Explanatory Memorandum to the Rural Development Programmes (Wales) (Amendment) Regulations 2009

This Explanatory Memorandum has been prepared by the Department for Rural Affairs and is laid before the National Assembly for Wales in conjunction with the above subordinate legislation and in accordance with Standing Order 24.1.

Minister's Declaration

In my view, this Explanatory Memorandum gives a fair and reasonable view of the expected impact of the Rural Development Programmes (Wales) (Amendment) Regulations 2009. I am satisfied that the benefits outweigh any costs.

Elin Jones AM

Minister for Rural Affairs

9 December 2009

1. Description

These amending regulations, make statutory provision for payments to be made and for the related claims, enforcement and recovery mechanisms under the Support for Young Entrants into Farming Scheme (Wales)("the Scheme"), by amending the Rural Development Programmes (Wales) Regulations 2006. The Scheme complies with Council Regulation (EC) No. 1857/2006, which makes provision for assisting the setting up of young entrants into farming under the age of 40 who possess adequate skills and competence and are setting-up as head of the holding for the first time. The Scheme provides grant aid for the successful applicant at 50% of an eligible investment up to £30,000; therefore the maximum grant aid will be £15,000 per successful applicant.

2. Matters of special interest to the Subordinate Legislation Committee

None

3. Legislative background

The powers that enable these regulations to be made are contained in section 2(2) of the European Communities Act 1972. The Welsh Ministers are designated in relation to the Common Agricultural Policy to exercise these powers.

These Regulations will be made under the negative resolution procedure.

4. Purpose & intended effect of the legislation

In the One Wales agreement the Welsh Assembly Government made a commitment to develop a "new farm entrants scheme" (p.31 - One Wales: A progressive agenda for the government of Wales – 27 June 2007). This legislation enables the establishment of such a scheme, which is compliant with Council Regulation (EC) No. 1857/2006. Details of the development of the scheme are given in the Regulatory Impact Assessment.

Due to the structure of Welsh agriculture, mainly family farms, and the high cost of initial investment in land, it is difficult for young entrants to come into the sector to set up as head of holding for the first time, something that is reflected in the average age of heads of holdings in Wales, currently estimated to be between 58 and 60 years and rising. This has resulted in a very low turnover in farming businesses in Wales, which is an essential ingredient in re-invigorating any business sector, and the loss of well qualified, younger members of families to other sectors, despite them wanting to remain in the agricultural sector.

The Young Entrants Support Scheme seeks to start addressing these issues by:

- Supporting new entrants to make capital investments in the first 2 years of business to make their business more viable. This is especially important as this is the period where a new entrant would need the

investment, but coincides with the period of time when they may be struggling to service loans on the purchase of land or stock;

- It will encourage family farms to consider succession of the business to the younger generation and thereby reduce the risk of losing those young people to other sectors for good; and
- Through the scheme, highlight the issue of the lack of young people coming into the sector and the issues relating to succession in farm businesses and the difficulties in entering the industry as a new entrant.

The budget of the scheme will support a minimum of 100 young entrants annually to take over as head of holding. This headline figure will also be supported by the Young Entrants Business Enabler resource, which will advise prospective young entrants and also manage the Database of Opportunity, which will seek to match young entrants with established farmers who wish to explore new ways of working, such as share farming. The scheme will work in partnership with outside agencies, most notable the Wales YFC whose Database of Opportunity idea we are helping to develop, and has been designed to work in conjunction with other support measures offered to young entrants through the Farming Connect service.

The budget for the scheme has been made available for 5 years and the short term goal of the scheme is that it will support a minimum of 500 young entrants to set up as head of holding for the first time. The long term goal of the scheme is to help reduce the average age of farmers established as head of holding in Wales.

If this legislation were to be annulled the Welsh Assembly Government would not be able to open the scheme for applications in 2010, which is the commitment that has been made by the Minister for Rural Affairs.

5. Consultation

No consultation has been issued with regards to these regulations, but a 12 week, public consultation was run in the Autumn of 2008 when details of the scheme were in policy development.

6. Regulatory Impact Assessment (RIA)

Completed

PART 2 – REGULATORY IMPACT ASSESSMENT

7. Options

In developing a scheme to support young entrants into farming, we were constrained by restrictions under European regulations for agricultural state aid. The options identified below were available to the Welsh Assembly Government either under Council Regulation (EC) No. 1857/2006 (the SME agricultural state aid block exemption) or Council Regulation (EC) No. 1698/2005 (the Rural Development Plan (RDP) regulation). As the budget for the scheme is solely domestic it was concluded that the state aid block exemption regulation would be the best option, if the scheme came under the RDP regulation this would necessitate a change in the European/domestic funding split across the whole of the Welsh RDP.

The following options were considered:

Option 1 – do nothing
Option 2 – early retirement scheme
Option 3 – grant aid scheme
Option 4 – interest rate relief scheme

Options 1 and 2 were dismissed prior to consultation. Option 1, as this would break the One Wales commitment. Option 2, as the available budget (circa £2m per annum) would not be able to fund an effective version of such a scheme.

In October 2007, a Ministerial task & finish group was established to assist in the development of a scheme. Its membership was chosen on the basis of their experience and track record of establishing successful businesses as young farmers themselves or they have worked with, guided and advised new entrants to the industry. Officials worked with the group to develop a consultation document on young entrants into farming. A 12 week, full public consultation on the development of the scheme was run in the Autumn of 2008, from the 18 July to the 10 October. Feedback from the industry was received through various meetings and events, most notably Farming Connect open meetings and attendance at the Royal Welsh Agricultural Shows in 2008 and 2009, and the 2008 Winter Fair. Summaries of the consultation and all responses are held by both the Welsh Assembly Government library and the Assembly Commission library.

Following analysis of the consultation responses and feedback from the stakeholder group a scheme outline was drafted based on option 3. In addition to the grant element of the scheme there are two further elements included: a young entrants business enabler resource; and access to funded mentoring services from established farmers and/or professionals.

8. Costs & benefits

Benefits

Option 1: No benefit.

Option 2: With available budget, this option would not have a tangible return. Other EU early retirement schemes in Ireland, France, etc have been run with far greater budgets (over €100m) and have had limited success in reducing the average age of farmers in those countries.

Option 3: The grant element of the scheme will assist young entrants into farming to make a capital investment to improve the viability of their business in the first 12 to 24 months of them taking over as head of holding. Advice from the financial sector confirmed that such a grant scheme would be viewed favourably by banks when applicants are seeking funding for their proposed capital investments, and would be looked on more favourably for securing investment than an interest rate relief scheme in the current financial climate. The Welsh farming industry is still dominated by small family farms, and feedback from the consultation and meetings with the farming public has shown that a grant investment of this kind would give the greatest amount of inducement to farming businesses to consider making a changeover in the head of holding status, from the current generation to their offspring. To enable this change to be supported, the scheme will also offer mentoring and business/training advice to increase the possibility of such a generational shift being as successful as possible. The scheme is also supported through the suite of Farming Connect services that the young entrant will be able to access to support their move to head of holding status.

Option 4: Although this option would have potentially the same monetary benefit to the successful applicant as option 3, it was rejected as:

- In the current downturn, access to finance for capital investment is a bigger issue than interest rate payments on loans, especially as the bank base rate is currently at a historically low level;
- Young entrants would be more likely to make an initial capital investment in their business with a scheme that funds 50% (up to a maximum of £15,000) in the first year, rather than claiming back interest rate subsidy over a five year period; and
- This would not have the same level of inducement for a changeover in head of holding status on family farms, which still form the basis of the vast majority of Welsh farm businesses.

Costs

The budget for the scheme is wholly new money and its spend will not affect current financial support given to other parts of the farming industry.

There are no direct costs to the farming industry in relation to compliance with this SI. This SI enables this scheme to be established and for any monies to be recovered from successful applicants under the scheme who may act fraudulently or do not comply with the rules of the scheme. The SI does not allow for penalties to be imposed for non-compliance, apart from the recovery of interest on monies that may be recovered.

Option 1: no cost

Option 2: As the available budget would not be able to fund such a scheme, additional costs have not been quantified.

Option 3: The additional costs of the scheme, including development, administration, monitoring and enforcing have been incorporated within the current Rural Affairs Department direct running costs (drcs). As the scheme has utilised skills, systems and resources currently available within the department, it is estimated that the maximum drc resource needed to manage the scheme would amount to: Grade 7 - 0.25 fte; HEO – 1.0 fte; EO – 0.25 fte; Team Support - 0.25 fte across the department as a whole.

It is not considered that this scheme will have an immediate, direct, significant effect on the outputs and activities of the sector. Its purpose is to encourage young entrants into the farming sector, either directly through the scheme, or through the promotion of the scheme, highlighting the need to encourage young entrants into the business. There will be some increase in capital investment in the sector (a minimum of £3m annually) during the time the scheme is running and hopefully its effect will be to assist in establishing long-term, viable, farm businesses in a sector where the average age of those managing businesses is recognised to currently be between 58 and 60.

Option 4: Initially the costs of administering this type of scheme would have been slightly less than option 3, as the analysis of the proposed investment would have been made by the lender to the farming business. Ultimately, administration costs would have been greater as the scheme would need to be administered over a period of 10 years. This is due to interest rate relief being given over a 5 year period and the final entrants into the scheme, in year 5, would still need to be supported administratively until their final claim, 5 years after the close of the scheme.

The proposed legislation will not impact on the statutory duties/sectors of Welsh Ministers (as set out in GOWA 2006).

<u>Summary</u>

Option 3 was chosen as this was the option most likely to attract new young entrants to set up as head of holding, and gave the greatest inducement to current family farming businesses to change their structures to enable young entrants to take over as head of holding of the businesses. Secondly, over the whole period of the scheme, the costs involved in option 3 would not be any greater than the only other viable option, namely Option 4.

9. Competition Assessment

A competition filter test was conducted for all four options and none of them raised any concerns with regards to competition within the farming sector, or any other business sector.

10. Post implementation review

In addition to the monitoring required under Council Regulation (EC) No. 1857/2006, an external group of stakeholders will assist the Welsh Assembly Government in all aspects of reviewing the delivery, effect and burden of the scheme, and regulation. These reviews will initially be on a 6 monthly basis and, if it is required, will continue to do so for the duration of the scheme, if so required. The Minister for Rural Affairs will be briefed on any recommendations or suggested changes to the scheme, or regulation, that result from the reviews.