

The Scottish Government's implementation of the Common Agricultural Policy and Scotland Rural Development Programme 2014-20

Introduction

Following its previous scrutiny of the reform of the Common Agricultural Policy (CAP) at an EU level, the Scottish Parliament's Rural Affairs, Climate Change and Environment (RACCE) Committee has recently been considering the Scottish Government's implementation of the CAP and Scotland Rural Development Programme (SRDP) 2014-20.

Against the backdrop of the Scottish Government's own consultations on these issues, and the UK Government's CAP budget settlement and plans for a review of this in 2016/17, the Committee took evidence on how both of the reformed pillars of the CAP should be implemented in Scotland from 2015 onwards, at meetings on 26 February, 5 and 26 March and 23 April 2014.¹

The Committee began its scrutiny by taking evidence from a broad range of stakeholders at two separate roundtable evidence sessions. The Committee ensured that it heard from a wide range of farming, crofting and food industry representatives, land managers, academics, environmental and community groups. This was followed by evidence from the Scottish Government's Cabinet Secretary for Rural Affairs and the Environment, and, finally, from the UK Secretary of State for Environment, Food and Rural Affairs on the role of the UK Government. The Committee also received a number of written submissions.²

Having listened to a wide variety of views expressed in this evidence, this letter sets out the Committee's conclusions and recommendations regarding the implementation of both pillar 1 CAP direct payments, and the SRDP schemes part funded by pillar 2 rural development money. This will help to inform the Scottish Government's preparation of its final plans and programmes.

Broad conclusion

Whilst predominantly focussing on the details of how both pillars of the reformed CAP should be implemented in Scotland, the Committee was struck by the evidence it received, from a wide-range of stakeholders, about the future of the CAP in the long-term, and the fundamental question: the way in which farming and crofting in Scotland continue to be supported. It is clear that a debate needs to take place in Scotland outwith the specifics on the implementation of the CAP and SRDP programmes in the short-to-medium term, which focusses on issues such as: what is Scotland trying to achieve with both pillar 1 and pillar 2

¹ Scottish Parliament Rural Affairs, Climate Change and Environment Committee. Official Reports of all relevant meetings available at:

<http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/29878.aspx>.

² Scottish Parliament Rural Affairs, Climate Change and Environment Committee. Written submissions on CAP and SRDP. Available at:

<http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/73538.aspx>.

support?; and, is funding the CAP at existing levels sustainable in the long-term? It may be of great benefit to future generations of farmers, crofters and land managers in Scotland if that debate took place sooner rather than later, in order to be able to best plan for the future.

In terms of evidence given to the Committee on how best to implement the new CAP in Scotland, the Committee was disappointed that little of the evidence it received took a strategic, comprehensive, balanced and overarching view of all aspects of both pillars, rather than giving views from one particular sector. Given that there is a huge demand on what is a reduced level of funding for both pillars, the Scottish Government is required to make decisions across the piece, not in isolation, and it is essential that both pillars are considered in their totality, and that the package of measures which support different sectors or interests is fully considered and understood.

Many concerns remain about how the UK's budget is divided between its four nations, and the Committee hopes that the UK Government's planned review of funding takes place at the earliest possible opportunity, and certainly no later than 2017; is entered into constructively by all involved; and ensures that any agreed outcomes can be implemented as soon as possible, preferably in this period of the CAP.

The Scottish Government has some difficult decisions to make in the weeks and months ahead with regards to both pillars of the CAP. With pillar 1, the focus must be on supporting all of Scotland's farmers, crofters and land managers as fairly as possible, ensuring that the move from historic to area payments is managed smoothly, and ultimately results in a fairer distribution of payments. The Committee recognises concerns raised about the consequences of having two payment regions in Scotland and recommends consideration of establishing a third payment region, depending on decisions taken on coupled support.

Whilst steps should be taken to ensure greening measures do not have a detrimental effect on certain intensive sectors, it is imperative that farmers, crofters and land managers step up to the plate and ensure that farms and crofts in Scotland become greener. The Committee recommends that the Scottish Government seeks to implement a requirement for every farm and croft in Scotland in receipt of CAP funding to complete a simple carbon audit within this period of the CAP.

There are great challenges in the pillar 2 supported new SRDP as well, with huge demands on the limited funds available. The Committee recommends that the Scottish Government retains the current Crofting Counties Agricultural Grants Scheme for crofts only and considers a separate Scotland wide small farm scheme.

It is essential that the often confusing processes of the last SRDP are simplified and that the schemes, and the application, assessment and approval processes for those schemes, are clearly set out and

understandable, and then regularly monitored and reviewed. Although funds are limited, the SRDP needs to be stimulating transformational change in our rural communities, and targeted at those who are best placed to deliver that transformational change.

AREAS OF CONSIDERATION

UK budget allocation and planned review

The Committee has previously indicated its unanimous disappointment that the UK Government did not return all of the convergence uplift funds the UK received as a result of Scotland's lower overall per hectare pillar 1 payments directly to Scotland. This disappointment was shared by the Scottish Parliament on a cross-party basis. **The Committee continues to believe that this was the wrong decision and one which will further delay achievement of fairer pillar 1 payments per hectare across the four countries of the UK, a view that was shared by all of those who gave evidence to the Committee on the issue apart from the UK Secretary of State.**

The UK Government has indicated that it will review the budget allocations in the UK in 2017. However, the Cabinet Secretary told the Committee on 26 March 2014 that the UK Government has not confirmed any details of the review, but has confirmed that any changes agreed as a result of the review will not be implemented until the next period of the CAP, which begins in 2020.

The Committee questioned the Secretary of State on this issue on 23 April 2014 and he stated that the review would take place in 2017, and that if it were possible to implement changes agreed by all four countries of the UK in this period of the CAP he would not be against doing so. He added that he did not think now was the right time to be thinking about the review in detail, but that in due course he would sit down with the other countries in the UK to discuss who should lead the review; who should be on the review group; and the remit and timescales of the review.

The Committee believes that, whilst recognising the uncertainty that upcoming referendums and elections bring, the UK Government's promised review of the allocation of CAP funding across the UK, including allocation of the convergence uplift, is vital in seeking to deliver a fairer outcome for Scotland. Any such review should be independently led and be a partnership between Scotland, England, Wales and Northern Ireland. The Committee recommends that the Scottish Government continues to press the UK Government for details on the structure, timing and scope of the review, and encourages all parties to engage in the process constructively.

The Committee is strongly of the view that the agreed outcomes of that review should not be delayed until the next period of the CAP, from 2020 onwards, but should be implemented as soon as possible after agreement in the current round of the CAP, from 2017 onwards. The

Committee notes that the UK Secretary of State stated that he had an open mind on this issue.

Transfer of funds from pillar 1 to pillar 2

The Scottish Government was required to make a decision on the transfer of funds between the pillars by the end of 2013, and decided to transfer 9.5% of the pillar 1 budget to pillar 2.

Evidence to the Committee on whether this was the right decision was split, with many farming representatives wanting to retain as much in the pillar 1 pot as possible, and those with a more environmental and rural development focus wishing to secure a larger percentage of pillar 1 funds transferred to pillar 2.

The Cabinet Secretary argued that as no stakeholders seemed to be satisfied with his decision, it must have been correct, as he was required to take a balanced view, having regard to reduced funding in both pillars of the CAP, and the potential consequences of all available options.

The Committee also heard evidence which suggested that setting any transfer figure for the entire period of the CAP was not sensible, given that the full impacts of the changes to pillar 1 payments in Scotland would not be understood until those changes had been made, and time had allowed an assessment of the effects.

The Cabinet Secretary confirmed that EU regulations permit one review of the transfer figure, with an opportunity to increase, but not decrease, the amount transferred, during the period of the CAP. He added that whilst he had not ruled out such a review, there were no current plans to initiate one.

Given the relatively small pillar 2 budget that Scotland has to work with, and how this compares with many other Member States across the EU, the Committee agrees with the Scottish Government that some transfer of funds from pillar 1 is essential to maximise the benefit of the many important schemes that can be funded by a new SRDP. Whilst individual members have a variation of views on this issue, the Committee notes the Scottish Government's decision to transfer 9.5% of the pillar 1 budget to pillar 2. The Committee also notes that this is less than is being pursued in both England and Wales, albeit within the context of higher pillar 1 payments per hectare in those countries.

The Committee recognises the starting point of a transfer of 9.5% of the pillar 1 budget to pillar 2, and the balance that is required to be struck given that the impacts of changes to pillar 1 payments are not yet fully understood and will not be for some time. The Committee recommends that the Scottish Government considers reviewing the transfer figure by the mid-point of this period of the CAP, taking account of the impacts of the implementation of pillar 1 and pillar 2 across Scotland.

Pillar 1

There are several issues within the delivery of pillar 1 funds which could have a significant effect on those who will be in receipt of the direct payments. The Committee considered each of these issues when taking evidence from stakeholders and comments as follows.

Payment regions

The Scottish Government is proposing two payment regions in Scotland, one for good quality arable land and one for rough grazing land, the rough grazing region (RGR). However, the Committee received a great deal of evidence noting concerns with this proposal, fearing that bracketing all rough grazing land together could have a serious detrimental effect on many parts of Scotland, and also that it may result in over compensating areas being actively managed to the minimum level, and under compensating areas where more active management is taking place. Fears extended to issues of loss of businesses, land abandonment, and all of the socio-economic and cultural impacts that would bring. Many stakeholders told the Committee that there should be at least three regions in Scotland, two of which would cover rough grazing land, but with a higher level of payment for such land on which there is more active management taking place, and where the land is sustaining jobs and communities, as well as delivering a wide range of environmental benefits. The note of caution to this approach was that the more regions that were put in place, the more complicated and open to challenge the system could be, which would not be in anyone's best interests.

The Committee also heard evidence regarding the level of potential payments per hectare for the RGR region (or regions) depending on which method, or combination of methods (including money available in pillar 2), is used to allocate funding. There were fears expressed by some stakeholders that the Scottish Government's current proposals could result in a payment as low as €20 per hectare for the RGR region, and some speculated that by moving to either a third payment region, or coupled support, these payments could rise, overall, to between €30 and €50 per hectare.

The Committee also heard evidence, including from the Cabinet Secretary, which stressed the importance of considering the number of regions, and rates of payment in those regions, in the context of the wider package of support for farmers and crofters being offered by both pillars of the CAP. For example, decisions taken on coupled support, defining activity, or the Less Favoured Areas Support Scheme (LFASS), are likely to have a significant impact on the amount of total funding which will be available for those active in different parts of the country. The Cabinet Secretary noted that whilst he had not ruled out two rough grazing area payments, he added that doing so may place an added burden on farmers and crofters and could lead to increased regulation.

The Committee notes the evidence it heard which outlined the consequences which could result from one very low area payment applying to all of Scotland's rough grazing land but is mindful that this

could be addressed depending on decisions taken on other parts of the CAP, such as coupled support and defining activity.

If an increase in coupled payments, targeted at hill ewes, is not possible, the Committee recommends that the Scottish Government establishes three payment regions in Scotland, one for productive good quality land, and two for rough grazing land, divided based on active management. If an increase in coupled payments remains an option, the Committee recommends that the Scottish Government carefully considers whether a third payment region, or targeted coupled support, would best serve rough grazing land in Scotland and recommends that the Government provides the Committee with details on the respective benefits for producers of a third payment region or targeted coupled support to ensure appropriate levels of payment are delivered.

Transition from historic to area payments

The issue of how quickly to move from historic to area payments is contentious and often highly emotive as people seek to best protect their interests, livelihoods and futures. The Committee understands that people will seek to protect themselves from any reduction in support; just as others who have not had access to support in the past will be pushing hard for the playing field to be levelled at the earliest opportunity. This was reflected in the evidence the Committee received, with some stakeholders wanting to see an immediate move to area payments, and others wishing to see a phased transition over a longer period. There was less support in evidence for a “tunnel” approach, whereby payments move closer to the area rate over the course of the CAP, but there is no full transition in this CAP period.

There are clearly lessons to be learnt from the transition which took place several years ago in England, which stands as an example that the most important element of the transition must surely be how it is managed, and that appropriate systems and processes are in place to enable the relevant agencies, such as the Scottish Government's Rural Payments and Inspections Directorate, to cope.

Whilst understanding why some stakeholders are calling for an immediate move to area payments, and argue that that the industry has known for some years that this change would be coming and should therefore be well placed to respond, the Committee accepts that some businesses may not be prepared. An immediate transition may therefore have a negative impact on Scotland's agriculture sector which could have serious economic and social impacts.

However, the Committee does not want to see a “tunnel” approach adopted, and believes it is essential, in order to move towards a fairer system of payment for all Scotland's farmers and crofters, that full transition takes place by 2019.

The Committee recommends that the Scottish Government does all it can to ensure that robust IT systems and all necessary supporting

resources and infrastructure are in place, fully tested and risk assessed, in time for the roll-out of the new CAP in 2015.

Activity

Defining and assessing activity is vital in ensuring that the limited direct support funds available do not end up in the hands of those who are not actively farming the land, and not producing food. The 'slipper farmer' issue has long been a blight on Scotland's reputation for hard working farmers and crofters and an issue that desperately needs to be addressed. The Scottish Government successfully worked with the UK Government to negotiate a Scottish clause in the regulations which would allow the Scottish Government to tackle this issue.

Evidence to the Committee agreed that this issue must be dealt with and the Cabinet Secretary told the Committee about options which may be available to do this. He noted that the definition of activity needed to be as robust as possible, but achieving this would not be straight-forward as World Trade Organisation rules prevent simply defining activity by linking directly to livestock numbers and carrying capacity. However, he noted that there were ways of framing any definition around attaining a condition of land that would be dependent on grazing, and therefore a certain level of livestock (keeping in mind the carrying capacity). He added that the EU has stated that any definition must include a criterion not related to livestock, and that his intention was to set this at a very high level which would be difficult to obtain for those not actively working the land.

The Committee supports the Scottish Government in its efforts to ensure that robust activity criteria are put in place that can underpin the distribution of pillar 1 funds. The Committee understands that establishing a definition of activity which complies with EU and WTO rules will not be straight-forward.

Coupled support

The Committee is supportive of Scotland making use of some of its pillar 1 funds to link support directly to livestock numbers, specifically to ensure that the beef industry maintains its stock numbers and is able to meet demand. The EU regulations allow Member States to couple up to 8% of payments, and the Scottish Government is proposing using this to continue a beef calf scheme.

However, the Cabinet Secretary told the Committee that he would have ideally liked to couple in excess of 8%, and that he had asked the UK Government that, as other parts of the UK are not using any coupled support, Scotland could increase its support up to 13%, which would keep the overall UK level within the 8% level. He told the Committee that the UK Government had given "mixed messages" on whether it would permit this, and he currently understands that the UK would allow this, but that certain conditions would be attached, such as that the coupled support did not lead to an increase in production; that Scotland takes all responsibility for the schemes; and that the

Scottish Government asks the EU for permission. He told the Committee that he had previously received verbal confirmation from the EU that it was satisfied with the proposal, and was of the view that it was an internal UK matter, but that the UK had required confirmation of this in writing, directly from the European Commission.

Since the Committee heard from the Cabinet Secretary, it has emerged that the European Commission had changed its position on this issue, and is now of the view that Scotland would not be able to couple more than 8%, regardless of the view of the UK Government. When questioned on this issue, the UK Secretary of State told the Committee that he has written to the European Commissioner to seek clarification.

If a further 5% of coupled support was to be made available to Scotland, the Committee received evidence suggesting that the additional 5% should be targeted at sheep stocks. The Committee heard a variety of views on proposed coupled payments for ewes, with some believing it could be essential in topping up low area payments for hill farmers, but others believing that any sheep targeting should not only be for sheep in more challenging areas. There was also a great deal of discussion on the potential complexity of coupling payments for sheep, which included a suggestion that electronic identification (EID) sheep tagging could be utilised for targeting payments.

The Cabinet Secretary indicated that he had an open mind on coupled payments for sheep but did outline several factors which would need to be considered in detail, such as a sheep scheme requiring more inspections than at present; possible increased auditing and complexity; the current mixed views of the sheep sector itself; and the totality of measures in the CAP which would target money at rough grazing land, e.g. he stated that he would find it difficult to implement both a third payment region and a coupled scheme for sheep.

The Committee welcomes the proposal to couple 8% of direct payments to beef livestock production. The Committee would welcome further flexibility from the EU which would allow the Scottish Government to consider coupling up to a level of 13% and notes that the UK Secretary of State has written to the European Commissioner to ask for clarification on whether this is possible.

If a further 5% of coupled support is made available, the Committee recommends that the Scottish Government considers using this to establish a coupled support scheme for sheep stocks in the rough grazing region, but that it does so in the context of the totality of the CAP measures. This should ensure that money from different funding strands does not end up being targeted at the same areas, which could leave some over-compensated and some under-compensated. If a way can be found to differentiate land in the rough grazing region into two categories, that would reduce the call for there to also be a coupled payment for sheep in the RGR.

Greening

The greening of the CAP at an EU level seems to have been the most disappointing aspect of the reforms, as Member States have been left to implement a set of proposals which, in seeking to be able to be applied across the EU, and address specific issues such as monoculture, could actually end up having a detrimental effect on a variety of food producers across Scotland.

However, what we must not lose sight of is the fundamental purpose which drove the inclusion of greening measures in this round of the CAP in the first place – which is that the agriculture industries across the EU need to up their game significantly in terms of greener farming and reducing carbon emissions. An attitude that all environmental and climate change objectives should be only delivered by pillar 2 is simply not acceptable or tenable. Providing the citizens of the EU with the public good of safe, high quality, and affordable food remains the thrust of direct support payments, but that has to be done in an environmentally, as well as economically, sustainable fashion.

There are three greening measures set by the EU: crop diversification; permanent grassland; and ecological focus areas (EFA). However, the Scottish Government has options around how it does this, which include how it defines EFA; which types of grassland to protect and also the option of using “equivalent” measures – i.e. delivering the same or increased benefits by methods outwith the three schemes set out in the greening measures.

The Committee heard some support for using equivalent measures as a way of delivering the same, or even increased, benefit but tailored to Scottish conditions. Others favoured a more standard application of the measures, but with some flexibility such as allowing EFAs to be established collectively.

The Committee also heard concerns from the fruit and vegetable sector that the greening measures, as outlined by the EU, could have a detrimental effect on production levels of small but intensive areas of land used for growing, say, soft fruit or potatoes. However, the Cabinet Secretary told the Committee that fruit was not deemed an arable crop and should not be adversely affected by the greening requirements. Two good examples on becoming greener were provided by a soft fruit grower who told the Committee about an intensive fruit and vegetable scheme which requires producers to make year on year environmental improvements, and that also as a supplier to Sainsbury they are committed to reducing carbon emissions by 20% by 2020.

The Committee also explored the scope for greening measures to include greenhouse gas emission reductions on farms – for example could a requirement for farmers to demonstrate tangible reductions in carbon footprint be linked to CAP support using the Scotland’s Rural College agricultural resource efficiency calculator. The Cabinet Secretary spoke positively on this to the Committee, stating that it would be a good idea for all farms to complete a green audit in this period of the CAP.

The Committee is disappointed in the final greening measures in the CAP and firmly believes that a much more effective approach to

achieving the aims of greening should have resulted from the reform process. However, the Committee agrees that the pros and cons of all options should now be fully explored in terms of how Scotland can best apply the measures for the greatest environmental impact whilst ensuring that negative effects on businesses and levels of production are minimised.

The Committee is particularly concerned that strict application of the three defined measures could have a notable negative effect on specialist intensive producers, such as the fruit and vegetable and malting barley sectors, and, whilst acknowledging that the Cabinet Secretary said he would be surprised if some of these sectors would be negatively affected, recommends that the Scottish Government works directly with these sectors to seek to apply the measures in the most appropriate way.

The Committee is also concerned that as the environmental impact of the greening measures may be only minimal, that consideration needs to be given to what can be done, outwith the greening measures, to make crofts and farms in Scotland greener and more carbon efficient. The Committee has seen examples, first hand, such as at the GreenCow Project near Edinburgh, of online carbon assessments and recommends that the Scottish Government seeks to implement a requirement for every farm and croft in Scotland in receipt of CAP funding to complete a simple carbon audit within this period of the CAP.

Capping payments

The Committee notes that EU rules require the Scottish Government to reduce individual basic payments over €150,000 by 5%. The Scottish Government can decide on additional capping of payments. Money from the imposition of capping will be transferred to pillar 2. The Government's consultation paper outlined four options for capping of payments, but did not express a preference for any particular one. The Government also has the option of using a redistributive payment mechanism (which gives a payment top-up for the first 54 eligible hectares on a farm and would probably result in reduced payments for those in receipt of the highest amounts), which would mean it would not be required to use the degressivity or capping measures.

The NFUS told the Committee that very few farm businesses would get a basic payment of €150,000. Others felt that an absolute cap of €150,000 should be imposed and could raise up to €20 million for use in pillar 2. Another issue with capping raised with the Committee was that it would be difficult to enforce and that, in reality, many larger businesses may find ways to restructure to avoid being subject to any cap of payments.

The Cabinet Secretary said he had not ruled out additional capping of payments, but noted that he expected the other CAP reforms to result in reduced and redistributed payments overall. He also added a note of caution to those commenting at present on how much capping could raise, as they were basing assumptions on current payments, rather than payments under

the new CAP. He also said that large payments to big producers may be justifiable and in the public interest.

The Committee requests that the Scottish Government shares with the Committee any modelling work it has undertaken on the possible effects of various capping options, including use of the redistributive payment option.

The Committee notes the points made by the Cabinet Secretary regarding the factors that should be taken into account when making decisions on which capping option to take forward. The Committee is of the view that there may be potential for some additional funds for pillar 2 to be secured via increased degressivity, capping payments, or introduction of a redistributive payment, and recommends that the Scottish Government makes its final decision based on modelling work which compares and balances the impacts on those in receipt of large payments with the consequent gains in pillar 2.

The Committee also recommends that the Scottish Government gives an indication of the basis on which it would decide which pillar 2 schemes would benefit from any additional funds secured via capping of pillar 1 payments.

New entrants

The perennial issue of how to ensure that new entrants into farming are encouraged and then appropriately supported was again to the fore in the Committee's evidence taking. It was very disappointing that, in 2014, the Committee was still receiving evidence of farmers who were new entrants in 2000 and are still not receiving a penny of direct support, or of farming neighbours, with similar businesses, having wide variations in the direct support they are receiving per hectare. It is essential, socially, environmentally, and economically, that this period of the CAP is finally the time when new entrants will be truly placed on a level playing field with more historic businesses.

It is clear that support for new entrants will not come from a single pot of funds. Rather it will be made up of support from both pillars of the CAP, and also influenced by measures outwith the CAP, such as the current debates on land reform and agricultural tenancy.

In terms of pillar 1, many issues discussed above are likely to impinge on new entrants – issues such as the number of areas established; the pace of transition from historic to area payments; the arrangements for coupled payments; and the definition of activity to avoid slipper farming. The Government is required to establish a national reserve from the funds for basic payments. The Government is proposing to use this to help support existing and future new entrants in what could amount to around €10m in an example given in the Scottish Government's consultation document.

Another issue relating to new entrants which was raised in evidence was the question of when the reference year for payments would be, and the effect perceptions about when the reference year will be is having on the availability of seasonal lets, and the prices currently being paid for seasonal lets, as some landowners and farmers would be keeping or renting in land in order to secure payments. The Cabinet Secretary confirmed that the Scottish Government was considering the pros and cons of a reference year of either 2015 or 2013.

The Committee comments further on new entrants in its comments on pillar 2.

The Committee remains concerned at the struggles faced by both existing new entrants, some of which date back almost 15 years, and future new entrants, in being able to not only establish and survive in farming, but also to grow their businesses. It is essential that the reformed CAP is implemented in Scotland in such a way that new entrants are placed on an even footing with more historic farming businesses and that a true level-playing field is achieved.

The Committee notes that the Scottish Government is considering the pros and cons of using either 2015 or 2013 as the reference year for payments. The Committee recommends using 2013 as the reference year, in order to limit the potential benefits to some of land being either bought or taken in-hand in a bid to obtain entitlements.

The Committee supports the Government's plans to use its national reserve to support existing and future new entrants and asks it to confirm if this funding will be available each year during the CAP period. The Committee recommends that the funding and effectiveness of the national reserve is reviewed by the mid-point of the CAP period, to ensure that it is achieving its aims.

Pillar 2/SRDP

The Committee sought views on how the Scottish Government should shape the next period of the SRDP in order to deliver its pillar 2 funding. The Committee focussed its scrutiny on three broad areas: what schemes should be funded in the new SRDP; how the total funding pot should be divided between those schemes; and how the application and assessment process should operate.

What measures should be included in the programme

The Committee heard evidence that the SRDP should be stimulating transformational change and the general view was that the current proposals were not ambitious enough in that regard. The Cabinet Secretary stated that achieving wide transformation with the lowest pillar 2 budget in the EU was a big challenge, and he accepted that, to some extent, the plans were a continuation of what had gone before, including the funding of legacy schemes. However, he added that he believed that the proposals did include

schemes aimed at bringing about transformational change, and pointed to the schemes aimed at knowledge transfer and collaboration.

In terms of the measures proposed, the most contentious was the continuation of funding for the LFASS, which will in turn transition into a scheme to support Areas of Natural Constraint (which has to happen by 2018 at the latest). Several witnesses were very critical of LFASS – both in terms of whether support for farmers in challenging areas should be funded from pillar 2 at all, and also about the effectiveness of the scheme to date. Many felt that LFASS did not, in reality, achieve its aims, as the larger proportion of its funding was going to the most productive less favoured areas, rather than the most challenged.

The Cabinet Secretary told the Committee that experience had demonstrated the importance of LFASS in injecting investment into challenging areas missed by other funding pots but accepted that the scheme should be reviewed by the mid-point of this period of the CAP, once the other pillar 1 changes had been implemented, to ensure its was appropriately refined and targeted.

Support was expressed in evidence for other schemes proposed by the Scottish Government, such as measures relating to agri-environment climate; forestry; new entrants; collaboration; and crofting.

However, in relation to crofting support, the Committee heard evidence questioning why the previous Crofting Counties Agricultural Grants Scheme (CCAGS) had been replaced by a Crofting and Small Farms Support Scheme (CSFSS). Several witnesses noted concerns that bringing small farms into the scheme would greatly increase the number of eligible claimants, without a proportionate increase in the budget. Others, such as the NFUS, supported the extension to small farms, but only those in the crofting counties.

The Cabinet Secretary stated that he was inclined to continuing the scheme to support crofters, and establish another fund to support small farmers, adding that he would consider what the budget for each fund should be. He added that he would review the terms of the small farmers' proposal to ensure that the right small farms were being targeted, and the overall support available was not diluted. He said that crofters would not be adversely affected, and again stressed the need to consider the total package of support available, in this case to crofters, via both pillars of the CAP.

The measures proposed to improve cooperation and collaboration were broadly welcomed, although questions were raised about whether the funds would only be available for land use and environmental action, or would also include business development. The Cabinet Secretary told the Committee that the intention was to target the scheme at landscape collaboration, giving an example of crofters on Lewis who came together to jointly apply for agri-environment funding. He suggested that support for cooperation and collaboration in other sectors, such as the food and drink industry, was also much needed but would come from other budgets.

The Committee notes the support for many of the pillar 2 measures proposed by the Scottish Government, and has previously stated that it believes SRDP projects should deliver multiple benefits for climate change and biodiversity.

However, the Committee notes two primary areas of concern which were raised in evidence: the continuation of LFASS (together with its level of funding, which is addressed below); and the scope of the new Crofting and Small Farms Support Scheme.

With regard to LFASS, the Committee accepts the reasoning behind the scheme and the benefits that it should and could bring to many disadvantaged parts of the country. However, the Committee heard some evidence that LFASS, as currently delivered and managed, may not be achieving the desired outcomes, and is often directing more money to more productive rough grazing areas, and not to the deeply challenged hillsides and islands.

The Committee therefore recommends that the transition to an Area of Natural Constraint scheme takes place as soon as is practicable.

With regard to the Crofting and Small Farms Support Scheme the Committee understands the concerns of some crofters that the scheme could become diluted and much less effective if spread across small farms but does believe that there should also be support available for small farms Scotland wide. The Committee therefore welcomes the Cabinet Secretary's statement that he is inclined to separate out support for crofts and small farms into two distinct funds, and recommends that the Scottish Government retains the current Crofting Counties Agricultural Grants Scheme for crofts only and considers a separate Scotland wide small farm scheme.

The Committee recommends that the Scottish Government looks closely at the criteria and targeting of the schemes to ensure that they are likely to reach those crofters and small farmers most in need. The Committee also recommends that the Crofting Counties Agricultural Grants Scheme budget is kept at least at the current level and welcomes a new appropriate budget for the small farms support scheme.

Finally, the Committee welcomes support to encourage and stimulate collaboration on a landscape scale.

How funds should be divided between measures

Witnesses were reasonably clear on the measures they wanted to see funded from the SRDP, but were less clear on how funding should be allocated. SE Link suggested that the funding of LFASS, which takes up around 35% of the total available funds, should be cut and redistributed to other schemes in pillar 2 with less funding, such as the agri-environment climate measures, which SE Link felt were under-funded.

The Committee also heard criticism from Confor about the level of funding for forestry support, describing it as “completely insufficient to deliver the Government’s objectives for forestry”. Confor suggested that money could be redirected from other schemes, such as LFASS, into the forestry scheme budget. In contrast, the NFUS suggested that the Government’s planting targets be reduced in order to free up money from the forestry schemes in the SRDP for other schemes, such as those aimed at making farming business more efficient.

The Cabinet Secretary told the Committee that he had protected the budget for forestry in the plans for the next SRDP and that he would have liked to have increased it but was unable to given the size of the overall pillar 2 budget. He also noted that the SRDP did not provide the only funding source for the forestry sector and was only part of the overall picture.

The Committee notes the evidence it received on how the total funding available for pillar 2 should be divided between the various schemes proposed by the Scottish Government. The Committee also understands the constraints and challenges presented by having the smallest pillar 2 budget allocation per hectare in Europe.

The Committee notes the evidence it received on the proposed forestry budget and is of the view that, given the overall pillar 2 budget, the level of funding proposed is appropriate. However, the Committee is also of the view that any reduction of the budget could have a detrimental effect on the Scottish Government’s forestry targets, and therefore recommends that the budget remains as currently proposed.

The Committee is concerned at the ongoing tensions and disjointed working between parts of the farming and forestry sectors, together with long-standing issues such as the restrictions on tenants growing trees on their farms, and encourages all those involved to work constructively together for the overall benefit of Scotland’s economic, social, and environmental ambitions.

The Committee notes the views of those who point to the large budget for LFASS, roughly a third of the total pillar 2 funds, as being excessive in terms of what the scheme is funding and what outcomes it is delivering, compared to what the money could fund if spent on some of the other less well funded schemes in pillar 2. However, the Committee also appreciated that an immediate reduction in LFASS support, together with changes being made to pillar 1 support, could have a very serious negative effect on some of those farming in less favoured areas. The Committee recommends that considering the terms of the new Areas of Natural Constraint Scheme, as mentioned above, the Scottish Government carefully considers the budget for the new scheme, analysing exactly what outcomes the budget is delivering, and modelling these outputs against projected outputs for other pillar 2 schemes in terms of best value for money.

The Committee recommends that, over the course of the new SRDP, the Scottish Government assesses the outcomes delivered by pillar 2 spending in Scotland, and how that relates to specific Government targets and policies, including those in the National Performance Framework.

The application process and the assessment of applications

The Scottish Government has proposed two levels of entry for applications in pillar 2 (excluding LFASS): up to £75,000; and above £75,000. The lower level would be assessed locally, and the higher level would be assessed nationally. The NFUS suggested to the Committee that the Government should consider three levels of entry, one of £10,000 and under, and then two other levels along similar lines as suggested by the Government. This was supported by some other evidence to the Committee.

The Cabinet Secretary said he would listen to all views on this issue, noting that it was important to simplify the process, and to learn lessons from previous problems with process and administration, whilst ensuring an appropriate balance between accessibility, scrutiny of public money, and bureaucracy.

Stakeholders also had views on the assessment and approval process for the new SRDP, with some of the view that applications were not fast tracked by agricultural officers but scrutinised by SNH where appropriate. Others felt that it may be a mistake to reduce administration costs, and that collaboration was the key to effectiveness, with Government staff working with agencies such as SNH or the Forestry Commission in the decision making process. Finally, it was stressed that there must be a clear separation between advice given to applicants and subsequent assessment of applications.

The Committee stressed at the start of this report that simplifying the CAP and SRDP was essential for those who will be managing; administering; accounting for; applying for; and using the funds, as well as for the general public in understanding how the large amount of public money is spent in the public interest. There must be improvements in simplifying access to the funds, and in the transparency of the management of those funds.

Although having two entry levels for applications for most schemes, as proposed by the Government, may seem to fit best with a desire for simplification, the Committee is of the view that three entry levels is more appropriate and should hopefully lead to greater simplification and efficiency. The Committee therefore recommends that the Scottish Government sets three entry levels of funding, for small, medium, and large sized applications.

The Committee recommends that the lower and middle levels of funding should be dealt with by officers with local knowledge, seeking the input of various local agency workers as appropriate, and that the largest

level of entry should be dealt with by the Scottish Government, again seeking the input of relevant national agencies.

The Committee welcomes the proposals for local decision making on certain levels of applications and also the provision of an improved advisory service. However, the Committee agrees with the principle requested in evidence it received that advice and assessment processes are kept separate.

Next steps

The Committee awaits the outcomes of the Scottish Government's consultations on both pillars of the CAP, which it understand will be known by the end of June, with great interest and will continue to monitor developments and progress. The Committee will listen to the views of stakeholders as this process progresses, and once both pillars of the CAP have been implemented in Scotland the Committee will review the effectiveness of all relevant measures on the ground, as our farmers, crofters, land managers, and food and drink industry begin to work with the new, reformed CAP and SRDP.