EXPLANATORY MEMORANDUM TO

THE COMMON AGRICULTURAL POLICY BASIC PAYMENT AND SUPPORT SCHEMES (ENGLAND) REGULATIONS 2014

2014 No. 3259

1. This explanatory memorandum has been prepared by Department for Environment, Food and Rural Affairs, and is laid before Parliament by Command of Her Majesty.

2. Purpose of the instrument

This instrument is about direct payments made to farmers under the Common Agricultural Policy (CAP). In common with all Member States, Defra Ministers have some discretion over aspects of CAP implementation in England. The instrument sets out how certain discretions will be exercised in relation to direct payments, including as regards 'greening' and the young farmer payment.

3. Matters of special interest to the Joint Committee on Statutory Instruments.

None

4. Legislative Context

4.1 Direct payments are subsidies paid to qualifying farmers under the CAP. The current CAP Single Payment Scheme (SPS) was introduced in 2005, and the final round of payments will be made under that scheme in 2014–15 in relation to the 2014 scheme year. From 2015, under a European programme of CAP reform, the Basic Payment Scheme (BPS) and Support Schemes will replace the SPS.

4.2 CAP reform is brought into effect by European Regulations which are directly applicable in member States. The arrangements for direct payments are contained in Regulation (EU) No. 1307/2013 of the European Parliament and of the Council establishing rules for direct payments to farmers under support schemes within the framework of the common agricultural policy ("the DPR"). The DPR enables the European Commission to make implementing and delegated acts to set out detailed rules under, and to supplement, the DPR — two such acts have been adopted to date and are referred to in regulation 2(1).

4.3 While these European regulations are directly applicable, they afford some discretion to Member States to adapt the arrangements for the implementation of direct payments to their own particular circumstances. This instrument confirms some of the most important discretions exercised in relation to England; these and other discretions will be explained in guidance to farmers.

4.4 Regulation 15 revokes statutory instruments previously made in relation to implementation of the SPS, but with a saving so that the provisions continue to apply to claims and payments made in relation to the 2014 and earlier scheme years.

4.5 This instrument is being made at the same time as two other related instruments. One is the Common Agricultural Policy (Control and Enforcement, Cross-Compliance, Scrutiny of Transactions and Appeals) Regulations 2014[1]. This covers administration, enforcement and environmental control across all aspects of the CAP (including direct payments). The

[1] SI 2014/#

other is the Common Agricultural Policy (Competent Authority and Coordinating Body) Regulations 2014[2], which provide for the Secretary of State and Ministers of the devolved administrations to jointly exercise functions of the UK Competent Authority and UK Co-ordinating Body. Together, these three instruments ensure that CAP reform has full and proper effect in relation to England.

4.6 The Commons EU Scrutiny Committee cleared as politically important the proposal for the direct payments regulation on 21 November 2012. It was recommended for debate in the EC(A) Commons Report 1 on 7 May 2013. The Lords Committee sifted the proposal in sub-committee D on 8 November 2012 and it was cleared by Ministerial correspondence on 22 May 2013.

5. Territorial Extent and Application

This instrument applies to England.

6. European Convention on Human Rights

As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

7. Policy background

7.1 The CAP is the system of agricultural subsidies and programmes which covers farming, environmental and rural development measures and controls EU agricultural markets. It is the EU's single largest common policy and accounts for over 40% of the entire EU budget. The CAP was introduced in 1962 and has undergone several reforms since then. The latest reform is the new CAP which starts from 1st January 2015, and it seeks to strengthen the competitiveness and the sustainability of agriculture in Europe. Devolution in relation to the United Kingdom, and EU Treaty law, allows England, Scotland, Northern Ireland and Wales generally to make their own arrangements for implementation of the CAP.

7.2 The CAP is divided into two 'pillars'. Pillar 1 is for direct payments and market support measures and pillar 2 is for rural development. The amount of money available for the CAP under this term of CAP reform, in England, is about £15 billion over seven years out of which £11.5 billion is available for pillar 1 and £3.5 billion for pillar 2.

7.3 Under CAP reform, direct payments will be administered under the new BPS and certain support schemes. In England, the support schemes comprise a payment for greening and a further payment for qualifying young farmers. Greening is the requirement to follow specific environmental farming practices and the young farmer payment is available to farmers from the ages of 18 to 40 years.

7.4 Under Regulation 3 there will be the same three English regions for the purposes of the BPS, as for the SPS. However, Ministers announced in the Government's response to the CAP consultation in England that the BPS payment rate in relation to the severely disadvantaged area (SDA) excluding moorland will be set at the same (or very nearly so) as the rate on all land outside the SDA. Regulation 5 sets the minimum area which is eligible for a BPS claim at 5 hectares, which has been raised from 1 hectare under the SPS: this will reduce costs by excluding payments on very small holdings, many of which are not being farmed commercially.

7.5 The DPR provides that the amount of a basic payment to a farmer (excluding the greening payment and any payment under the young farmer payment) over a certain

[2] SI 2014/#

threshold must be reduced. The DPR affords some discretion to Member States to set the threshold and level of reduction. Regulation 7 provides that where payments are in excess of €150,000, the excess will be reduced by 5%: this is the minimum possible reduction, and reflects the Government's view that businesses should be free to grow, and should not face artificial constraints on size. The estimated value of these reductions is transferred to the pillar 2 budget.

7.6 Regulation 8 provides for the period within which a person holding entitlements may notify the Secretary of State (in practice, the Rural Payments Agency) of the transfer of those entitlements to another farmer (the transferee), in time to enable the transferee to claim basic payments against those entitlements in the scheme year in which the end of the period lies. (The deadline for such a claim is also 15 May in each scheme year.) So, for example, notice must be given by 15 May 2015 if the transferee wishes to claim on the entitlements in the 2015 scheme year, and the claim must then be made by the same deadline. This ensures maximum flexibility in the timetable for transferring entitlements. Regulation 8(3) provides that the deadline for an application for allocation of payment entitlements from the national reserve, *i.e*. to a new entrant or a young farmer, must also be made by 15 May.

7.7 Regulation 9 selects one among several possible technical mechanisms to calculate the young farmer payment, and provides that the payment may be made on no more than 90 entitlements per farmer. This is the maximum limit available. The provision is intended to promote as many as possible new entrant young farmers into farming, maximise the benefits of the scheme and will most effectively support new entrants in the early years of their business.

7.8 Regulation 10 provides an exemption for farmers who would otherwise be excluded from eligibility under the 'active farmer' rules in the DPR. The exemption applies to farmers who received direct payments of €5,000 or less in the previous year. This threshold was set at the highest possible level in order to minimise administrative burdens for farmers and the Rural Payments Agency**.** Other aspects of discretions available to Member States in implementing the 'active farmer' test are or will be set out in guidance[3], as details are still under discussion with the European Commission.

7.9 Regulations 11 to 13 relate to the greening rules of the DPR, which comprise crop diversification, permanent grassland and ecological focus areas. Regulation 11 sets the relevant part of the cultivation period in any year in order to determine that crop diversification requirements have been met. This will be the period in which on-the-spot checks will be conducted to ensure that the crop diversification requirements have been complied with. The period will run from 1 May to 30 June (inclusive of both dates).

7.10 Regulation 12 provides that the areas of environmentally sensitive permanent grassland which are designated for the purpose of applying a no-plough rule as required under the permanent grassland provisions in the DPR are the same as those areas of permanent grassland already defined as sites of special scientific interest within sites designated under the EU Habitats and Wild Birds Directives.

7.11 Regulation 13 establishes the land-use types which are considered to be ecological focus areas, these being land lying fallow, buffer strips, areas with catch crops or green cover, areas with nitrogen-fixing crops and hedges. It also provides that, to count as EFA, the width of buffer strips (other than those along water courses required under cross-compliance rules) should be at least one metre, lists (in Part 1 of the Schedule) the crop species which can be used in a mixture of crop species for catch crop or green cover, and

[3] See, in particular, *CAP Reform: October 2014 update*, pp19–27.

defines the periods during which such crops must be sown and retained. The provision also lists (in Part 2 of the Schedule), the nitrogen fixing crops that farmers may grow.

8. Consultation outcome

8.1 Throughout the CAP reform negotiations and implementation process the Government has actively engaged with interested parties. In April 2013 Defra established a direct payments consultative group[4] comprising stakeholder representatives from farming and environmental organisations. This has met on a monthly basis to discuss the implementation process and has ensured that stakeholder organisations have been fully consulted on decisions taken. In addition a number of *ad hoc* workshops on specific issues have taken place. Consultation has also taken place through other stakeholder forums as appropriate: including monthly working group meetings of rural development stakeholders and with the national common land stakeholder group on CAP reform and common land.

8.2 On 31 October 2013 the Government issued a *consultation on the implementation of CAP reform in England*. The consultation closed on 28 November 2013. The timetable for the consultation was constrained as the Government wanted to consult on the basis of as much final information as possible. It was desirable to wait until negotiations on EU implementing and delegated acts, and discussions on European Commission guidance, were well advanced, although on some issues consultation had to take place before the finer detail had emerged. The consultation was also constrained by the need to notify the European Commission by 31 December 2013 whether to transfer funds from the CAP budget for direct payments (Pillar 1) to fund rural development (Pillar 2), which was part of the consultation.

8.3 In total 4,928 responses were received. 767 of these were received on-line, and 4,161 by email and post. Of these responses 3,797 were connected to a campaign organised by the Royal Society for the Protection of Birds (RSPB) and 36 were connected to a Soil Association campaign.

8.4 During the consultation period Defra also hosted 10 stakeholder events across England in Ardingly, Bridgwater, Bromsgrove, Cambridge, Hexham, Leeds, Melton Mowbray, Penrith, Nantwich and Truro. These were attended by approximately 720 people. The themes that emerged at the stakeholder events were considered alongside the written responses. Defra also hosted two online social networking discussions, on 21 November via @AgriChatUK and on 26 November hosted by the Parliamentary Under Secretary of State for farming, food and marine environment. The Government's proposals were also considered by the Select Committee on the Environment, Food and Rural Affairs, which published its findings in the *Seventh Special Report of Session 2013–14*, on 3 December 2013[5]. These were taken into account in the consultation response. The Government published its formal response to the Committee on 27 January 2014.

8.5 The Government issued a summary of responses to the consultation and its decisions on 16 December 2013 and 26 February 2014. In June 2014 further decisions were announced on the new greening rules that farmers need to meet and cross-compliance. Between 12 March and 12 April 2014 the Government also consulted on an environment report for the Strategic Environmental Assessment for the Rural Development Programme which was published in June 2014.

8.6 The written consultation asked a number of questions on areas covered by the instrument. With regard to Regulation 7, which provides that where payments are in excess

[4] Membership is listed at Annex A
[5] HC 745.

of €150,000, the excess will be reduced by 5%, the written responses were evenly split between those favouring this minimum reduction and those supporting a higher level. With regard to Regulation 9, which provides that the payment may be made on no more than 90 entitlements per farmer, responses in the consultation were fairly evenly split between support for the options of 25, 54 or 90 entitlements, with a small minority advocating another maximum entitlement.

8.7 Following the consultation the Government has continued to work closely with stakeholder organisations on the detailed implementation of the CAP. Meetings of the direct payments consultative group have taken place monthly throughout 2014. Discussion has focused in particular on the active farmer test and greening where stakeholders have pressed for rules to be as clear as practicably possible.

9. Guidance

9.1 A series of guidance leaflets on how the new CAP will affect farmers and other rural businesses have been issued.

9.2 *CAP Reform: introduction to the new Common Agricultural Policy schemes* published on 14 April 2014 provided an overview of the new CAP. *CAP reform: August 2014 update* published on 14 August provided an update on the new greening rules. *CAP Reform: October 2014 update* published on 28th October 2014 provided more information on the BPS for farmers. These guidance notes have been published on the gov.uk website, and posted to all eligible claimants. They have also attracted widespread attention from stakeholders, who have relayed details to their members.

9.3 Further guidance will be issued later this year and in early 2015. A direct payments handbook will be published in February 2015, containing consolidated guidance, and available online and posted to eligible claimants. This guidance will also provide the foundation for staff administering the BPS in the Rural Payment Agency, but will be amplified by instructions for inspectors in time for the commencement of eligibility inspections.

10. Impact

10.1 An evidence paper on the impact of the reformed CAP on farmers and other rural businesses (some of which are charities or voluntary bodies, such as the county Wildlife Trusts) was published as part of the Government's consultation in 2013. A supplementary analysis has been published, and is annexed to this memorandum, which updates the data and conclusions in the December 2013 study.

10.2 No formal impact assessment has been done in relation to this instrument, as direct payments are part of the reformed CAP, and the impacts primarily arise from the policy itself, rather than the discretions exercised via the instrument. However, the analyses referred to in paragraph 10.1 provide data on the effect of the discretions exercised via the instrument.

10.3 The reformed CAP direct payments scheme is more complex than the SPS, and the European Commission estimated at the outset that it would cost 15% more to run. The implementation decisions made by the Government have sought wherever possible to minimise the burden on both farmers and the Rural Payments Agency. In addition, the new computer system which will administer reformed CAP will be more effective than the current system. Taken together with a number of organisational changes to rationalise the way that the Rural Payments Agency, Natural England, and the Forestry Commission administer CAP schemes, the Government expects that once the transition has been made the new system will be cheaper to operate.

11. Regulating small business

11.1 To minimise the impact of the requirements on small businesses, the approach taken has been to implement the CAP regulations in a way that is as simple, affordable and effective as can be achieved within the constraints imposed by the DPR. This guiding principle is reflected in the *Summary of the Government's responses to the Consultation on the implementation of CAP reform in England*. The decisions mean the new CAP is implemented in the most straightforward way achievable. It seeks to minimise burdens on farmers and reduce the risk of disallowance from the EU. Defra is investing in a much more efficient, customer friendly, online system ready to support farmers and other rural businesses.

11.2 The legislation applies to small business: many family farms qualify as small businesses. The European Regulations apply to all farmers who decide to claim direct payments. But the DPR confers some exemptions on certain small businesses (for example, the requirement for crop diversification under greening does not apply to farms with less than 10 hectares of arable land), and the DPR also enables Member States to decide, in certain cases, to maximise the range of small businesses exempted (for example, to adopt the highest possible threshold of €5,000, so that claimants receiving direct payments below this sum will not have to comply with part of the active farmer test).

12. Monitoring & review

The instrument will be formally reviewed in five years in accordance with regulation 14. The DPR imposes a requirement on the European Commission to review the implementation of the ecological focus area element of greening in 2016, and it is expected that such a review will also consider other aspects of CAP implementation. The Government will wish to contribute its experience of implementation in the UK to inform that review.

13. Contact

Hugh Craddock at the Department for Environment Food and Rural Affairs Tel: 020 7238 5663 or email: hugh.craddock@defra.gsi.gov.uk can answer any queries regarding the instrument.

Annex A

Stakeholders represented on the Direct Payments Consultative Group

1. Agriculture and Horticulture Development Board (AHDB)
2. British Institute of Agricultural Consultants (BIAC)
3. Central Association of Agricultural Valuers (CAAV)
4. Country Land and Business Association (CLA)
5. Institute of Agricultural Secretaries and Administrators (IAgSA)
6. National Farmers Union (NFU)
7. National Parks UK (NP)
8. National Trust (NT)
9. The Royal Society for the Protection of Birds (RSPB)
10. Tenant Farmers Association (TFA)
11. Wildlife and Countryside Link (WC)
12. The Wildlife Trusts (WT)
13. Moorland Association (MA)
14. Foundation for Common Land (FCL)



Department
for Environment
Food & Rural Affairs

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Implementation of CAP reform in England

Direct Payments Statutory Instrument

Supplementary Evidence Paper

December 2014

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Introduction

In October 2013 the Government consulted on the implementation of the Common Agricultural Policy in England. An evidence paper was published alongside the consultation document setting out the key impacts of different policy options we were consulting on and the rationale for any decisions already taken.

The consultation period ran from 31st October to 28th November 2013. During and following the consultation period the evidence base was further developed, building on feedback and evidence received from stakeholders. In particular an overarching assessment of the cumulative impact of the changes to CAP was made and published in chapter 7 of the December 2013 Government response to the consultation

A number of more technical implementation decisions needed further consideration and analysis. The decisions were subsequently announced over the period February 2014 to June 2014. These included decisions on the Young Farmer Payment which was announced in February 2014, the moorland rate in April 2014 and decisions on greening which were announced in June 2014. All the relevant documents are available here .

This is a supplementary paper to the evidence paper produced in October 2013 for the consultation on the new Common Agricultural Policy.

This paper sets out the evidence and analysis that has underpinned the decisions set out in The Common Agricultural Policy Basic Payment and Support Schemes (England) Regulations 2014 and explains how the evidence base developed throughout the consultation period. The paper follows the structure of the Statutory Instrument, with sections 2 – 7 considering the following issues in turn: payment regions and rates, minimum claim size, reductions, the Young Farmer Payment, active farmer test, and greening. Finally section 8 examines the overall combined impact of these decisions. This evidence paper assesses the impact of decisions taken on the implementation of the new Common Agricultural Policy in England.

Summary Table

Aspect of SI	Impact
Payment regions	Increasing the payment rate in the SDA Moorland will allow moorland farms to avoid projected farm business income losses from withdrawal of ELS and UELS (on average)
Minimum Claim Size	The minimum claim size will be increased from the current level of 1 hectare to 5 hectares. The number of claimants is expected to reduce by around 16,000 or 15%. This will deliver administrative savings for the RPA. The area of land on which direct payments are paid will reduce by just 0.6%.
Reductions	Just under 400 farms are estimated to be affected by reducing payments above €150,000 by 5%. Total reductions estimated to be €2.1m
Young Farmer Payment	The Young Farmer Payments are expected to be around €42 per hectare for Non SDA and SDA regions and €11 per hectare for the SDA moorland region.
Active Farmer Test	Potentially affecting over 700 claimants with claims currently totalling €7.4m
Greening	Estimated lifetime (2015–20) cost of Ecological Focus Areas = £40–130m. Estimated benefit from emissions savings = £2–10m. Potential biodiversity benefits have not been estimated. Crop diversification has an estimated lifetime cost of £150m.

The decisions allow us to give an overall view of the Direct Payments in England under the new CAP. The allocation of Pillar 1 between the different regions in England has been notified to the European Commission. With 12% of Pillar 1 funds being transferred to Pillar 2 and the implementation decisions the government has taken, Direct Payments are estimated to break down as shown below:

Direct Payments in England

	Non SDA	SDA	SDA Moorland
Allocation Notified to European Commission	90.59%	7.01%	2.40%
Basic Payment	€168/ha	€166/ha	€48/ha
Greening Payment	€76/ha	€76/ha	€22/ha
Total (Basic + Greening)	**€244/ha**	**€242/ha**	**€70/ha**
Young Farmer Payment	2%		
	€2,300-3,800 per eligible holding		
Reduction Proceeds	€2.1m		

Payment rates shown here assume that all entitlements are claimed. If future claims in fact match the current claims (i.e. not all entitlements are claimed against) then the Total (Basic + Greening) for the Non-SDA, SDA and SDA Moorland would be €247, €247 and €73 respectively.

Regions

1. In April 2014 we announced the decision to uplift payments rates for moorland farms. This decision retains the existing England payment regions of SDA (Severely Disadvantaged Area), SDA Moorland and Non-SDA, but alters the relative payment rates that CAP entitlements in those regions would receive. SDA and Non-SDA payment rates will be equalised as closely as possible and the SDA Moorland rate increased. The Non-SDA payment region accounts for the largest number of direct payment claimants and has historically been the highest payment rate.

2. The consultation led some stakeholders to question the increase in the SDA Moorland payment in particular and to ask for further analysis from Defra. This analysis, shown below, was undertaken and shared with stakeholder groups at the July 2014 Direct Payments Consultation Group meeting prior to reaching the final decision.

3. The analysis is based on a scenario for upland farmers where the Entry Level Stewardship (ELS) and Upland Entry Level Stewardship (UELS) agri-environment schemes are phased out. This is because there is a high reliance on UELS / ELS in the uplands and so farmers there are likely to be more

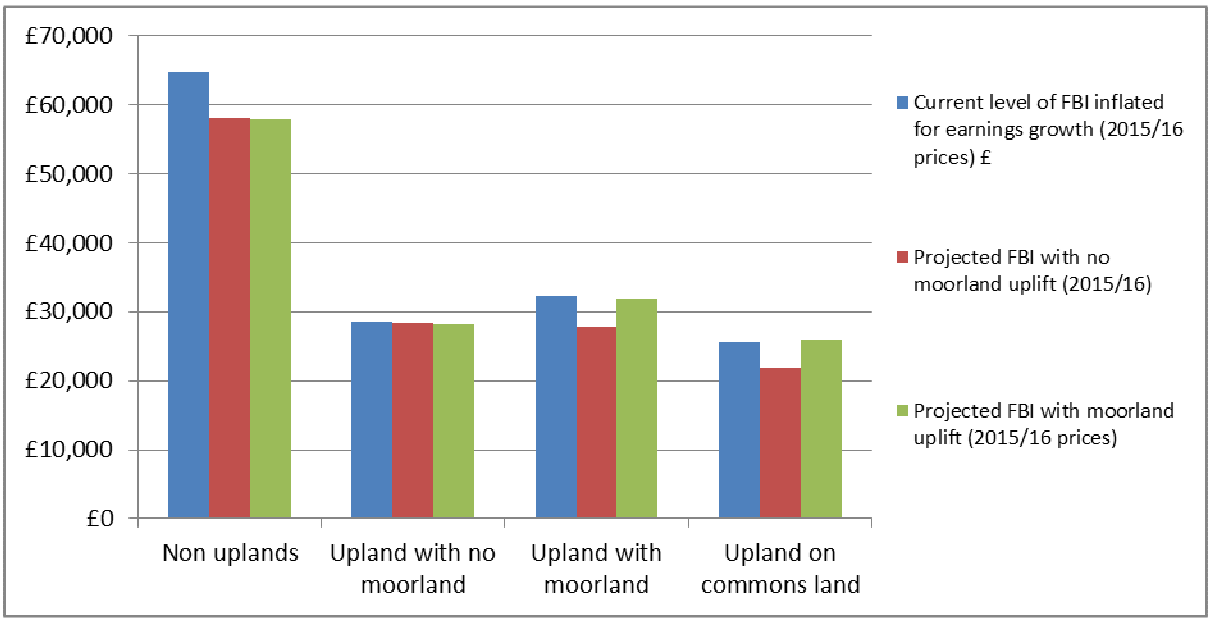
concerned about the prospects for their farm business income following the phasing out of those schemes.

Table 2: Modelled scenarios

Payment Rates (Basic Payment + Greening)	Non SDA and SDA	Moorland
Moorland uplift	€ 244	€ 70
If there is no moorland uplift and moorland rate falls in line with budget reduction	€ 247	€ 35

4. The budget changes can then feed into farm business income (FBI) for upland farms as compared non-upland farms if ELS and UELS were to be withdrawn. For this analysis, upland farms are defined as those with at least 90% of farmland in the SDA or SDA Moorland.

Figure 1: Projected Farm Business Income With and Without Moorland Uplift

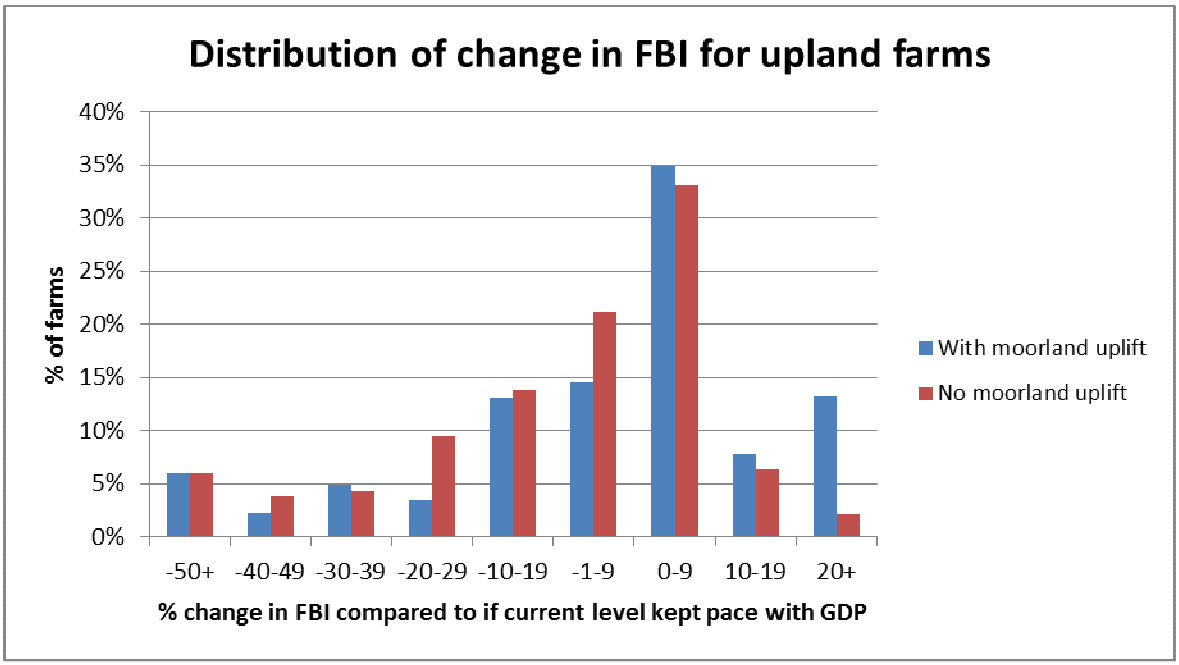


5. Upland farms, on average, tend to have lower farm business incomes than lowland farms. The ELS and UELS withdrawal would have a noticeable impact on the projected farm business income across farm types. An exception is the upland farms with no moorland. For them, the loss of ELS and UELS is broadly countered by the increase in CAP payments coming from equalising the SDA and Non-SDA payment rates.

6. Increasing the payment rate in SDA Moorland would allow upland farms with moorland or common land to largely avoid the projected real income falls that would come from a withdrawal of ELS and UELS. It would however have little impact on non-upland farms. The SDA Moorland area is comparatively small compared to the lowlands. Consequently a small drop in the SDA and Non-SDA payment rates can pay for a relatively substantial increase in the SDA Moorland payment rate.

7. It should be noted that averages, as presented here, mask wide variations between individual farms. The balance at the level of individual farms would depend on the ELS and UELS payments they receive. This is explored in Fig.2 showing the distribution of projected farm business income for upland farms with and without an uplift in SDA Moorland payment rates.

Figure 2: Distribution of Change in Farm Business Income for Upland Farms



8. An additional consideration with changing payment rates is the potential effect on the land market. Although some of the Basic and Greening Payments can be thought of as covering the costs of meeting the obligations of cross-compliance and the requirements of Greening, the payments function largely as a subsidy, and hence as a transfer payment. The subsidy element is reflected principally within the value of land and the value of an entitlement.

9. CAP payments are of course not the only driver of land prices and rents. Agricultural commodity prices, taxation, urban pressure and infrastructure

expansion will all matter as well, if not more. A 2009 study[6] showed that CAP entitlements (which form the basis for CAP payments) were being traded at relatively low prices, implying that the value of CAP entitlements was being capitalised into land prices.

10. Empirical evidence for the UK on the degree to which CAP payments are capitalised into land values (rents and land prices) is rather scant and evidence from across the EU is both mixed and difficult to apply to the UK given other Member States have tended to opt for different payment models. Nevertheless, a recent study[7] for Irish agriculture estimated that between 58 cents and 80 cents of every euro of subsidy is capitalised into land prices. The study covered payments which were in part coupled, so the high end of this range may be the most appropriate to consider for the UK to reflect the decoupled nature of direct payments here.

Minimum Claim Size

11. The Statutory Instrument sets the minimum claim size for the basic payment scheme and other direct payments at 5 hectares. The evidence underpinning this decision was set out in the October 2013 evidence paper, on pages 84–85.

Reductions

12. The new CAP requires that there is some reduction in Basic Payments going to the largest claimants. Greening payments are not subject to reduction. In October 2013 we published estimates of the number of farms affected by reductions to Basic Payments over €150,000. This was set out on pages 75–83 of the evidence paper.

13. The original analysis was published before a decision about the allocation of direct payments between the three payment regions (Non-SDA, SDA and SDA Moorland). The analysis was therefore based on the assumption that the historical regional share would persist.

14. In April 2014 we announced the decision to uplift the moorland payment rate and equalise the SDA and Non-SDA payment rates as closely as possible. The Non-SDA payment region accounts for the largest number of direct payment claimants and has historically been the highest payment rate. Uplifting the moorland payment rate lowers the Non-SDA payment rate and this reduces the

[6] Centre for European Policy Studies (2009) Study on the Functioning of Land Markets in the EU Member States under the Influence of Measures Applied under the CAP
[7] Centre for European Policy Studies (2013). An Analysis of the Capitalisation of CAP Payments into Land Rental Rates in Ireland: www.ceps.be/book/analysis-capitalisation-cap-payments-land-rental-rates-ireland

number of farms that receive more than €150,000 in Basic Payments and would therefore be subject to reductions.

15. In order to assess the impact of this reduction, we updated analysis undertaken using the 2011 Farm Business Survey (FBS) data. The FBS is the largest and most extensive business survey of farms in England.

16. The updated estimates are that just under 400 farms are expected to be affected by reductions. In aggregate these farms are estimated to face reductions of €2.1m. Under the CAP rules this money will be transferred to Pillar 2.

Young Farmer Payment

17. Member States are required to implement a Young Farmer Payment (YFP) to make additional payments to new entrant young farmers who are eligible for each of the first 5 years of the operation of their business. Member States are permitted to set aside up to 2% of their national ceiling for this purpose, and must establish an upper limit for the number of hectares that are eligible for the Young Farmers Payment. For England this has been set at 90 Hectares. A 2% of national ceiling limit implies that the maximum cost of the scheme would be just over €41m.

18. The October 2013 evidence paper stated that we would produce analysis of the impact of the Young Farmer Payment following consultation and once final European implementing regulations were available.

19. Following consultation Ministers decided that the Young Farmers Payment of 25% of the Basic Payment (i.e. not including the greening payment) should be available for up to 90 hectares of land – the maximum permitted by the CAP regulations.

Number of young farmers

20. The Young Farmers Payment is available to new entrant farmers between the ages of 18 and 40 who have been in farming for five years or less and who have effective control over their business. The Farm Structure Survey categorises principal farmers in age groups (under 35, 35 to 44, 45 to 54, 55 to 64 and over 65). To estimate of the number of farmers in England aged under 40, it has been assumed that half the farmers in the 35 to 44 category are aged under 40. Whilst there could be some farmers under 18, we assume this would be a very small number. Based on this, 9% of holdings with more than 25 hectares of utilisable agricultural area (UAA) are controlled by a principal farmer under the age of 40. The equivalent figure for holdings with 5 to 25 hectares of UAA is 8%.

Table 3: Age Profile of Farmers in England with over 5 ha UAA

	Under 35	35 to 44	45 to 54	55 to 64	Over 65	Total	**Under 40 estimate**
Number of Farmers	2,700	14,000	29,100	36,900	41,400	124,100	**9,700**
% of Farmers	2%	11%	23%	30%	33%		**8%**

21. There are no data available to establish how many of these young farmers have been in farming for less than five years and are therefore eligible for the Young Farmer Payment. In addition we are unable to estimate the number of young farmers that may enter farming as a result of the Young Farmer Payment.

Impact for farmers

22. Our current best estimate is that the average Basic Payment (excluding the greening payment) for England in 2015 is likely to be €168 per hectare (for non-moorland regions) and €48 per hectare for moorland. On this basis the YFP payments would be €42 and €12 per hectare (i.e. 25% of BPS).

23. Assuming an average claim size of 70 hectares and an average Young Farmer Payment of €42 per hectare, we estimate that an average Young Farmer Payment would be just under €3,000 per annum. However the amount each individual young farmer would receive depends on the size of the farm and could be as high as €3,800 for farms of 90 hectares or more.

24. 2% of the national ceiling (€41 million) has been allocated to the Young Farmer Payment for 2015. This would fund around 14,000 young farmer payments, assuming the average holding size for young farmers is 70 hectares in the non-moorland regions.

Table 4: Number of farmers that could be supported under Young Farmer Payment

Young Farmer Payment budget (annual) = €41.0m	Average holding claim size = 90 Ha	Average holding claim size = 70 Ha	Average holding claim size = 54 Ha
Average Young Farmer Payment per holding	€ 3,800	€ 3,000	€ 2,300
Number of young farmers that could be supported from the budget	10,900	14,000	18,100

Note: It has been assumed that all young farmers hold sufficient entitlements to claim up to the maximum 54 / 70 / 90 hectares. In reality this will not be the case so the total number of young farmers that can be supported is likely to be slightly higher than those shown above.

**To nearest 100*

25. If we have set aside more resources than are needed, i.e. if there are fewer than 14,000 young farmers, we are not permitted to re-use any of the unspent money elsewhere in the CAP. Thus resources that could otherwise have been made available for the Basic Payment Scheme will be lost.

26. If the number of young farmers exceeds 14,000, and demand for the Young Farmer Payment budget is higher than the amount available, we would be required to reduce the level of payment made for each Young Farmer Payment applicant. However, based on available data, we believe that take-up of the scheme is unlikely to exceed the available budget. If this scenario were to arise it would create an administrative burden for the RPA in recalculating payments and potentially delay payments to young farmers who have applied for the payment.

27. We will make a decision about the amount to set aside for 2016 and later years in due course, as we refine our forecasts year on year. This will help to reduce the likelihood of significant over or underestimates in future years as our evidence base develops and we have a more stable population of applicants.

Active Farmers

28. The new CAP includes an active farmer test, which focuses on claimants whose business purpose is not, or is only marginally, targeted at an agricultural activity. To ensure that support is better targeted, Member States are required not to grant direct payments to certain claimants on a 'negative list' unless the claimants can demonstrate (via the 'readmission criteria') that their agricultural activity is not marginal (for further explanation, see paragraphs 31–32 below.

29. Through the consultation a number of organisations raised concerns with us that the negative list might catch genuinely active farmers who have responded to the Government's call to diversify, by, for example, providing private water supplies or renting out real estate to supplement their farm income. They wanted the Government to ensure that this does not happen.

30. The analysis to establish how any existing claimants might be affected was limited in geographic coverage to England. Data were available for CAP payments in 2013 with details of company names from the RPA database of claimants.

31. There are a number of criteria which determine whether a claimant falls under the Active Farmer Test, and therefore whether they will be eligible for CAP payments from 2015. These are outlined below:

    a. The test applies only to organisations who claim at least €5,000 in CAP subsidies in the previous scheme year.

b. The Regulation sets out a “negative list” which is a list of types of organisations that will NOT be allowed to claim direct payments or transfer in entitlements. These are:

   i. Railway services

   ii. Airports

   iii. Waterworks

   iv. Real estate services

   v. Permanent sport and recreational grounds (e.g. golf courses, shooting ranges etc.)

32. Claimants who are caught by the negative list are still able to claim CAP direct payments if they meet any of the following readmission criteria:

   a. Their direct payments from CAP are at least 5% of their non-agricultural receipts

   b. Their agricultural receipts are at least 15% of their total receipts

   c. Their principal business activity or company object is agriculture.

33. To analyse this searches for keywords were performed on the RPA’s database of claimants in 2013 to identify companies with Single Payment Scheme claims over €5,000 that could potentially be caught by the negative list. Those companies identified by the search were then manually checked to see if it was likely that they were vulnerable to the negative list.

Table 5: Potential Claims Caught by the Negative List

Category	Claims	Average Claim Amount	Sum of Claim Amounts
Airports & Railway Services	*6*	€15,282	€91,695
Waterworks	*9*	€104,822	€943,395
Real Estate Services & Sport Recreation	*133*	€26,843	€3,570,086
Total	***148***	***€31,116***	***€4,605,176***

34. This analysis is only indicative of the degree to which claimants may be excluded by the active farmer test. There are possible claimants excluded by the negative list whose company name does not contain any of the keywords searched for (real estate services might be a case where this is a particular problem). Equally, we have not examined the accounts for any of the companies concerned so have not assessed whether they could satisfy the criteria set out above.

Greening

Ecological Focus Area requirement

35. The CAP evidence paper published in October 2013 made an assessment of the economic and environmental impacts of the introduction of Greening. Since then, the Government has published details on which EFA features will be eligible and by how much these features count towards the requirement in England.

36. The 2013 assessment considered two principal scenarios for EFA: all features eligible or only landscape features ineligible. Following the Government's announcement in August 2014, the list of eligible features was reduced to the following:

    a. buffer strips

    b. nitrogen-fixing crops

    c. hedges

    d. fallow land

    e. catch crops and cover crops

37. The analysis presented in this paper has therefore been revised to only consider the impact of allowing these features. In addition, the weightings for the different features which determine their contribution to the EFA requirement have also been revised as follows:

EFA feature weightings	October 2013 assessment	This assessment
Hedges	1m equals 4m^2 of EFA	1m equals 10m^2 of EFA
Buffer strips	1m^2 equals 1m^2 of EFA	1m equals 9m^2 of EFA
Nitrogen-fixing crops		1.0m^2 equals 0.7m^2 of EFA
Fallow land		1m^2 equals 1m^2 of EFA
Catch crops and cover crops		1.0m^2 equals 0.3m^2 of EFA

38. The much higher weightings for hedges and buffer strips ensure that these existing features are worth more in terms of meeting the 5% EFA requirement. The implications are that fewer farmers have insufficient features and those farmers which still have insufficient features, may now need to not take out as much land out of production. Finally, the quantification and monetisation of some

environmental impacts have been revised following a reassessment of the biodiversity and pollution mitigation impacts.

39. As before, Defra's Farm Business Survey has been used to estimate the number of farms affected, the land which may need to be taken out of production and the cost of forgone production associated with the EFA requirement. Of the eligible EFA features, some fallow land is currently paid for through agri-environment schemes (AES). In a small number of cases, AES payments for these options will have to be reduced due to the risk of double funding and therefore these farmers may face an additional cost in keeping them out of production as required under their AES agreements. However, they will be given the opportunity to continue with these options; amend their agreements (to remove these options) or even terminate the agreement altogether: In these cases there would be no additional costs. In addition, around 90% of farmers in AES will not have their payments reduced in this way and will be able to use their agri-environment options to meet their greening requirements, as long as they can also meet the AES requirements. For this reason, two scenarios are presented in this analysis: one which includes agri-environment options (which are funded), and another where they are excluded to provide a range.

40. In line with the analysis conducted for the government response[8] to the CAP reform consultation we have assumed farmers bear the full costs of complying with the greening requirements, even where these costs exceed the level of the greening penalty for non-compliance.

41. Figure 3 is a chart of the number of farms and the associated eligible farm areas[9]. The chart divides farms and total farm area into the following categories:

    a. Below arable area threshold, and therefore exempt from EFA,

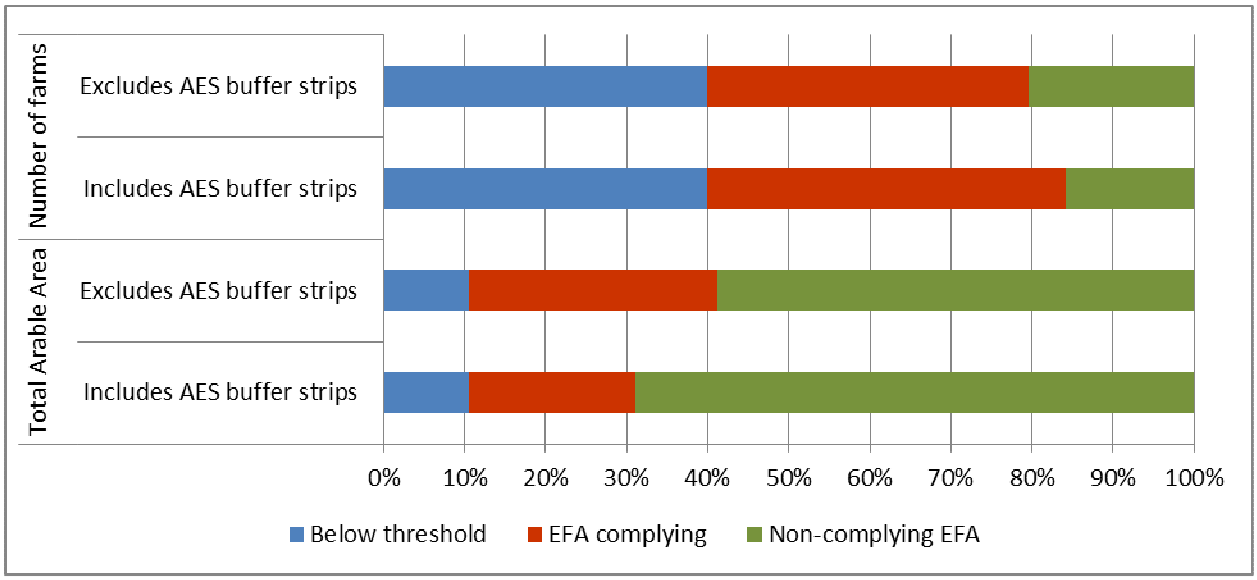
    b. EFA complying – above arable threshold, but these farms already have sufficient eligible features,

    c. Non-complying EFA – above arable threshold, and these farms have insufficient eligible features.

[8] www.gov.uk/government/uploads/system/uploads/attachment_data/file/267987/cap-reform-sum-resp-201312.pdf

[9] Assumed to include the utilised agricultural area of the farm, less permanent grass and permanent crops.

Figure 3: Percentage of farms and arable area currently compliant with the EFA requirements



42. The chart shows that whilst a small minority of farms will have to make changes to their systems to comply with the EFA requirement, they cover the majority of the arable area in England. A comparison of the two scenarios reveals that if buffer strips paid for by AES are included as eligible features, this then reduces the number of farms who need additional EFA features to meet the requirement.

43. Table 8 below now shows estimates of the additional arable land which may need to be taken out of production to meet the 5% EFA requirement. It assumes farmers leave land fallow to meet the EFA requirement. If farmers choose EFA features which have a higher weighting e.g. buffer strips, then less land will be needed to be taken out of production. The converse is also true.

Table 6: Additional land estimated to be taken out of production as % of eligible arable area

	Farmers able to claim AES buffer strips	**Farmers not able to claim** AES buffer strips
Cereals	0.5%	0.9%
General Cropping	0.7%	1.1%
Horticulture	0.8%	1.1%
Specialist Pigs	Insufficient data	
Specialist Poultry		
Dairy	0.4%	0.6%
LFA Grazing Livestock	2.9%	2.9%
Lowland Grazing Livestock	0.3%	0.3%
Mixed	0.4%	0.6%
Total	**0.7%**	**1.0%**

44. Using the data and methodology which were used in the October 2013 paper, we estimate the annual cost to be between £8–11m for the 0.7% scenario and between £16–24m for the 1.0% scenario. The equivalent impact in terms of the lifetime[10] costs is between £40–60m and between £90–130m. These ranges only reflect the sampling error for the estimation of the changes in farming profitability; they do not reflect broader uncertainties around e.g. how farming profitability changes over time, and how farmers may respond to the EFA requirement.

EFA Environmental impacts

45. The October 2013 assessment attempted to monetise the biodiversity, water and air quality and greenhouse gas impacts. Given the revised estimates of additional land taken out of production have reduced since the October assessment, these benefits also needed to be reassessed.

[10] Present Value (2015–2020), discounted at 3.5%, £2013/14 prices.

46. Previously, the valuation of biodiversity impacts was adapted from an earlier study[11]. This study assumed more land would be taken out of production than estimated in this analysis and measures would be implemented that target farmland birds. It is unlikely farmers will choose to adopt these measures to meet the EFA requirement as there is no additional financial incentive to do so. For these reasons, the monetisation of biodiversity benefits is no longer appropriate to use for this analysis. However, it is not true to say there are no positive biodiversity impacts, simply that they have not been able to be either quantified or monetised here.

47. To estimate the impact on pollution, the estimates of land out of production from the FBS analysis were fed into the same agricultural pollution model which was used for the 2013 analysis, FARMSCOPER (FARM SCale Optimisation of Pollutant Emissions Reduction).

48. The FARMSCOPER modelling tool from agriculture to surface water and the atmosphere models the effects of various mitigation methods in reducing losses of pollutants from agriculture to surface water and the atmosphere. The model can estimate the impact of different pollution mitigation methods on different farm types.

49. The EFA requirement was judged to result in practices similar to the pollutant mitigation options in Farmscoper of *uncropped cultivated margins* and *uncropped cultivated areas*. The impact of these options was then modelled according to the estimates of land out of production from the FBS analysis. The impact on the following pollutants was assessed:

    a. Nitrogen from reduced nitrate
    b. Phosphorous
    c. Sediment
    d. Ammonia
    e. Nitrous Oxide

50. These quantified impacts were then valued using internal Defra evidence for the forthcoming Water Framework Directive Agricultural Basic Measures Impact Assessment and Defra's air quality valuation guidance[12]. Future values were increased annually to take account of growth in willingness to pay for environmental outcomes and increases in population by 2% and 0.8% respectively.

51. The non-traded carbon price is used to monetise the greenhouse gas impact of nitrous oxide. Estimates of avoided nitrous oxide are converted to carbon by

[11] webarchive.nationalarchives.gov.uk/20130123162956/http:/www.defra.gov.uk/corporate/consult/gaec/
[12] www.gov.uk/air-quality-economic-analysis

multiplying by a factor of 310 to reflect the extra GHG impact that nitrous oxide causes, consistent with DECC guidance.[13] The lifetime valuation of emissions benefits for both EFA scenarios are set out below. The low and high estimates reflect the range of emission reduction prices. They do not reflect the full range of uncertainties, particularly in terms of how farmers may respond and the quantified impact on agricultural pollution. Buffer strips are strips of uncropped land adjacent to watercourses designed to reduce water pollution from fertiliser run-off.

2014 prices	Present Value of Emission Savings		
	Low Estimate	Central Estimate	High Estimate
Farmers able to claim agri-environment buffer strips	£ 1.6m	£ 3.0m	£ 4.5m
Farmers not able to claim agri-environment buffer strips	£ 3.6m	£ 6.9m	£ 10.1m

52. The value of the emissions savings increase when farmers are not able to claim their agri-environment-funded buffer strips as this implies they have to take more land out of production to comply with the 5% EFA requirement.

Crop Diversification

53. Whilst the Crop Diversification analysis does not reflect any policy decisions since the October assessment, the methodology for estimating costs was revised in the government response[14] to the CAP consultation. This section summarises the results of this analysis.

54. The methodology for estimating costs for the Crop Diversification requirement has been improved since the October 2013 CAP evidence paper. For this analysis, Defra's Farm Business Survey has been used to estimate the costs for those farms that would need to adjust their cropping to meet the requirement.

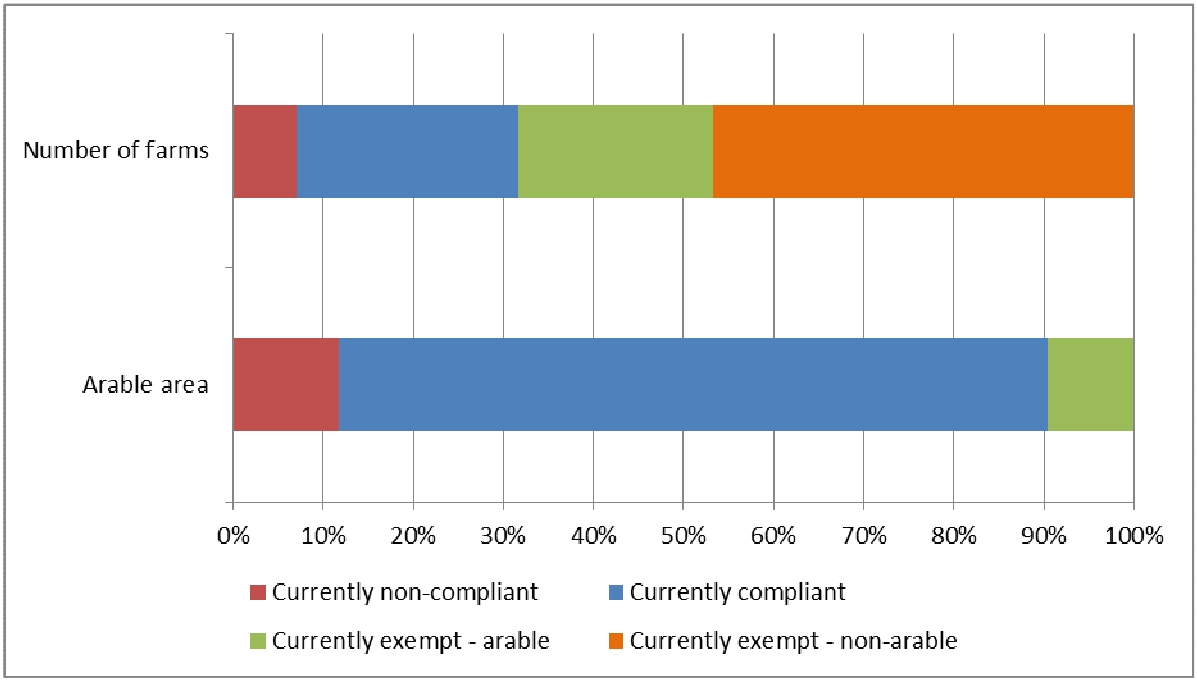
13 www.gov.uk/government/uploads/system/uploads/attachment_data/file/360316/20141001_2014_DECC_HMT_Supplementary_Appraisal_Guidance.pdf

The June agricultural survey has been used, as before, to estimate the number of farms and arable area which will be affected. The results from both surveys were combined to produce a total cost of Crop Diversification.

55. This has been done by multiplying the area of arable land which needs to change by the difference in average gross margin[15] between two typical crops[16]. Given the difference in gross margin is relatively wide, the central estimate of costs is likely to be an overestimate. The range in costs reflects the sampling errors for the two typical crops. For the reasons set out in the consultation analysis we have assumed that the Crop Diversification requirements are already met by horticulture and general cropping farm types.

56. Whilst the methodology on costs has changed, the number of farms affected has not as the same FBS dataset is still used. Therefore, the following chart is the same as the 2013 analysis.

Figure 4 – Estimated Current Compliance with Crop Diversification



57. The estimated costs of crop diversification have reduced significantly since the 2013 analysis as the farms are assumed to make less drastic changes to their systems than a substantial conversion to another, wholly-compliant farming system.

[15] A measure of farm profitability
[16] A typical high-margin crop, winter wheat, and a typical low-margin crop, spring oilseed rape; giving an approximate cost of £570 per hectare of arable land

Table 7: Annual costs of Crop Diversification measure

£2013/14 prices	Low	Central	High
Cereals	£15.0m	£23.5m	£32.1m
General Cropping	Assumed to comply		
Horticulture			
Specialist Pigs	£0.2m	£0.4m	£0.5m
Specialist Poultry	£0.4m	£0.7m	£0.9m
Dairy	£0.3m	£0.5m	£0.7m
LFA Grazing Livestock	£0.0m	£0.1m	£0.1m
Lowland Grazing Livestock	£0.5m	£0.8m	£1.0m
Mixed	£1.5m	£2.3m	£3.1m
All farm types	**£18.0m**	**£28.3m**	**£38.5m**

58. Clearly, cereals farm types bear the majority of the cost burden from the requirement. Overall, the requirement results in a lifetime[17] cost of £150m, ranging from £100m to £210m.

59. Whilst there is good evidence on the environmental benefits of crop rotation, there is only very limited evidence that monocultures have a detrimental impact on biodiversity[18]. It has therefore been assumed there are no environmental benefits from this requirement. Therefore, the Crop Diversification requirement is expected to yield significant costs, but very limited benefits.

[17] Present Value (2015–2020), using a 3.5% discount rate, £2013/14 prices.
[18] GWCT (2010). Conserving the Brown Hare. Game & Wildlife Conservation Trust, Fordingbridge

Glossary

AES.....Agri-Environment Scheme

CAP .....Common Agricultural Policy

DECC.....Department for Energy and Climate Change

EFA.....Ecological Focus Area

ELS.....Entry Level Stewardship

FARMSCOPER .....FARM SCale Optimisation of Pollutant Emissions Reduction

FBS.....Farm Business Survey

GAEC.....Good Agricultural and Environmental Condition

GHG.....Greenhouse Gas

LFA .....Less Favoured Area

RPA .....Rural Payments Agency

SDA .....Severely Disadvantaged Area

UAA .....Utilised Agricultural Area

UELS .....Upland Entry Level Stewardship

YFP.....Young Farmer Payment