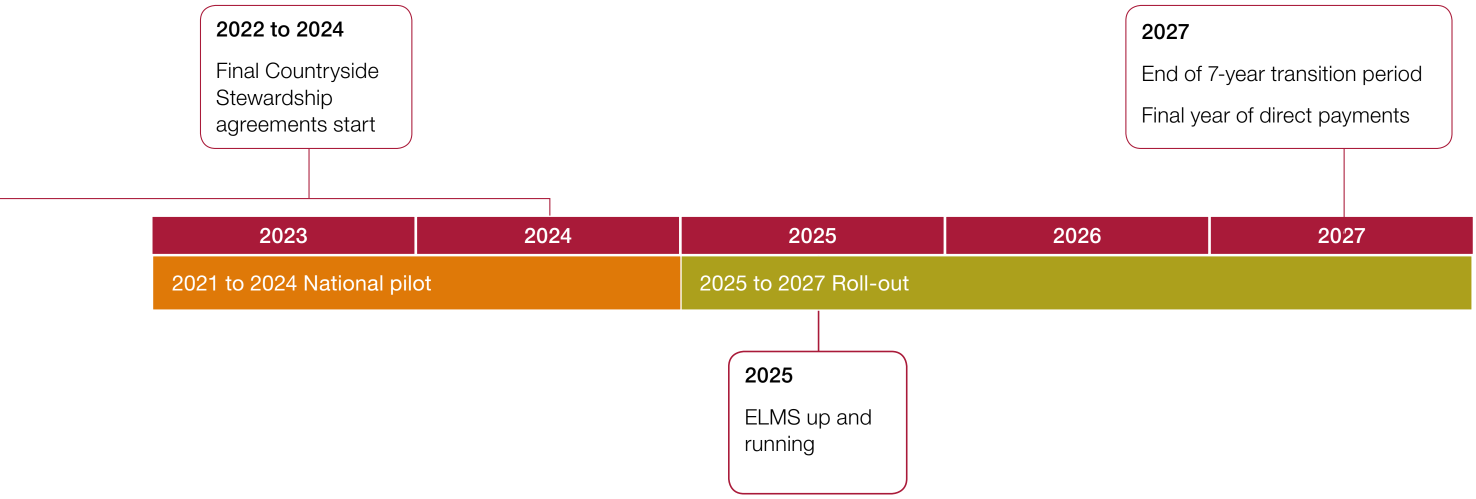
- to ensure public money is used for public goods (particularly environmental outcomes); and
- to change the relationship between government, farmers and land owners in support of delivering a better environment and thriving farming industry.

## Figure 1

Future Farming and Countryside Programme key milestones

**The Department for Environment, Food & Rural Affairs (Defra) is undertaking periods of consultation, tests and trials and piloting before rolling out the new Environmental Land Management System (ELMS), along with other payments for public goods**






**Notes**

1 The 25-Year Environment Plan, published in January 2018, sets out the government's goals for improving the environment over the next 25 years, to meet the ambition of "leaving it in a better state than we found it".

2 The Dame Glenys Stacey review was commissioned by government to identify opportunities for improving farming-related regulation and enforcement to reduce burdens on farmers.

3 The Health and Harmony consultation sought views on government's proposals for agricultural policy in England.

4 ELMS tests and trials are small-scale projects proposed by stakeholders to develop specific parts of the future model of farming support. Phase 1 consists of projects developed by stakeholders based primarily on their own interest and expertise. Phase 2 consists of proposals more closely linked to government's needs and any gaps identified from among phase 1 proposals.

5 The national pilot will test the full approach to future payments. The approach to the pilot, including recruitment and participation levels, has not yet been confirmed.

Source: Department for Environment, Food & Rural Affairs Programme critical path (as at April 2019) and policy statement timeline

**1.11** Overall responsibility for the Programme lies with Defra's core department, with sponsorship shared between the Director General for Food, Farming and Biosecurity, and the Director General for Environment, Rural and Marine. The programme director fulfils the role of senior responsible owner. The Programme is currently divided into nine areas of work (or 'workstreams') with total allocations from Defra's EU Exit budget of £38 million for 2018-19 and £94 million for 2019-20 (**Figure 2**).

**1.12** Staff for the workstreams are drawn from across Defra and its arm's-length bodies. The Programme's governance and staffing model ensure staff with relevant experience work on the Programme, but it makes effective central oversight and co-ordination more difficult. For example, at the time of our audit, Defra was only able to provide staffing figures for the core department and could not tell us how many staff from its arm's-length bodies were working on the Programme. A new approach to programme management, intended to provide greater visibility of resourcing, was implemented in April 2019, although we were unable to assess this approach during our audit. Defra's staffing forecasts for 2019-20 (as at February 2019: vacancies are reviewed on an ongoing basis to ensure they reflect the latest needs) showed 264 full-time equivalent vacancies, nearly all of which were requested for the first half of the year.

**1.13** In March 2018, the Infrastructure and Projects Authority carried out a Project Validation Review prior to the Programme joining the Government's Major Projects Portfolio (GMPP). This identified constraints on staff resource availability and associated impacts on the programme caused by EU Exit activity in the civil service. It noted that some key skills, such as procurement, were hard to resource, although these were filled where possible by contractors and secondments from the Department for Education. Defra has acknowledged this resource gap and has appointed a new head of the Programme Management Office to lead development of its planning capability.

**1.14** The government has undertaken to maintain the same funding for the sector in cash terms until the end of this Parliament, which will be in 2022 if it runs for its full term. The government has also committed to maintaining funding for direct payments at the current level until 2020, after which direct payments will be gradually reduced and completely phased out by 2028.

**1.15** The most significant component of the government's plans for England is a new Environmental Land Management System (ELMS) which, alongside other payments of public money for public goods, will succeed direct payments. In addition to ELMS, Defra is also progressing work that 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. The government's ambition is that all land-based payments will cease and, by the start of 2028, all farm payments will be linked to the delivery of outcomes.

## Figure 2

The Future Farming and Countryside Programme workstreams

**The Future Farming and Countryside Programme currently has nine workstreams**

| Workstream | Objective | Budget 2018-19 (£000) | Budget 2019-20 (£000) |
|---|---|---|---|
| Agricultural transition | To ensure a smooth transition from current farm support arrangements to post-EU Exit arrangements in England. | 1,175 | 6,710 |
| Animal and plant health and animal welfare | To help to achieve high standards of animal and plant health and animal welfare including the continuous improvement of high baseline animal welfare standards and health conditions on farms. | See note 1 | 2,780 |
| Environmental Land Management System | To develop a payments system that pays public money primarily for providing environmental outcomes. | 6,600 | 24,950 |
| Common Agricultural Policy (CAP) EU Exit Day 1 readiness | Administration and improvement of CAP, including relevant preparation to ensure continuity in all EU Exit scenarios. | 18,085 | 37,830 |
| Regulation and enforcement | To lead on changes to regulation and enforcement during the transition period and post-EU Exit, taking account of the recommendations of the independent review on farm regulation and inspections. | 435 | 3,480 |
| Change transformation (including farm resilience) | To enable a safe transition to our future operating model for all impacted stakeholders, both internal and external to Defra. | 915 | 3,540 |
| Rural growth | To influence the design of the UK Shared Prosperity Fund so that rural communities can access funding commensurate with their needs, with the Fund taking account of the challenges of delivering in rural areas. | 360 | 300 |
| Future operating model | To design the future operating model, to enable and deliver the desired outcomes from the new agricultural policy. | 1,985 | 3,500 |
| Policy, legislative and devolution framework | To deliver the new agricultural policy and frameworks for the UK including the Agriculture Bill and associated statutory instruments, and the relationship between devolved administrations. | 1,200 | 1,150 |
| Cross-cutting | Other activities included in budgetary information but not in formal workstreams. This includes evidence activity and programme delivery resource. | 7,445 | 9,760 |
| **Total** | | **38,200** | **94,000** |

**Notes**

1 Workstream names and their descriptions are taken from Defra’s Programme planning documents. The workstreams in the Programme have varied over time, and so workstreams to which budgets were assigned do not in all cases match the current workstreams.

2 Workstream budgets are set at the start of the year. Changes in planned spend may be required to reflect changes in priorities throughout the year.

3 Budgets shown are those allocated from Defra’s EU Exit funding. Total Programme budgets also include business as usual allocations, primarily relating to payments made under CAP.

4 2019-20 EU Exit budgets were allocated on the assumption that the UK would leave the EU on 29 March 2019 and enter an implementation period until December 2020. The extension to Article 50 may mean that departmental budgets will need to be revised.

5 Work on the animal and plant health and animal welfare workstream did not start until 2019-20.

6 The change transformation workstream was newly established for 2019-20, incorporating the work of the former farm resilience workstream and some other elements originally planned for the Programme delivery workstream.

Source: Future Farming and Countryside Programme Initiation Document and budgetary documentation

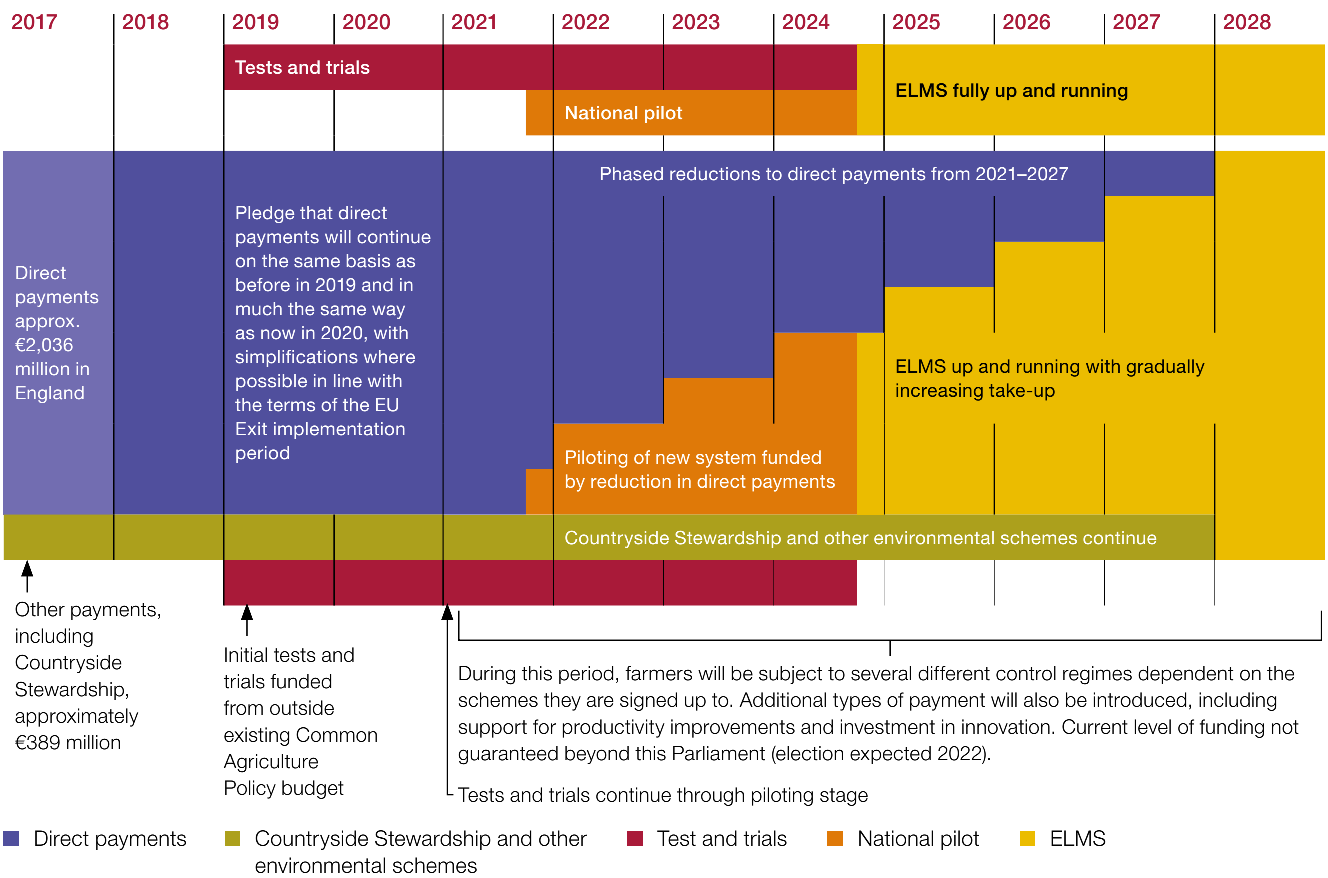
**1.16** The government proposes a system whereby farmers and land managers enter into an environmental land management contract based on a land management plan that could span several years and will set out how they intend to deliver the environmental outcomes identified, based on guidance and specialist advice. Advisers will play a key role in the system in assessing potential for environmental outcomes and supplying practical expertise to farmers on how best to provide environmental services and outcomes. Defra plans to establish an accreditation system for expert advisers and for land management plans, although it has not yet determined how this service will be provided or by whom.

**1.17** The policy statement sets out the timeline over which the current system of payments will be withdrawn and gradually replaced by the new system (**Figure 3**). The timetable of progressive reductions to direct payments is intended to provide a clear indicator of change to the sector and facilitate rapid transformation of the sector.

## Figure 3

Illustrative funding streams during the phasing out of direct payments

**The new Environmental Land Management System (ELMS) will be introduced in phases with full roll-out from 2025**




**Note**

1 Proportions and rate of change in funding are illustrative of expected trends, not of an agreed allocation of funding. Rates of reduction in the direct payments and the budget available to ELMS have yet to be determined.

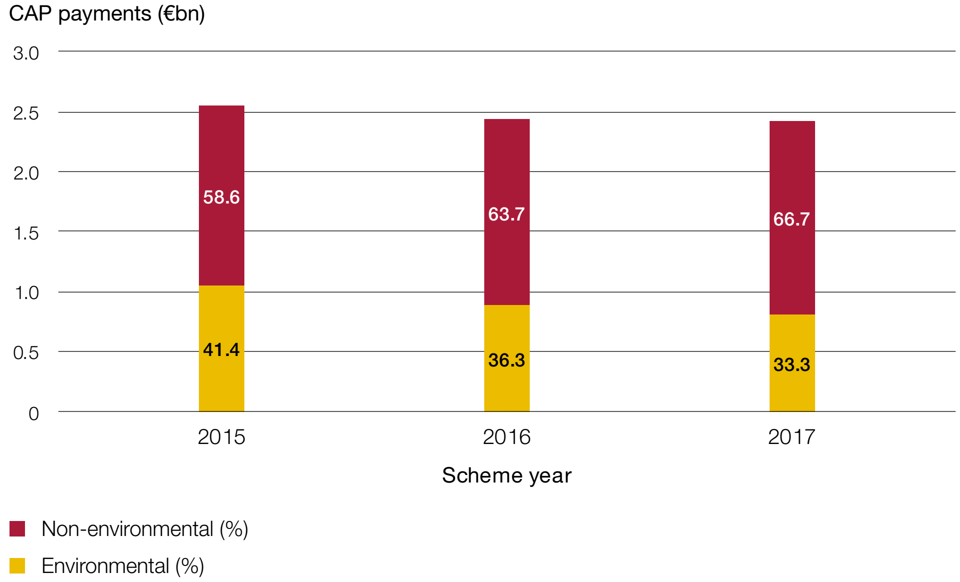
Source: National Audit Office analysis of Future Farming and Countryside Programme policy statement and timeline

**1.18** The government views the UK's departure from the EU as "a once-in-a-generation" opportunity to reform agriculture. Other countries have enacted sweeping change programmes in their farming sectors. For example, New Zealand withdrew all farming subsidies in 1984. However, Defra's plans are unique in transferring wholesale from a primarily land-based subsidy system to a system of public money for public goods together with funding to help farming productivity improvements. This is a fundamental change for the farming industry, as most payments under CAP are based purely on the amount of land farmed. In 2017, only 33% of CAP subsidy payments had an environmental focus, down from 41% in 2015, when the Countryside Stewardship Scheme was introduced (**Figure 4**).

## Figure 4

Common Agricultural Policy (CAP) payments by purpose in England 2015–2017

**In 2017, only one-third of all payments to farmers under the CAP had an environmental focus**




**Notes**

1 The scheme year runs from 16 October of scheme year to 15 October of the following year.

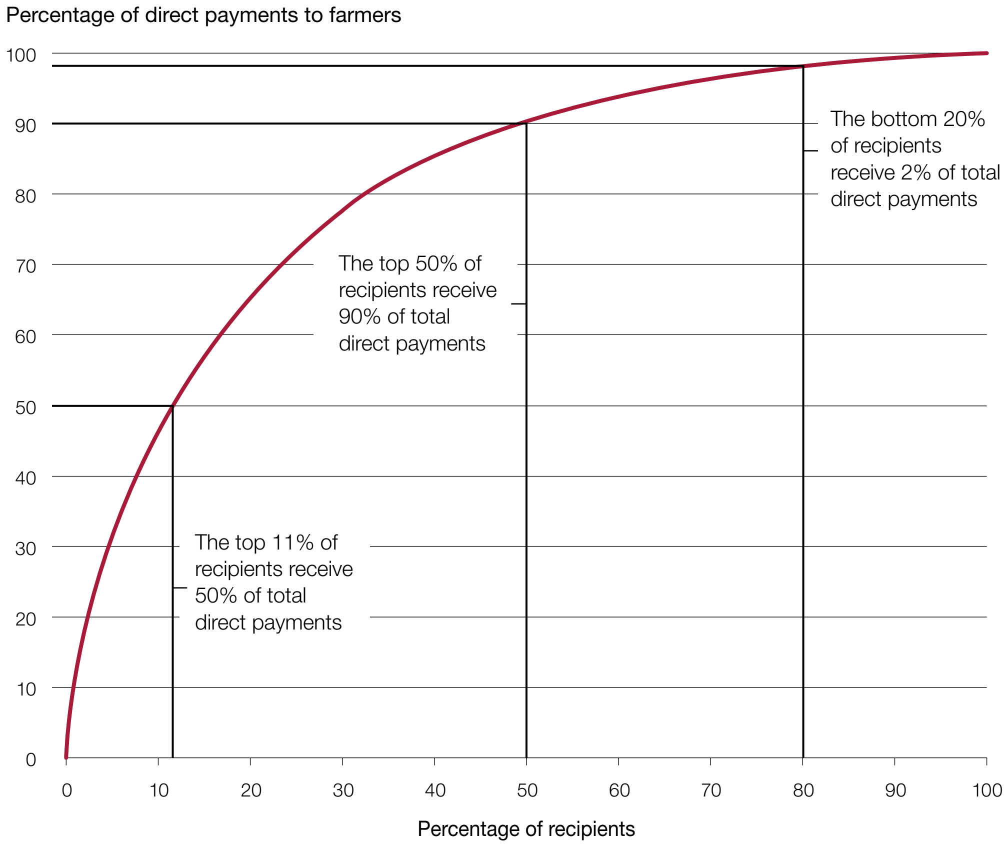
2 'Environmental' payments are those which have an exclusively or predominantly environmental focus. For instance, Countryside Stewardship payments and the 'greening' elements of direct payments have been included in this figure.

Source: National Audit Office analysis of Rural Payments Agency Common Agricultural Policy payments data for England, 2015–2017

**1.19** Defra considers that direct payments are an inefficient form of subsidy. They provide income support to farmers but are not means-tested. Instead, the amount received is largely dependent on the land area of the farm, providing support to many high-income households. The highest paid 11% of recipients receive half of the total direct payments paid, while the lowest 20% receive only 2% of the total. The highest paid recipient in 2017 received almost 3 million euros (**Figure 5**).

## Figure 5
Distribution of direct payments to farmers in 2017

**Most direct payments by value are distributed to a small proportion of recipients**




**Notes**

1 Payments are totalled cumulatively from the recipient receiving the highest payment to that receiving the lowest.

2 Payments were made in the 2017 scheme year, which ran from 16 October 2017 to 15 October 2018.

Source: National Audit Office analysis of Common Agricultural Policy direct payments in England, 2017

# Part Two

## Design and implementation of the Programme

**2.1** This Part examines how the Department for Environment, Food & Rural Affairs (Defra) is planning to implement the Future Farming and Countryside Programme (the Programme). Given that it is at an early stage with many key policy and funding decisions yet to be taken, we focus on aspects of the Programme that we believe need early consideration and where we have identified risks to its successful delivery. These include:

- the plans for testing and piloting the approach to the proposed Environmental Land Management System (ELMS);
- Defra's understanding of the likely extent of participation in the system;
- the impact of the Programme on farm businesses;
- the Programme's critical path and the interdependencies between workstreams, particularly in relation to digital development; and
- Defra's plans for regulation and fraud control.

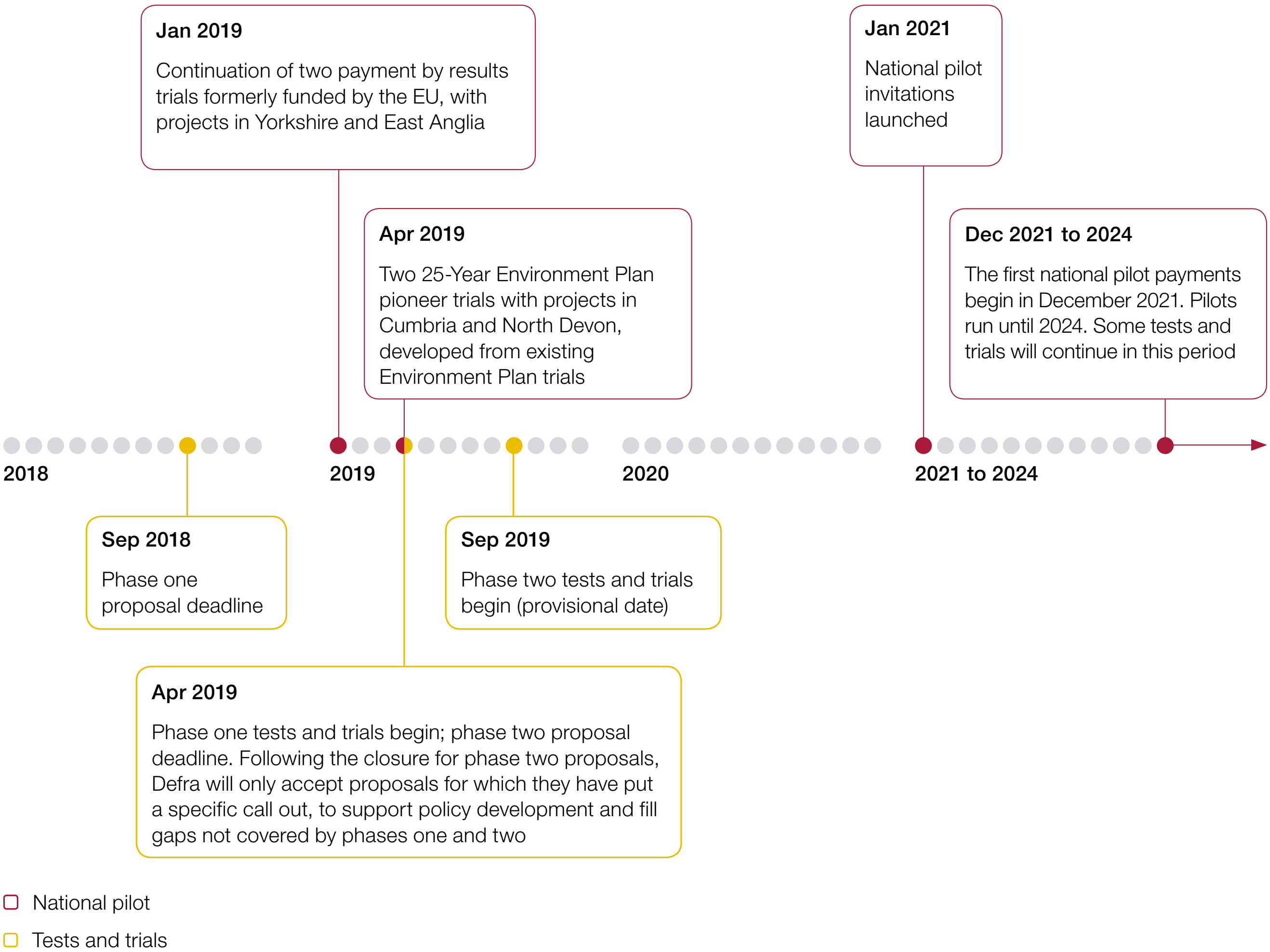
### Testing the approach

**2.2** Full piloting of the ELMS payment approach will not begin until late 2021 when policy proposals are more refined. The timing of this is restricted by the EU rules that the government intends to continue to apply until the EU Exit implementation period is expected to end in December 2020. To test and refine ideas prior to the start of the full pilot, Defra invited stakeholders to submit proposals for 'tests and trials' to be carried out over the coming years, beginning in April 2019 **(Figure 6** overleaf).

## Figure 6

Environmental Land Management System timeline to 2024

**The national pilot for the Environmental Land Management System approach will begin in October 2021. Until then, the Department for Environment, Food & Rural Affairs (Defra) is running a series of ‘tests and trials’**




Source: Department for Environment, Food & Rural Affairs planning documentation and Agriculture Bill policy statement timeline

**2.3** Tests and trials are intended as a mechanism to allow stakeholders to actively engage with development of the Programme as part of a 'co-design' approach. Defra's intention is that the tests and trials will examine how potential elements of the Programme will work in a real-life environment, so as to secure a good understanding of the practicalities from the perspective of a potential participant, help inform planning for provision of environmental advisers and understand how the audit and verification of land management plans can best operate. Defra says that engaging stakeholders from a variety of organisations and disciplines in the design will result in higher-quality ideas, higher user satisfaction and greater enthusiasm to embrace change and innovation.

**2.4** Defra intends to use tests and trials to address six key policy categories:

- land management plan design and approaches;
- expert knowledge and support;
- national objectives and local priorities;
- potential participants;
- payments; and
- novel and innovative mechanisms that have not been used previously within agri-environment schemes or not used at the proposed scale.

**2.5** Defra received 113 proposals for the first phase of tests and trials against the policy objectives set by Defra, and 49 were selected to begin in April 2019. Examples of selected trials include development of land management plans for tenant farmers and testing of landscape approaches where farmers collaborate on outcomes.

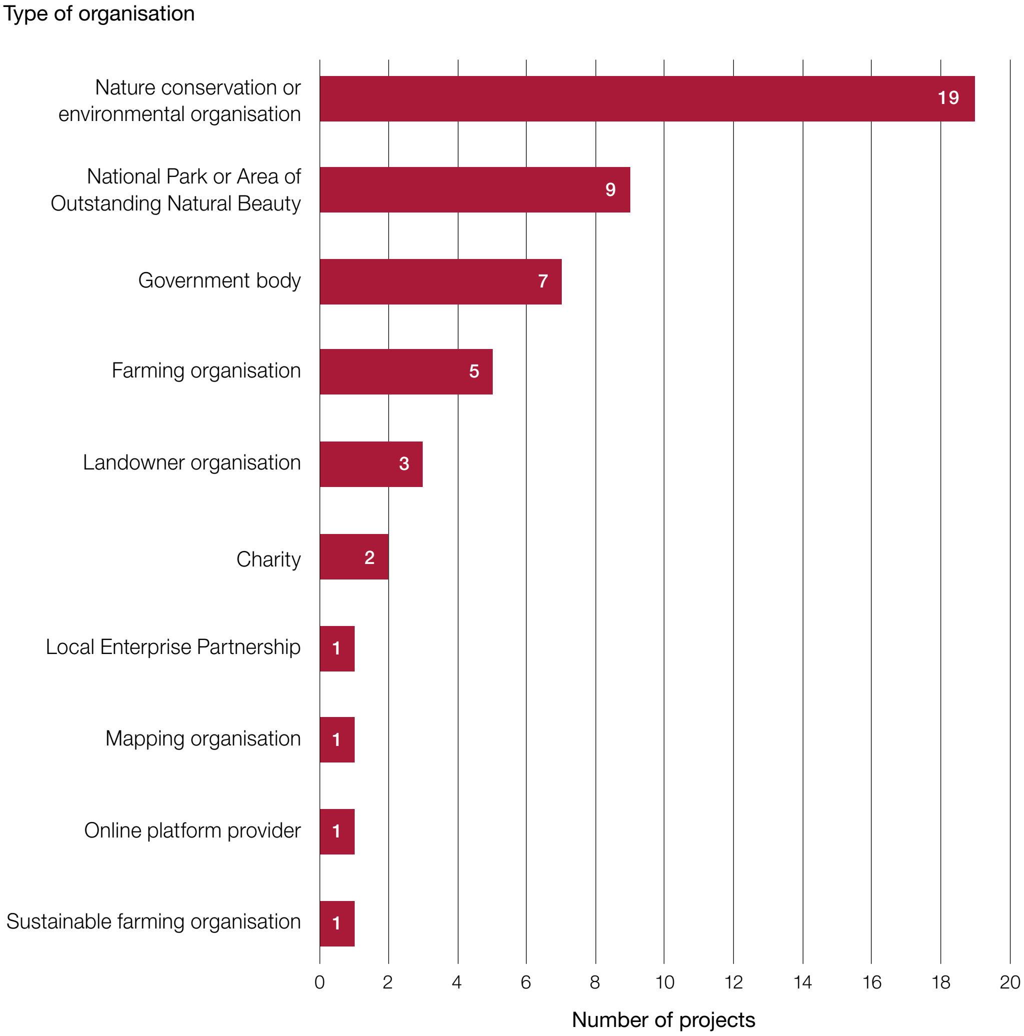
**2.6** Defra has now invited proposals for a second phase of tests and trials, expected to start in September 2019, after which Defra will begin to commission specific tests to fill identified gaps in areas such as pig and poultry farming, horticulture, arable farming and urban and green belt projects. In addition, development of the approach will be supported by the continuation of two existing small payment by results trials, formerly funded by the EU, and by two pioneer pilots, which were designed to aid the development of the 25-Year-Environment Plan and focus on, for example, working with land managers and farmers on the development of land management plans.

**2.7** The findings from tests and trials will be an important part of developing Defra's understanding of the sector ahead of the national pilot and roll-out of ELMS, and Defra is currently carrying out procurement for a monitoring and evaluation project to capture lessons learnt from the tests and trials. However, findings may not be widely applicable to the sector as a whole. Participants have been selected from among stakeholders who are already actively engaging with Defra. Of the 49 phase one trials that have been accepted, 19 are run by nature conservation or environmental organisations, and nine by National Parks or Areas of Outstanding Natural Beauty, with fewer proposals accepted from farming organisations (**Figure 7**). These organisations will typically act as facilitators of the project and will engage with individual farmers to help them run the tests and trials. Importantly, the tests and trials will not test the ability and willingness of farmers to engage directly with the new system rather than through intermediary organisations, and therefore will not provide a strong indication of likely take-up in the longer term. Defra has received over 200 expressions of interest for phase two of the trial, including from collaborations of farmers, but this is small in relation to the size of the sector overall, and not all may proceed.

**Figure 7**

Environmental Land Management System phase one tests and trials by organisation type

**Relatively few phase one projects are being run directly by farmers or farming organisations**




Source: National Audit Office analysis of accepted phase one proposals

## Preparing for the full pilot

**2.8** Defra's ambition to begin the full roll-out of ELMS in late 2024, and the commitment to maintain current scheme rules until 2021, restricts the time available for large-scale piloting of proposals to around three years, although this is still longer than for previous agri-environmental schemes. Initially, Defra planned to include 5,000 farmers in the first year of the pilot in 2022, with a further 5,000 in each of years two and three. However, following more detailed assessment it has scaled back its ambitions for the first year to 1,250 farmers, while retaining its ambition to reach 15,000 by the end of the three-year pilot in 2024. Defra told us this change is to allow initial learning from a smaller cohort, while the delivery function has capacity to gradually increase as the number of participants grows. However, it is not clear whether this lower number in the first year of the pilot will provide sufficiently robust evidence across the range of farm types and locations to inform further development of the Programme and mean that less time is available to test how well ELMS will work at scale.

**2.9** Given its scale and the timescales being worked to, the development of the digital service to support ELMS and the regulatory approach is similar in its nature to the Universal Credit roll-out, which involved the roll-out of a complex digital service over several years. The roll-out of Universal Credit suffered long delays: full roll-out was pushed back from 2017 to 2023. Defra says it does not expect to have a comprehensive payment system in place from the start of the national pilot. Any lessons learnt from the pilot, which will impact the design of the digital service, will have to be incorporated during the relatively short three-year window of the national pilot as the plans for ELMS currently include no scheduled break point to carry out a review before the full roll-out begins in late 2024.

**2.10** The piloting period available may be insufficient to fully understand the impact of the policy and test changes made during the pilot and, at this stage, Defra does not have a plan for what it needs to achieve in each year of the pilot. Some environmental activities take years or even decades to produce a measurable effect. Farming operates on a multi-year cycle, and it is likely that some impacts of the piloted approach will be seen within the three years allowed for the pilot. However, farmers often make land use decisions several years in advance, and farmers have not yet been given any guidance on the environmental outcomes they should be targeting. Defra has not yet developed firm proposals for monitoring and evaluation of ELMS, for either the pilot or for the full Programme.

## Participation in ELMS

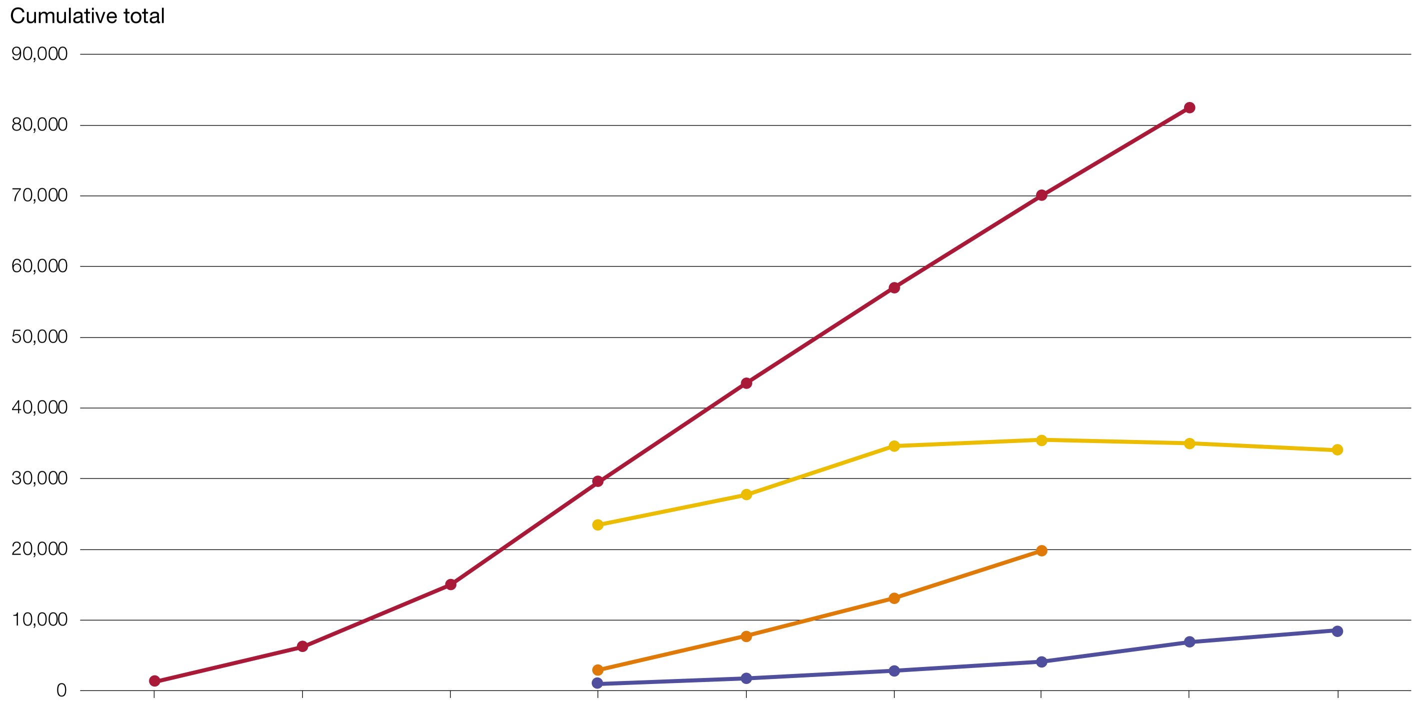
**2.11** As direct payments are gradually reduced, some farmers will need to seek alternative sources of income. ELMS is intended as one of a range of options on offer from government, alongside the continuing Countryside Stewardship Scheme and measures to help farmers improve their productivity. Defra has worked hard to consult with farmers as it designs the policy and it recognises the need for significant change to farmers' behaviour. To participate in the pilot, some farmers will need to start drawing up their land management plans in early 2021 and start implementing them from October 2021, when the first pilot payments are expected to be made. Farmers need time to adapt their businesses, but Defra has not yet decided which environmental outcomes it will pay for or how much it will pay. As a result, Defra has not yet been able to issue the guidance farmers need to enable them to start planning how they will adapt their businesses to improve environmental outcomes and to work collaboratively with other farmers. In March 2019, Defra awarded a contract to identify and explore ELMS payment methodologies, but it is not due to report until late 2019. The contractors will explore how to incentivise the behaviours required to deliver environmental outcomes but not how Defra will identify and prioritise outcomes. This work is being undertaken by the Programme team.

**2.12** Defra has not yet set targets for the take-up of ELMS, although it has recently scaled back the ambitious assumptions it started out with. By 2028, Defra anticipated that a "high proportion of eligible land managers will have signed up, reaching up to 88,000 farms and a range of farmers, foresters and other land managers who do not currently receive direct payments." Defra has now reduced its expectations to up to 82,500 sign-ups by 2028. This is higher than for existing environmental schemes such as the Countryside Stewardship Scheme, in which just under 20,000 agreements were in place after four years in operation (**Figure 8** overleaf). Defra's view is that the availability of direct payments through the Common Agricultural Policy (CAP) reduces incentives for farmers to pursue other activities, for example by applying to the Countryside Stewardship Scheme, and therefore expects a higher level of participation in ELMS as direct payments are withdrawn.

## Figure 8

Assumed take-up of the Environmental Land Management System (ELMS) compared with enrolment on previous agri-environment schemes

**The Department for Environment, Food & Rural Affairs' (Defra's) planning is based on higher enrolment rates than current agri-environment schemes have achieved**




| | Pilot year 1 | Pilot year 2 | Pilot year 3 | Scheme year 1 | Scheme year 2 | Scheme year 3 | Scheme year 4 | Scheme year 5 | Scheme year 6 |
|---|---|---|---|---|---|---|---|---|---|
| ELMS (anticipated) | 1,250 | 6,250 | 15,000 | 29,500 | 43,500 | 57,000 | 70,000 | 82,500 | |
| Entry Level Stewardship | | | | 23,509 | 27,749 | 34,657 | 35,507 | 34,994 | 34,004 |
| Countryside Stewardship | | | | 2,979 | 7,770 | 13,130 | 19,832 | | |
| Higher Level Stewardship | | | | 996 | 1,731 | 2,884 | 4,092 | 6,859 | 8,527 |

Source: National Audit Office analysis of ELMS targets and Higher-Level Stewardship, Entry Level Stewardship and Countryside Stewardship data

**2.13** Defra told us that it does not yet have formal targets for ELMS take-up. As Defra is preparing the business case for its investment in developing ELMS, it should by now have a clear idea of the outcomes needed and therefore the level of take-up it should be aiming for. Defra has recently carried out basic modelling to inform development of the Programme Outline Business Case. The modelling aims to understand the likely level of take-up by profiling four categories of potential ELMS agreement holders. These are based on existing numbers of agri-environment agreement holders, recipients of direct payments and an estimate of potential new land management entrants. However, it has not established what level of take-up is needed to justify the government's investment in the design and implementation of the system. Defra intends to continue to refine these take-up estimates iteratively over time.

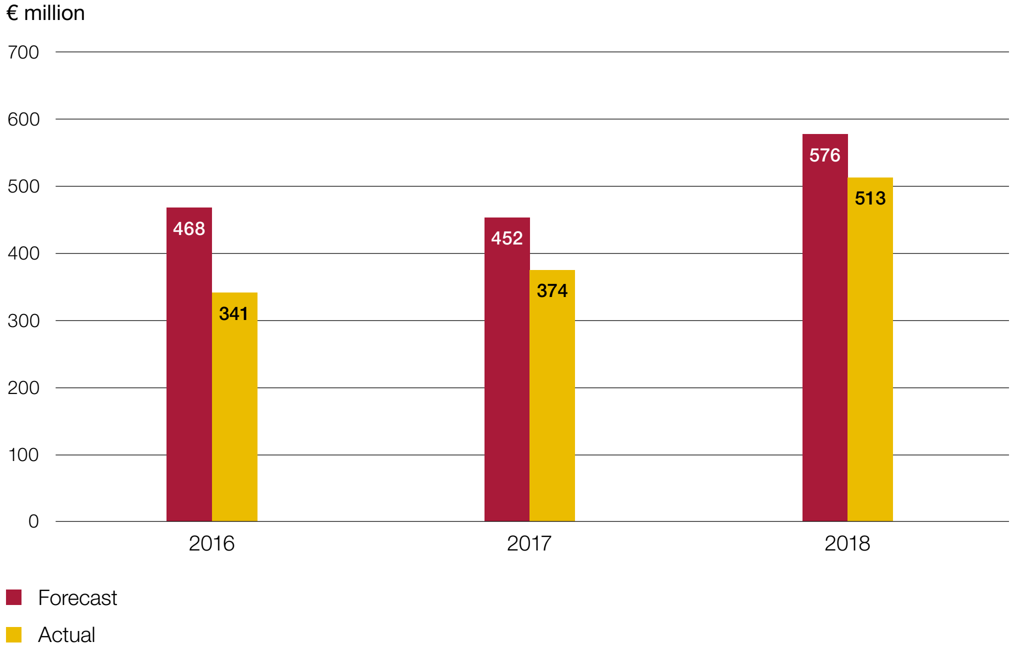
**2.14** Some farmers who do not sign up to ELMS will need to find other ways to replace income from direct payments. They may decide to drop out of farming altogether or to make up for lost income by farming more intensively, potentially leading to detrimental outcomes for the environment. Defra considers that there are many other ways rural businesses can make up for income lost from the withdrawal of direct payments, such as improved management approaches that improve animal and plant health, or diversification into non-agricultural work. The government's 25-Year Environment Plan sets out its ambition to "leave our environment in a better state than we found it". In part, this objective will be delivered by the new system of support to farmers with "environmental enhancement at its heart". The government considers ELMS to be a key mechanism in this, expected to deliver six of the 10 goals of the 25-Year Environment Plan. Low ELMS take-up could undermine the government's ability to deliver on its environmental commitments and Defra would need to find alternative ways to achieve the scale of environmental outcomes it intends.

**2.15** Rural development programmes under the CAP have been consistently undersubscribed in England (**Figure 9** overleaf). Although ELMS is a new system and Defra is aiming to simplify it and allow applications at any time of the year to make it more attractive, Defra has not yet done enough to demonstrate that it can achieve the wide-scale participation that it envisages. If low participation leads to the ELMS budget being underspent, this could have knock-on effects for future years. Under CAP, EU budgets do not get reduced from one year to the next if they are not fully spent, but HM Treasury may not agree to maintain budgets in the event of low take-up and unspent allocations.

## Figure 9

Spend on rural development programmes in England, 2016 to 2018

**England has consistently underspent on rural development programmes under the Common Agricultural Policy (CAP)**




**Note**

1 Years are the CAP scheme years, which run from 16 October to 15 October of the following year.

Source: National Audit Office analysis of spend on rural development programmes in England, 2016 to 2018

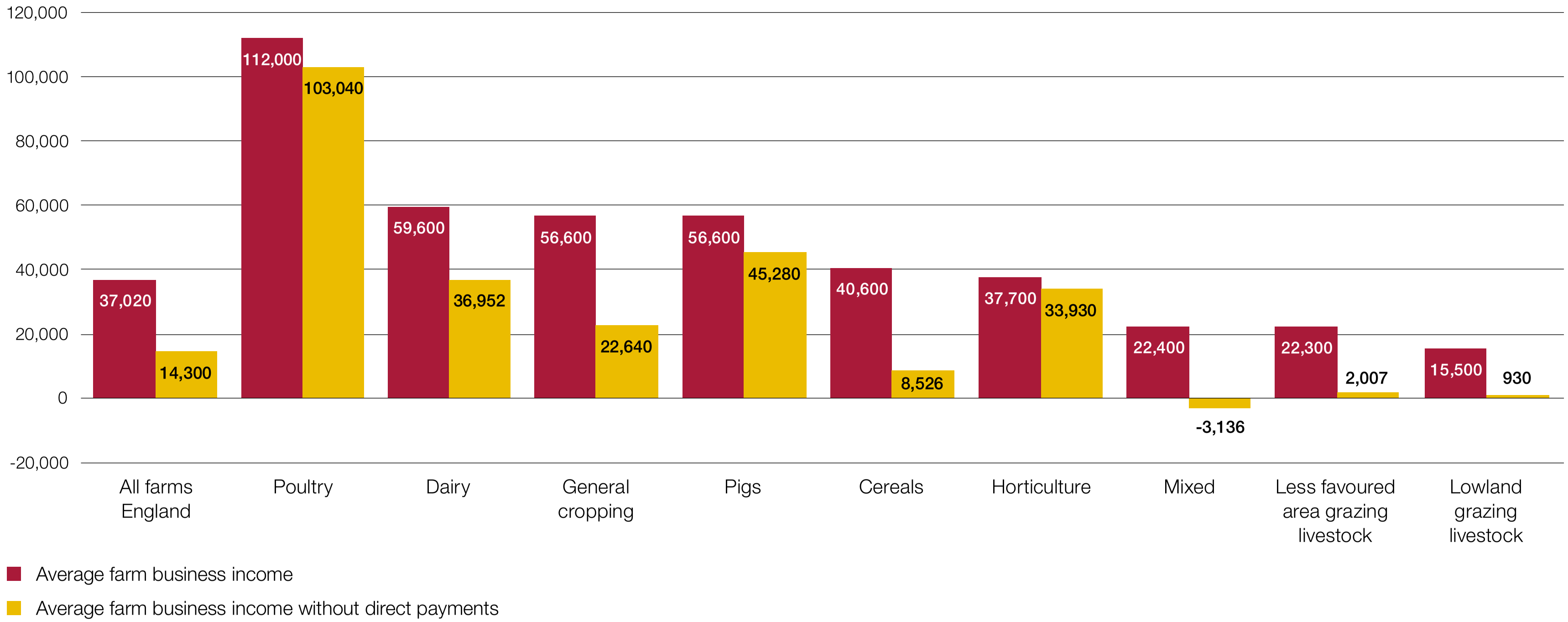
## Farm business resilience

**2.16** Direct payments account on average for 61% of farm business income (a measure of the net profit made by a farm business). Even with direct payments, one in six farms (16%) failed to make a net profit in the period from 2014-15 to 2016-17. This would have increased to 42% if direct payments were withdrawn (assuming everything else stayed the same). Reliance on direct payments varies by farm type and location. Livestock farms would on average have had their net profits virtually wiped out, while mixed farms would on average have made a loss (**Figure 10**). The distribution of the least profitable farms means that the greatest impacts will be seen in the North-East of England (**Figure 11** on page 32).

**Figure 10**

Average annual farm business income with and without direct payments by farm type, 2014-15 to 2016-17

**The removal of direct payments will have the most impact on mixed farms and grazing farms**




**Notes**

1 These figures are derived from the Farm Business Survey, an annual survey commissioned by the government under which a range of management accounting information on all aspects of farmers' businesses is collected. The survey is based on a sample of 1,750 farms in England each year that is representative of the national population of farms in terms of farm type, farm size and regional location. The survey only includes farms with output of €25,000 or more. This covers around 60% of farm businesses but around 98% of output.

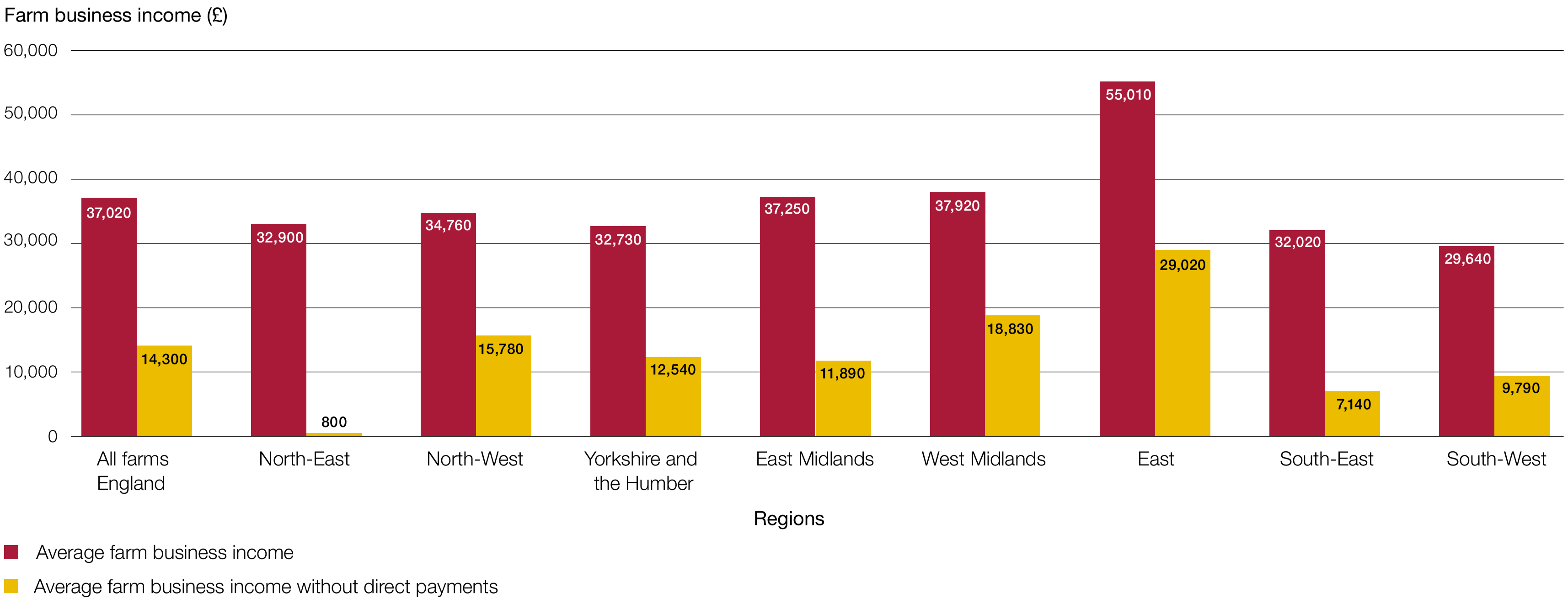
2 Figures are based on three years of data covering March 2014 to February 2017

Source: Department for Environment, Food & Rural Affairs, *The Future Farming and Environment Evidence Compendium*, February 2018

## Figure 11

Average annual farm business income with and without direct payments by region, 2014-15 to 2016-17

**The removal of direct payments will have the most impact on farms in the North-East of England**




**Notes**

1 These figures are derived from the Farm Business Survey (see note to Figure 10).

2 Figures are based on three years of data covering March 2014 to February 2017.

Source: Department for Environment, Food & Rural Affairs analysis of Farm Business Survey data

**2.17** Defra expects that the farming sector will be able to increase its productivity to help compensate for the loss of direct payments, and considers that its proposals will help farm businesses become more resilient, productive and internationally competitive. It states 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". The data to support this indicate that there is a large performance gap (defined as the difference between financial inputs and outputs), with the average performance in the highest performing 25% of farms being 1.8 times better than the bottom 25%. Defra's statements on productivity rely on this gap being narrowed by improvements in the bottom 25% of farms, but there is limited evidence to demonstrate that all of these farms are equipped to make this improvement. Defra has told us that it expects some individual farmers to go out of business, with their land being taken over by more productive, skilled and business-minded individuals to improve the sector overall. Productivity gaps can be seen across all sectors of farming, but these vary in size and may be partially linked to factors such as farm location and soil quality, which cannot be addressed by improved farm management. Defra does not consider in its accompanying evidence whether there are types or locations of farms that may require additional support to achieve productivity improvements. Defra's analysis of the impact of removing direct payments is retrospective. 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. During 2019-20, it intends to carry out a separate pilot study to investigate the best approaches and delivery mechanisms for the government to support farming businesses through the agricultural transition period.

## Critical path

**2.18** Defra does not yet have a detailed, complete and realistic critical path in place to support delivery of the Programme. The latest version only contains milestones to 2021, not to the end of the Programme. Defra told us that this is because the longer term plan is subject to the results of current negotiations on EU Exit, but we would expect Defra to have a plan beyond 2021 based on its current assumption that the national pilot will start in late 2021. It needs a more robust analysis to understand and manage the sequencing and interdependencies between workstreams. Defra produced its first critical path analysis in January 2019. It provided a summary of milestones up to 2021 but did not include the information needed for a critical path. There were no links between the milestones that show the relationship between activities, either between milestones in the same workstream or where milestones in one workstream will impact another, for example how the development of the payments system depends on outputs from the tests and trials. During the course of our audit, Defra revised its critical path documentation to include interdependencies between milestones within different workstreams, although further development is still necessary. Milestones for digital development in particular are sparse with some dates marked as “to be confirmed”. The new version contains no milestones or any other details relating the business readiness and implementation.

**2.19** A programme’s critical path should be the basis for scheduling and resource planning. It identifies the activities that must be completed on time in order that the programme completes on time. It cannot perform this function if interdependencies are not understood. Although the Programme is at an early stage, significant timing decisions have already been taken, including the start of the national pilot and the subsequent roll-out, and a robust critical path is vital to understanding whether these are deliverable.

## Digital infrastructure

**2.20** Among other deficiencies in the critical path analysis, Defra has not yet developed a full understanding of the digital delivery requirements across all the Programme workstreams. Defra's Digital, Data and Technology Services team (DDTS) is engaging with the Programme to design and agree the digital delivery pipeline by July 2019. It has developed a plan of work up to the end of June 2019 to produce some high-level deliverables to support the Programme and to understand the end-to-end service. DDTS also intends to produce a "product roadmap" showing its key areas of work post-June and highlighting the major business dependencies for key policy decisions, data, and expected business schedule of delivery. Defra has recognised the importance of defining the data requirements but cannot make progress on this until the environmental outcomes and payment methods have been defined. It has also not decided if new systems will be procured. If so, it is not clear whether there will be enough time to assess products against detailed requirements, determine what the configuration requirements will be and carry out commercial negotiations. Defra is at an early stage and, until more is known about the business requirements, it is difficult for DDTS to say with any certainty if it has sufficient information to enable it to produce realistic plans.

**2.21** A payments system for ELMS will need to be in place by late 2020 but Defra has not yet decided what form this will take, or which of its elements will be tested in the pilot. Lessons from other government programmes indicate that Defra has not allowed enough time to fully develop the payments system. Other major government digital programmes using agile have taken much longer than this to complete. CAP-D, Defra's previous rural payments system, took four years to develop, and even now is not fully operational. Development of the Universal Credit system started in 2010 and is not due to be complete until 2023. The ELMS payments system may, at least initially, just be spreadsheet-based but a more robust payments system will be needed as participation in the pilot grows. Defra intends to take a modular approach to designing and re-using elements of existing systems, which will reduce the risk and development time. However, it is uncertain whether this approach will be able to accommodate the integration needs, subsequent key decisions reached, or reflect lessons learnt from the tests and trials and piloting phases. The Programme's critical path does not yet indicate when the system data requirements that will be needed for the IT build will be ready.

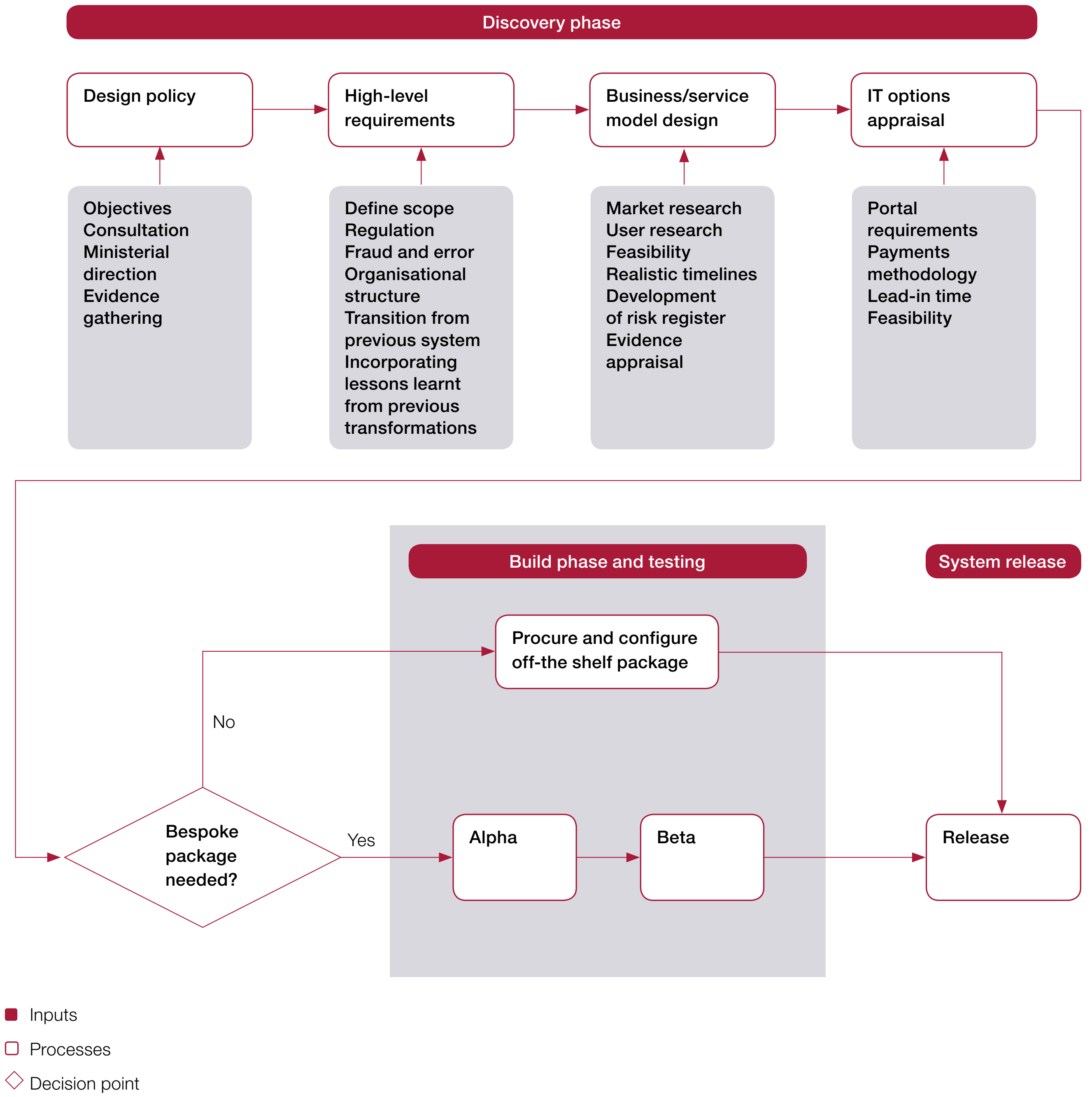
**2.22** Planning for the ELMS payment system is scheduled to start before many key decisions about the requirements of the system have been taken. In an agile development environment, these decisions, which include policy design, should be made during the 'discovery phase'. This is the stage of iterative research that is undertaken at the very start of a digital project, prior to building the system. The subsequent 'alpha' phase is the point at which service prototypes start to be built and tested with users to demonstrate that the service is technically deliverable. In an ideal policy and implementation cycle, the alpha stage would not begin until the discovery phase is complete, and the business and service models are known (see **Figure 12**). There is a risk that designing and developing technology solutions ahead of key business decisions may lead to nugatory or costly re-work resulting in the IT solution costing more, taking longer and creating a sub-optimal outcome based on an incomplete architecture and design, leading to integration issues.

**2.23** DDTS told us that the ELMS workstream has provided an indication of the IT requirements, but the team has not yet received any documentation setting out these requirements. Despite this, the alpha stage of the IT system design was scheduled to begin in March 2019. DDTS has not yet documented the risks and assumptions they have to make in the absence of key business decisions, nor the impact on the cost and timescales if these assumptions change. There are no clear governance arrangements in place to monitor these risks and assumptions. Defra must guard against using the assumed flexibility of its approach as a justification to delay critical business decisions, meaning that it will not have enough time to make necessary changes to its systems, or that necessary changes may not be possible.

**2.24** Key milestones for decisions about the system requirements are scheduled in the critical path to take place during the alpha and beta phases. This prevents the decisions from being incorporated into the design of the IT system from the outset. For example, the payment methodology and rates for ELMS are scheduled to be decided in April 2020, during the beta phase and less than a year before sign-up to the national pilot starts. But the methodology will have a strong bearing on what payment package will be needed, for example whether an off-the-shelf or a bespoke system is needed, depending on the complexity of the payment regime. The system design cannot be fully created if input from the tests and trials, taking place in 2019 and 2020, is expected to feed into the design. Similarly, it will be too late for feedback and lessons learned from the national pilot, which is scheduled to run from late 2021 to 2024, to be fed into the IT system design. In its commercial strategy for the Programme, Defra acknowledged that it would be challenging to reconcile the iterative approach to the design of ELMS with the intention to build final digital systems early.

## Figure 12
Digital transformation and implementation cycle

**In an ideal policy implementation cycle, the 'alpha' stage would not begin until the 'discovery' phase is complete, and business and service models are in place**




Source: National Audit Office

## Regulation and fraud control

**2.25** As direct payments are phased out, the government proposes to remove the link between the amount paid and the area of land farmed. Defra has not yet determined exactly how future payments will be calculated (for example, they could be based on payments in a particular year or an average over a number of years). However, once the amount is determined, farmers will continue to receive payments on that basis regardless of whether they continue to farm the same land or leave farming altogether. Once the link between subsidy and land is removed, farmers who continue farming will remain subject to the legislative rules and regulations they are currently subject to under CAP cross-compliance in areas such as food safety, animal welfare, soil protection and water management. Defra intends to put forward new legislation for current cross-compliance standards which are not in legislation such as hedgerow protections. Defra will need to consider the inspection and enforcement strategy for the underlying legislation, and the extent to which additional regulatory measures are required, in order to maintain standards and preserve the landscape.

**2.26** When developing new policies, departments should be considering the regulatory approach alongside policy design to prevent policies that are too burdensome or impossible to regulate, and make sure that realistic and proportionate controls can be put in place. Defra will need to quickly develop its regulatory approach to ensure its policy can be adequately regulated and to assess the workforce requirements to include in its business case. Defra told us that its work on developing its regulatory approach had been slowed because the relevant teams were waiting for the outcome of the government's fundamental review of agricultural regulation being undertaken by Dame Glenys Stacey, HM Chief Inspector of Probation. Her report was published in December 2018. Defra was also waiting for further prioritisation decisions to be taken by ministers before progressing its design work and expects to begin consultation in the near future.

**2.27** Defra has not yet started developing its fraud strategy for ELMS, although Defra expects elements of the system design, such as inclusion of an accreditation body to maintain the quality and consistency of advice provided to farmers, to play a role in reducing fraud and error. In our *Fraud and Error Framework*, we recommend that a strategy and governance for tackling fraud are established early in the policy design process, rather than as an afterthought once core decisions on policy have already been made. The strategy should identify the long-term aspirations for fraud and error by setting targets and then establishing appropriate monitoring, audit and reporting procedures. For Defra, these targets could, for example, be based on matching the 2% fraud and error rate in the current regime. Defra has undertaken a comprehensive review and is in the process of establishing a cross-departmental Programme Assurance Board, which aims to provide integrated assurance in relation to the design, implementation, delivery and benefits realisation of the Programme.

**2.28** Defra aims to reduce the complexity of system enforcement with more data-sharing, reduced duplication and greater use of "earned recognition", which takes account of historic compliance and membership of industry assurance schemes that enforce regulatory standards. Defra also intends to introduce more self-regulation, for example allowing farmers to submit digital photographs as evidence to reduce the number of farm inspection visits needed. Both self-regulation and simplification of the system increase the risk of fraud in the Programme, although they may also reduce error rates, allowing for better overall targeting of enforcement activity. 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%). But there is no reference to developing a fraud prevention strategy in the Programme's scoping documents or any plans to pilot fraud prevention methods during the tests and trials stage of the Programme.

# Appendix One

## Our audit approach

**1** This study examined the Department for Environment, Food & Rural Affairs' (Defra's) approach to developing the Future Farming and Countryside Programme (the Programme).

**2** We examined:

- 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; and
- aspects of the Programme that we believe need early consideration and where we identified risks to its successful delivery.

**3** Our audit approach is summarised in **Figure 13**.

## Figure 13
Our audit approach

**The objective of government**

Department for Environment, Food & Rural Affairs (Defra) needs to develop and implement a scheme for England's farmers post-EU Exit.

**How this will be achieved**

Government proposes to phase out direct subsidies to farmers over a seven-year period and to replace direct payments to farmers with an Environmental Land Management System (ELMS) that will pay farmers for the environmental outcomes they produce. Defra is developing the Future Farming and Countryside Programme (the Programme) to implement the government's proposals.

**Our study**

This study examined Defra's approach to developing the Future Farming and Countryside Programme.

**Our evaluative criteria**

1 Is robust evidence being used to inform decision-making?

2 Has Defra made a robust assessment of whether its proposed approach is feasible?

3 Does Defra have clear plans to establish a framework for measuring environmental outcomes and value for money?

**Our evidence**

Review of Defra's work programmes. Analysis of Defra's budgets. Analysis of Defra's management information. Analysis of current agri-environmental schemes. Review of tests and trials documentation. Review of the approaches to develop ELMS. Interviews with staff from Defra. Interviews with interested stakeholders. Review of our previous studies on Universal Credit. Fieldwork visits to payment by results pilots.

**Our conclusions**

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.

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.

# Appendix Two

## Our evidence base

**1** Our independent conclusions on the Department for Environment, Food & Rural Affairs' (Defra's) development of the Future Farming and Countryside Programme were reached following our analysis of the data we collected. Our fieldwork took place between December 2018 and April 2019.

**2** We used an evaluative framework to: consider whether Defra used robust evidence to make decisions; and if it has clear plans to establish a framework for measuring environmental outcomes and impacts. Our audit approach is outlined in Appendix One.

**3** We examined whether Defra was achieving its objectives of developing a system that will pay farmers for the environmental outcomes they provide.

**4** We reviewed evidence, including policy documents, consultation feedback, Programme management meeting minutes and evaluation reports.

**5** We carried out interviews with Defra, the Rural Payments Agency, Natural England, academics and other stakeholders. We used qualitative analysis to identify recurring themes and triangulated these themes with other analyses.

**6** We analysed existing data collected by Defra and included in the evidence compendium that accompanied the Health and Harmony consultation.

Report by the Comptroller and Auditor General

# Early review of the new farming programme

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## CORRECTION

**On page 1 of the report:**
It states that Gareth Davies was C&AG and signed off the report on the 30 May 2019. This needs to be corrected to reflect that it was Sir Amyas Morse.

**The revised wording should read:**

Sir Amyas Morse KCB
Comptroller and Auditor General of the National Audit Office
from June 2009 – May 2019

30 May 2019

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