National Audit Office

# The Environmental Land Management scheme

## Department for Environment, Food & Rural Affairs

REPORT

by the Comptroller and Auditor General

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## Department for Environment, Food & Rural Affairs

**Report by the Comptroller and Auditor General**

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**Gareth Davies**
**Comptroller and Auditor General**
**National Audit Office**


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# Contents



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# Key facts

**472,000**
number of people employed in UK farming sector in 2020

**71%**
percentage of UK land that is farmed (2020)

**2024**
year of full launch of the Environmental Land Management scheme (ELM)

| | |
|---|---|
| **£2.4 billion** | Department for Environment, Food & Rural Affairs' (Defra) average planned annual spending on agricultural schemes, including ELM, in England over the life of this Parliament |
| **10%** | target for administrative costs as a proportion of scheme payments, compared with up to 18% under current agri-environment schemes |
| **55%** | percentage reduction in direct payments to farmers by 2024-25, compared with payments under the Common Agricultural Policy in 2019-20, as funds are diverted into environmental land management schemes |
| **38%** | proportion of farmers who would have made a loss between 2017-18 and 2019-20 if they had not received direct payments and everything else stayed the same |
| **2,178** | number of farmers expressing an interest in the Sustainable Farming Incentive cohort 1 pilot compared with Defra's assumption of between 5,000 and 10,000 |

# Summary

**1** The UK farming industry provides more than half of the food we eat and employs 472,000 people in the UK. The industry comprises around 200,000 farm holdings, which use 17.3 million hectares, almost three-quarters (71%) of the land in the UK.

**2** For more than 40 years, most UK farmers have benefited from subsidies through the EU's Common Agricultural Policy (CAP). Under CAP, English farmers received around £2.4 billion annually and many farmers were reliant on this to maintain their businesses. Approximately 80% of this was distributed through the Basic Payments Scheme (BPS), which provided direct payments to farmers. BPS delivers some environmental benefits through limited compliance requirements but is largely based on the area of land farmed. The government considers CAP to be "flawed" and land-based subsidies to be "bad value for taxpayers". Following EU Exit, the government has decided to phase out these direct payments over seven years starting in 2021.

**3** The Department for Environment, Food & Rural Affairs (Defra) is developing the Future Farming and Countryside Programme as a "once-in-a-generation opportunity to reform agriculture". It will consist of schemes targeted at enhancing the environment, protecting the countryside, improving the productivity of the farming sector and improving animal health and welfare. Central to Defra's proposals is the Environmental Land Management scheme (ELM), the primary mechanism for distributing the funding previously paid under CAP. Instead of CAP direct payments, ELM will pay farmers for undertaking actions to improve the environment. It has three components, each of which will be launched in full in 2024:

- The Sustainable Farming Incentive (SFI) will be open to all farmers and will pay them for actions to manage their land in an environmentally sustainable way.
- Local Nature Recovery will pay for more complex actions that deliver benefits at a local level and aims to encourage collaboration between farmers.
- Landscape Recovery will support large-scale projects to deliver landscape and ecosystem recovery through long-term land-use change projects such as large-scale tree planting and peatland restoration.

**4** Before launching ELM in full, Defra is piloting its three components, starting with an initial cohort of farmers from October 2021. In March 2021, Defra invited farmers to express interest in participating in the pilot. Initially, the pilot will be limited to SFI. Defra plans to involve around 1,000 participants with further participants added over time to reach 3,500 participants. Piloting Local Nature Recovery and Landscape Recovery will commence later. In addition, Defra intends to launch some core elements of SFI at scale in mid-2022. In this report, we refer to this early roll-out of SFI as SFI2022. This will allow farmers to start earning income for providing environmental benefits as direct payments start to be phased out. SFI2022 will initially have a narrow scope but will expand over time.

**5** Defra aims to use the pilots to inform decisions on ELM design and delivery. It also sees the early roll-out of the SFI component, through SFI2022, as an opportunity to test the user experience on a larger scale. In addition to the pilots and SFI2022, Defra is running a series of 'tests and trials' to test specific elements of ELM including land management plans, the role of advice and guidance, and payment methods. Defra expects these different elements to provide continuous learning and plans to adapt the ELM scheme design prior to its full launch in late 2024.

**6** Defra expects the reduction in direct payments and introduction of its replacement arrangements, including ELM and other elements of the Future Farming and Countryside Programme, to have a significant impact on profits for many farmers. Data from Defra show that 38% of farmers would have made a loss over the period 2017-18 to 2019-20 without direct payments. Defra is updating its analysis of the distributional impact of its plans in support of the business case for the Future Farming and Countryside Programme, but there is still considerable uncertainty over how farm incomes will be affected.

**7** This is our second report on Defra's plans for replacing CAP. Our first report in June 2019 was a review of the early stages of the Future Farming and Countryside Programme.[1] We raised concerns then about the scale of work involved in the transition to the new Programme and, given farmers' reliance on existing EU subsidies, about whether Defra had allowed sufficient time to introduce its proposed changes to the way the farming industry is supported. We said that Defra needed to have a realistic plan and ensure that decisions affecting farmers were made in time to allow for system design and to enable farmers to plan their businesses.

**8** This report focuses on ELM, which will account for most of the government's expenditure on agriculture from 2024. It is a crucial part of Defra's plans to achieve the wider environmental objectives of the government's 25-Year Environment Plan and to meet government's net zero target by 2050.

1 Comptroller and Auditor General, *Early review of the new farming programme*, Session 2017–2019, HC 2221, National Audit Office, June 2019.

**9** Our study examines three aspects of ELM:

- the strategic management of ELM (Part One);
- delivery of SFI2022 (Part Two); and
- delivering the long-term benefits of the scheme (Part Three).

**10** The report draws on the lessons learnt from our examination of major programmes across government, which we brought together in a report published in November 2020.[2]

## Key findings

### Strategic management of ELM

**11 Despite significant challenges, Defra has made progress in several important areas since our 2019 report.** Defra has faced new challenges since we last reported, most notably resourcing challenges as a result of its ongoing work on EU Exit and responding to the COVID-19 pandemic. Despite this, Defra has continued to develop ELM policy and design. It published the *Agricultural Transition Plan* in November 2020 with an update following in June 2021 providing further details of its plans. It has established tests and trials to provide learning to help refine key aspects of ELM design. It has also submitted the outline business case for ELM and received approval from HM Treasury in June 2021 for the SFI pilot (paragraphs 1.14 to 1.16).

**12 Defra has not yet established objectives to support its high-level vision for ELM.** HM Treasury guidance highlights the importance of having up to five or six SMART (specific, measurable, achievable, realistic and time-limited) objectives. Defra has set out its high-level vision for ELM, to secure a range of positive environmental benefits and to help tackle some of the environmental challenges associated with agriculture. HM Treasury guidance also requires another level of more specific strategic policy objectives to turn the vision into an implementable programme. The outline business case for ELM sets out 24 SMART objectives related to the government's 25-Year Environment Plan and net zero carbon ambition, but these are described as provisional and indicative. As part of the approval process, HM Treasury asked Defra to set out when it would produce a set of prioritised SMART objectives and to provide evidence that these are informing scheme design. This work is in progress, but Defra told us that it cannot be completed until the government has made key decisions about its approach to meeting UK carbon budget targets and legally binding targets to be set in the Environment Bill (paragraphs 1.17 to 1.20).

2 Comptroller and Auditor General, *Lessons learned from Major Programmes*, Session 2019–2021, HC 960, National Audit Office, November 2020.

13 **Defra has yet to develop detailed delivery plans beyond March 2022.** The need for improvement in Defra's forward planning has been a recurrent issue, highlighted both in our previous report and by the Infrastructure and Projects Authority (IPA) in reviews undertaken in August 2020 and March 2021. Defra's current high-level plan for ELM beyond March 2022 is incomplete, with particular gaps in the analysis of the dependencies between different workstreams. Its own internal reporting on delivery confidence and risks has highlighted that detailed plans beyond March 2022 are still being developed (paragraphs 1.21 to 1.24).

14 **Gaps in staff capacity and capability remain an ongoing delivery risk although Defra has made recent progress in filling its vacancies.** We highlighted resourcing concerns in our 2019 report and these concerns were exacerbated by EU Exit and COVID-19 during 2020. In late 2020, Defra reported it had only 55% of the staff it required across ELM. Since then, the situation has improved. In July 2021, in addition to staff in its arm's-length bodies and resources drawn from the wider Future Farming and Countryside Programme, there were 169 Defra staff dedicated to working on ELM, with 22 unfilled vacancies (12%). Defra remains concerned about resources: it reported in its May 2021 management information pack that the resource requirements to support later phases of piloting were not yet fully understood and that significant changes to how it was managing the Programme required different capabilities that may not be in place. An audit of staff skills is planned for autumn 2021 and a new process for monitoring and reporting staff vacancies in the Programme is beginning to provide a better understanding of risk areas (paragraphs 1.25 to 1.27).

15 **Defra was slow to specify roles, responsibilities and funding allocations for its delivery partners and did not always appreciate the impact of its decisions on them.** In January 2020, Defra selected five of its arm's-length bodies as delivery partners for the pilot and SFI2022 until 2024. With the exception of the Rural Payments Agency, which has the most significant immediate role, all the delivery partners said they were frustrated about the lack of clarity over their expected involvement in ELM design. A year after being selected, none of the delivery partners has a formal agreement governing their role. This has led to uncertainty about the activities they are expected to undertake, how many staff they need to commit to the work and how much funding they will receive from Defra. All the delivery partners said that Defra had not fully used their expertise since appointing them. Defra undertook a joint exercise with its delivery partners in February 2021 to set out their roles and funding and is confident that they are now better integrated into the design and governance for ELM following this. Delivery partners confirmed that they had seen recent improvements in Defra's engagement. However, the Rural Payments Agency told us that Defra did not always understand or take into account the operational impact of its own policy decisions on its partners (paragraphs 1.28 to 1.33).

## Delivering the Sustainable Farming Incentive 2022

16 **The recent introduction of SFI2022 was a significant change to the ELM programme and Defra is having to design it quickly.** Defra first announced its decision to phase out direct payments in February 2018 but, at that time, did not intend to give farmers access to a scheme that would provide them with the opportunity to replace income lost through removal of direct payments until 2024. Ministers decided in late 2020 to introduce SFI2022 in part to give farmers an earlier opportunity to replace some of the income lost. This late introduction has required significant changes to Defra's existing plans for ELM. The introduction of SFI2022 prompted the IPA, in its August 2020 review, to report concern that the Programme may be attempting to do too much and creating delivery risks as a result. While Defra will start to reduce direct payments in England from 2021, the Welsh and Scottish governments are maintaining them until 2022 and 2024 respectively, allowing more time to develop alternatives. Even before the introduction of SFI2022, Defra already had concerns about deliverability because of the onset of the COVID-19 pandemic. In April 2020, as Programme resources were being diverted to responding to the pandemic, Defra officials asked ministers for a six-month delay to the start of the pilot because of delivery concerns, and for a smaller initial reduction in direct payments. However, ministers asked Defra to stick to existing plans. Defra established a revised approach to the pilot, including deferring the start of Local Nature Recovery and Landscape Recovery, in July 2020 (paragraphs 1.6 and 2.4 to 2.7).

17 **Defra has removed some risks associated with the launch of SFI2022 in mid-2022 by reducing its scope.** Defra has significantly scaled back the scope of SFI2022 compared with what was set out in Defra's *Agricultural Transition Plan*, published in November 2020, which described its intention to focus initially on "soil management, integrated pest management, nutrient management and livestock management". In June 2021, Defra announced that the initial focus will now be largely limited to soil management. This will reduce the primary risk identified by Defra of overlap with the existing Countryside Stewardship scheme, which will continue alongside SFI2022, and the risk of duplicate payments. It has recently introduced a multi-disciplinary approach for SFI2022 bringing together staff from policy and operational delivery areas in an effort to better co-ordinate policy and operational decisions (paragraphs 2.8 and 2.9).

18 **Despite the steps Defra has taken, risks and uncertainty over the deliverability of SFI2022 remain.** Defra acknowledges that reducing the scope of SFI2022 does not remove some important delivery risks, particularly around staff resources and lack of detailed planning beyond 2021. It has not carried out an overall assessment to demonstrate that SFI2022 is deliverable but has a contingency plan in place to delay the launch if needed. In addition, there are still concerns over aspects of the SFI2022 launch, such as the limited time to test the effectiveness of fraud and error controls and the new payment rates for the initial SFI2022 standards. Tens of thousands of farmers will experience the ELM scheme for the first time when it is launched. Farmers already lack trust in Defra as a result of their previous interactions and failure to launch SFI2022 successfully would cause further reputational damage. This would be likely to reduce longer-term participation in ELM and the environmental benefits it produces (paragraphs 2.10 to 2.12).

## Delivering the long-term benefits of the scheme

### Ensuring cost-effective delivery

19 **Defra has set a target to reduce administrative costs compared with existing agri-environment schemes but has not yet developed its approach to achieving these.** Defra has set a cap for administrative costs at 10% of scheme payments, compared with up to 18% under current agri-environment schemes. It based this target on a desired level of savings on current scheme costs, rather than a detailed understanding of the cost drivers in existing and future schemes. Defra expects to achieve its target through a combination of simpler scheme rules, faster and more automated processing of applications, and remote and automated compliance and enforcement. Defra is currently testing the achievability of its 10% cap as part of a review of cost baselines and cost drivers, which it had planned to complete in July 2021. While some elements have been finished, the review is not yet complete owing to lack of resources and the complexity of establishing baselines. Defra is aware that reducing administrative costs may have an impact on other parts of the scheme such as potentially higher levels of fraud and error but has not yet developed an approach to determining where the balance should be (paragraphs 3.2 to 3.4).

20 **Defra has made some progress in developing its approach to fraud and error but is behind where it needs to be.** The National Audit Office (NAO) recommends development of a fraud and error strategy alongside core policy decisions so that appropriate counter-fraud and error controls are designed and implemented from the outset. Defra set out a high-level fraud and error prevention strategy for the Programme in early 2021 but expects to develop its understanding of the fraud risks and mitigations over several years. By now, it should have developed a robust control framework with specific operational procedures for the start of the pilot and SFI2022. Defra believes that the risks presented by not having this in place are mitigated by making use of existing systems and digital infrastructure, and so carrying forward elements of the existing control framework. Defra produced its first fraud risk assessment for the pilot in January 2021, only eight months before its planned launch. An update in May 2021 showed that Defra had yet to develop many of the controls required and, in July 2021, Defra had not yet assigned owners for some of the risks it had identified (paragraphs 3.5 to 3.8).

**Engagement with stakeholders**

21 **Defra adapted its engagement plans to respond to the disruption caused by the COVID-19 pandemic.** Defra sees achieving high levels of participation in ELM as vital to delivering environmental outcomes and considers that effective engagement with farmers is important to achieving this. Because of COVID-19 restrictions, Defra put many of its engagement plans on hold, including raising awareness through events such as farmers' markets and a national roadshow. It has instead explored other ways to engage with farmers, including webinars, online forums and launching a 'Future Farming' blog and podcast, which share Defra's current thinking and updates on policy progress. As the lockdown restrictions were lifted, Defra officials attended a number of agricultural shows in summer 2021. Together, these efforts have resulted in an improved general level of engagement compared to previous years (paragraphs 3.9 and 3.17).

22 **Despite these efforts, Defra has not yet regained the trust it needs from farmers to be confident of a high level of participation.** Defra has lost farmers' trust over the years as a result of a long history of difficulties with its management of past agricultural subsidy schemes. Defra sees rebuilding this trust as vital for future participation. Our focus groups, together with a range of other evidence from Defra, provide strong evidence that it has not yet succeeded. Releases of critical information, such as which actions Defra will pay farmers for in the SFI pilot and SFI2022 and how much it will pay, have been delayed, further undermining confidence. To date, Defra has only carried out limited monitoring of its communications activities and has not set any measures to evaluate their success (paragraphs 3.9 and 3.16 to 3.18).

23 **The initial response from farmers to the SFI pilot was below what Defra had assumed.** Defra invited expressions of interest for the SFI pilot in March 2021 with a target to achieve 1,000 participants in this first pilot cohort. The response it received is the first indication of farmers' interest in ELM. Defra was understandably uncertain about the response, but it assumed that between 5,000 and 10,000 would express an interest. In the event, 2,178 responses were received from around 44,000 eligible farmers, a response rate of 5%. A continued low level of interest threatens Defra's ability to achieve its environmental ambitions. Defra had also hoped that participants in the pilot would represent a "wide range of land managers" but may not be able to achieve this with this level of response. Defra is confident that the level of interest provides a "healthy pipeline" to test the many aspects of the scheme but has not shown us any analysis to underpin this confidence (paragraphs 3.20 to 3.23).

24 **Defra has sought to work closely with farming and environmental organisations in the design of ELM, but stakeholders are frustrated about the 'co-design' process and this is not embedded across ELM teams.** Since the outset, Defra has seen co-design as a critical part of its plans to secure participation. However, representative organisations we spoke to felt frustrated about the process primarily because they did not consider they got adequate feedback on how their contributions had been used. In its March 2021 review, IPA reported that the lack of feedback risked an erosion of trust in the co-design process. Defra's own review across the whole of the Future Farming and Countryside Programme indicated some remaining barriers to embedding co-design including its own policy teams' lack of engagement and lack of staff capacity to deliver co-design (paragraphs 3.11 to 3.15).

## Conclusion on value for money

25 Defra and its delivery partners have worked hard in challenging circumstances to design ELM within the planned timescales. However, important elements are not yet in place, creating risks to environmental outcomes and value for money. ELM is not yet underpinned by a strong set of objectives and Defra's planning is too short-term in its focus. Defra also has considerable work to do to ensure ELM is delivered in a cost-effective way including developing its approach to controlling fraud and error and to delivering cost savings.

26 Achieving the environmental outcomes from ELM depends on high levels of participation. Defra has improved its engagement with farmers, but it still has a lot to do to regain their trust. The late introduction of SFI2022 created additional pressures for Defra and its delivery partners and, to help manage these, Defra has since reduced its scope. Nevertheless, important risks remain and a successful launch of SFI2022 to tens of thousands of farmers will be critical to the ultimate delivery of the intended environmental outcomes.

## Recommendations

**27** Defra should:

- urgently agree a clear, realistic and logical set of strategic objectives for ELM, as required by HM Treasury; this should include developing its understanding of how it will prioritise its objectives and a plan to measure what is achieved against these objectives;
- develop detailed plans that go beyond its short-term delivery priorities based on robust delivery schedules and a long-term detailed critical path;
- regularly check deliverability leading up to the full launch of ELM in 2024; in particular, it should closely monitor the feasibility of delivering SFI2022 on time, based on a better understanding of how long individual tasks will take and what indicators should trigger a delay to the launch of SFI2022;
- assess which elements of SFI2022 will not be fully tested before its launch and ensure appropriate mitigations are in place for the risks associated with rolling out the new scheme without full testing;
- identify the underlying reasons for the lower-than-expected level of interest in joining the first cohort of the pilot and develop measures to ensure future invitations achieve a better response across a wide range of farmers, targeting particular groups, if necessary;
- produce a clear plan, building on the work it has started, for how administrative savings will be achieved, including a timetable and who is accountable for delivery, and how its success will be measured; and
- develop detailed operational procedures against the fraud and error risks identified, and a plan to show how it will achieve and assess progress against its fraud and error objectives.