

Sustainable Farming Scheme Research Briefing

August 2022



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Sustainable Farming Scheme

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The Welsh Government published its much anticipated draft Sustainable Farming Scheme (SFS) in July 2022. It sets out an ambitious and new approach to post-Brexit agricultural support which could dramatically change Welsh farming and landscapes.

Based on the principle of Sustainable Land Management, the SFS would reward farmers for actions to address the nature and climate emergencies alongside sustainable food production. The policy arguably goes beyond the EU's Common Agricultural Policy (CAP) in supporting wider land management improvement.

This briefing provides the story leading up to the publication of the draft SFS, including the priorities stakeholders have identified throughout the consultation process. It summarises the emerging scheme and reactions to it, as well as plans for transition and further consultation.



Contents

1. Introduction	1
2. Responses to the Agriculture (Wales) Bill White Paper.....	2
3. Results of the co-design (Phase 1)	4
4. Draft Sustainable Farming Scheme	6
Actions and outcomes.....	6
Eligibility and access to the SFS.....	8
Payment	10
Stakeholder comment.....	11
5. What's next?	12
6. Further reading	12

1. Introduction

The draft Sustainable Farming Scheme (SFS) was published on 6 July 2022.

The Agriculture (Wales) Bill, anticipated in September 2022, is expected to provide the legislative vehicle to implement the SFS. The new scheme, to be introduced in 2025, will replace the Common Agricultural Policy (CAP)-style payments to farmers.

A separate Senedd Research briefing explains the current payment system and the context for the changes being made to agricultural support.

The Welsh Government and stakeholders have been developing proposals for the future of farming since the referendum on EU membership. The draft SFS follows three public consultations: **Brexit and our Land** (2018), **Sustainable Farming and our Land** (2019) and the resulting **White Paper for the Agriculture (Wales) Bill** (2020).

The Welsh Government is also carrying out a programme of **'co-design'** where stakeholders (farmers and other members of the rural community) inform the developing proposals. **Phase 1** of the co-design is complete. **Phase 2** is taking place this summer, based on the draft SFS.

Findings of Phase 1, a summary of responses to the White Paper and the Welsh Government's policy response, **were published in 2021**.

2. Responses to the Agriculture (Wales) Bill White Paper

Preliminary SFS proposals were originally set out in the 2020 **White Paper on the Agriculture (Wales) Bill**. Environmental groups (such as Plantlife and the Sustainable Soils Alliance) broadly welcomed the proposals. Conversely, farmers called for food production to be eligible for support in its own right, expressing concerns for the future of rural communities if this direct support is lost. Stakeholders called for more detail to properly scrutinise the proposals.

The proposals were based on the principle of **Sustainable Land Management** and would reward farmers for providing 'public goods' from the land, including both social and environmental improvements in an outcomes-based approach. Farmers would be paid for the results of their actions (rather than actions per se). **Another Senedd Research publication considers outcomes-based schemes.**

This would go beyond the 'costs incurred and income foregone' compensatory payment approach of CAP agri-environment schemes, with the ability to provide higher payment rates for environmental management. Farmers would only be rewarded over National Minimum Standards, likely to match CAP cross-compliance. This would maintain the existing minimum legal requirements/standards over which payments are currently made.

Unlike the CAP, farmers would not receive direct support specifically for producing food. The **Basic Payment Scheme (BPS)- type payments of the CAP** would be phased out. **The Welsh Government argued** that as food has a market value it should not be classed as a public good, and so should not be directly funded by the state. Rather, the Welsh Government says supporting improved environmental management will enhance sustainable food production, as they go hand in hand.

The White Paper said an initial 'Farm Sustainability Review' would be required where advice and support would be provided on the farm's sustainable land management potential. Delivery actions and metrics would be agreed in a multi-year 'Farm Sustainability Plan'. The White Paper proposed long-term targets for

each outcome and a monitoring and evaluation approach. It proposed a risk-based approach to inspection and use of remote technology to better target farm visits.

The **summary of stakeholder responses to the White Paper** identified the following issues (page 30 onwards):

- Greater clarity needed e.g. around the definition of the concept of public goods and how they are measured and rewarded (e.g. Plantlife, Lantra, farmer);
- Support for an approach which rewards the provision of non-marketable public goods- moving away from subsidised intensive production (e.g. RSPCA Cymru; Sustainable Soils Alliance; farmer);
- Strongest support for the proposals came from environmental groups or those with an interest in sustainable land management practices;
- Equity in accessing the scheme was important, especially smaller farms was important to farmers;
- Concerns around the ability of new entrants into farming to access the scheme (e.g. Farmers' Union of Wales);
- Some highlighted additional factors/characteristics that should be considered for support, beyond the predominantly environmental public goods proposed. These included cultural, social and economic objectives (e.g. Snowdonia Society and Welsh Local Government Association);
- Some felt the scheme should reward food production, and food security should be classed as a public good, to ensure vibrant and resilient rural communities (e.g. Welsh Commons Forum Radnor Young Farmers Club); and
- Some farmers felt reward for food production shouldn't be left to the unpredictable market and 'stability payments' were needed.

The Welsh Government's **policy response** to the consultation set out its position on stability payments, a key ask from farming unions. It said that "crisis and market intervention measures are in place at a UK level and will continue to be part of Government measures to deal with instability or market failure." It said the best response to market volatility at an individual farm level is to have a range of income streams and that the SFS would be a new income stream.

3. Results of the co-design (Phase 1)

Phase 1 of co-design found ownership of the SFS requirements is important for farmer buy-in and there should be joint decision making between farmers and advisors. Farmers are open to developing new skills and simultaneously delivering both food and other environmental goods, however stability of income and food production was a concern for some.

Phase 1 of co-design included an online survey (1941 respondents), one-to-one meetings (270 meetings) and group sessions (28 sessions with a total of 129 participants). Stakeholders provided the following evidence, **summarised by Menter a Busnes** (an independent company providing business support):

- Farmers aren't against operating in a new way;
- Demonstrative and visual communication will be important in launching the new scheme;
- There is a willingness from farmers to share data with Welsh Government (depending on exact requirements and reward);
- For the Farm Sustainability Review, most farmers would opt to choose their advisor / officer;
- Providing a clear mandatory / optional actions list with a full rationale of benefits would help farmers consider what fits best with their farming systems and potential impacts on productivity and profitability;
- Joint decision making between the farmer and advisor was important to farmers for achieving in longer term benefits and ownership of actions;
- On the Farm Sustainability Plan, farmers preferred self-assessment within the scheme with suggestions for a combined approach of web / app and paper based systems. Developing Rural Payments Wales (RPW) online platforms (already used for CAP payments) was perceived as a logical approach;
- Understanding the baseline for rewarding actions within the scheme is important for farmers;
- Farmers said defining actions and proposals is a first step for scheme development. Establishing payment rates and tolerances are also important considerations;

- Farmers are generally giving soils a great deal of thought. Introducing support for liming would be effective in improving soil management;
- Land is delivering both habitat and production and farmers are particularly receptive to the idea of simultaneously delivering both food and other environmental goods on the land;
- Farmers are confident they have or could develop skills to favourably manage habitats;
- The definition of 'payment by outcome' was causing uncertainty;
- Farmers feel they should be rewarded for the good work they are doing already to protect habitats, and not be penalised for it;
- Farmers are generally supportive of the proposal to use a SWOT analysis (outlining strengths, weaknesses, opportunities and threats) approach to develop a farm business strategy;
- Farmers do not want to be penalised for failing to reach business targets;
- Farmers felt support should be focused on improving productivity; and
- On animal health and welfare, disease eradication - particularly TB and sheep scab - was the most important issue requiring government assistance.

4. Draft Sustainable Farming Scheme

The resulting 2022 **draft SFS** builds on the White Paper proposals and aims to incorporate findings of the co-design. It proposes reward for farms delivering a set of ‘universal actions’ (predominantly environmental) to qualify for the most basic payment. These include 10% tree cover, and creating, managing and enhancing semi-natural habitats across a further 10%. Building on this, ‘optional’ and ‘collaborative’ actions are available for additional reward.

Key aspects are detailed below.

Actions and outcomes

The SFS aims to reward farmers who achieve Sustainable Land Management outcomes (Box 1) through certain actions. To address calls for mandatory / optional actions, the SFS proposes a range of actions layered in three tiers:

- **Universal:** All universal actions have to be carried out by farmers who join the SFS. These aim to help farms become more sustainable and are the building blocks for them to do more. A ‘baseline payment’ will be made to farmers for undertaking universal actions.
- **Optional:** Optional higher-level actions provide additional reward through building on universal actions but may be more complex to deliver and need to be more tailored to each farm or specific areas. Farmers will have more flexibility about which they want to do and how.
- **Collaborative:** Another optional tier, carried out in a coordinated way by multiple farmers or land managers, at a landscape, catchment or national scale. For example, creating interconnected habitats across landscapes. They are aimed at more specific priorities, which need more flexibility in how they are delivered and need a combination of actions to deliver the most benefits. These need the greatest input from the farmer.

This action-based approach of the draft SFS is different to the outcomes-based approach the Welsh Government originally proposed which would have rewarded farmers for the results of their actions.

On reward for food production per se, the Welsh Government has not changed its approach – reward will only be given for actions relating to non-marketable ‘public goods’ in line with Sustainable Land Management outcomes.

Box 1: The Sustainable Land Management outcomes the SFS aims to achieve:

Clean air

Clean water

Enhanced access and engagement

High animal health and welfare

Maximise carbon storage

Mitigate flood and drought risk

Protected natural landscapes and the historic environment

Reduced greenhouse gas emissions

Resilient ecosystems

Resource efficiency

The various SFS actions to achieve the above Sustainable Land Management outcomes are grouped under five headings:

1. resilient and productive;
2. reduce, reuse and recycle inputs, nutrients and waste;
3. reduce on-farm emissions and maximise carbon sequestration;
4. protect and enhance the farm ecosystem; and
5. benefit people, animals, and place.

As an example, taking the ‘reduce, reuse and recycle inputs, nutrients and waste’ category, some of the following actions proposed are:

- **Universal:** Carry out professional and farmer soil testing;

- **Optional:** Supplement applied nitrogen with nitrogen fixing plants (establishing mixed grass swards, planning rotations, cover cropping); and
- **Collaborative:** Support for farmers to work together in a catchment to improve water quality.

To help farmers carry out the actions, support will be offered through an advisory service from Farming Connect, as well as training and farmer-to-farmer knowledge sharing. **Farming Connect** was originally set up under the Welsh Government Rural Communities - Rural Development Programme 2014-2020 and has been providing support 'to improve resilience and promote transformational change in agriculture, forestry and rural communities'.

The Minister maintains that the Welsh Government will support continuation of sustainable farming practices with payment for maintenance as well as creation. This is to address stakeholder concerns that farmers already doing good work wouldn't be rewarded.

Eligibility and access to the SFS

To join the SFS, applicants must:

- be a farmer undertaking agricultural activities;
- be able to actively perform, at least the applicable universal actions throughout the duration of the contract;
- apply actions to agricultural land in Wales; and
- farm a minimum of 3 hectares of eligible agricultural land.

To address calls for all farmers (including young and tenant farmers) to be able to access the SFS, the document highlights:

It is important the Scheme [SFS] works for all types of farms. The Scheme is designed so all farm types can access it, including tenants and those with rights to common land. It will be open and accessible to farmers who meet good environmental and animal health and welfare standards.

The process is as follows:

Farmer Registration: Farmer updates business and land details on RPW Online. Support available from Farming Connect.



Sustainability Review: Farmer completes baseline sustainability assessments (e.g. carbon assessment, baseline habitat review). Data is captured on RPW Online. Support available from Farming Connect if needed.



Actions: Farmer agrees to undertake Universal Actions and chooses any appropriate optional actions. Support available from Farming Connect if needed.



Application: Farmer confirms how actions will be completed. Support available from Farming Connect if needed. RPW check eligibility criteria, validate action selection, and provide indicative contract value.



Contract: RPW Online issues a final contract containing actions and payment details. Farmer enters scheme.

The Sustainability Review will provide a whole-farm assessment of the economic, environmental and social aspects of the farm. It will be used as a baseline for entering the SFS and a tool for the farmer to review, compare and help maximise future performance of their farm. The Welsh Government hopes this can be self-completed, though some elements, e.g. the Habitat Baseline Review, may require more expertise.

The findings from the Sustainability Review will inform the farmer's decision on which actions (universal, optional and/or collaborative) are suitable for them.

Previous consultations proposed farmers would need to develop a Sustainability Plan to be agreed with the adviser. Stakeholders felt this created an additional level of bureaucracy, requiring external input and be potentially costly for a farmer to develop. This is now optional in the SFS.

Contracts will be up to 5 years.

Payment

In order to receive payment, actions will need to be monitored and evidenced by the farmer. They will complete a self-assessment once a year against a minimum of the sector and industry Key Performance Indicators (KPIs).

Risk-based inspections will target farms and activities that represent a higher risk, supported by random selection auditing. Where it is felt that financial penalties are required, the Welsh Government says these will be proportionate to the failure to deliver the SFS actions.

Undertaking Actions: Farmer completes actions included in the contract and submits the relevant evidence.



Contract Monitoring: RPW will review the evidence submitted and provide contract management support.



Inspection regime: RPW check compliance against National Minimum Standards and Scheme Rules.



Payment: RPW generate payments for universal and optional actions once evidence reviewed and compliance checks are completed.

Payment rates will consider factors beyond a cost incurred and income foregone model, “recognising the social value provided by the outcomes being delivered”. The Welsh Government is currently undertaking modelling to help inform payment rates for the SFS. They are expected to be published for consultation in 2023.

Reward would only be provided to farmers above National Minimum Standards. These are still being developed and the Welsh Government says it will work with stakeholders and implement them in time for the scheme’s introduction.

Stakeholder comment

NFU Cymru has welcomed the proposed universal actions in return for an annual payment saying it was “a big step forward” and “far less bureaucratic” than previous proposals.

The union also highlighted:

...that the outcomes Welsh Government seeks to achieve through the scheme should be extended to include key objectives such as food security, rural vitality, on-farm productivity and the Welsh language.

... without any information on the levels of funding attached to these actions and activities it remains impossible for farming families to consider how the scheme will support their farming business.

RSPB Cymru has welcomed the draft SFS. It is particularly pleased to see the universal action to manage a minimum of 10% of all farmland for nature. It goes on to say, to be effective the 10% must be well-managed and made up of a mix of the key habitats to maintain and replace those lost across Wales.

The Senedd’s Economy, Trade and Rural Affairs Committee met a variety of stakeholders at the Royal Welsh Show in July 2022 to discuss the SFS. Stakeholders generally welcomed the outline of the scheme, though highlighted more detail is needed to make firm conclusions. Key points raised included:

- Sufficient budget is needed to match the level of ambition and go beyond the universal actions;
- Expert advice is key, in partnership with farmers’ and communities’ local knowledge. Farming Connect needs to be fit for purpose;
- Environmental management supports both long-term food production and animal welfare;
- Stability in terms of income is a key requirement for farmers;
- Access to schemes for young farmers and tenants is essential to keep people on the land;
- Self-assessment and monitoring is desirable with training, accompanied by proportionate inspections;
- Flexibility is needed e.g. not all farms have the capability to achieve the 10% tree cover universal action;
- Clarity needed on definitions e.g. what counts as ‘tree cover’ and ‘semi-natural habitat’; and

- Private investment could be levered e.g. for the collaborative actions.
- There needs to be coordination with the Food Bill, and shortening of supply chains.

5. What's next?

The Welsh Government plans to consult on final proposals for the SFS and Transition Plan in 2023. Engagement with farmers through an outreach programme on the final scheme is expected the following year.

The Welsh Government plans to pilot aspects of the proposals between 2022 and 2024.

The scheme is anticipated to open in January 2025.

The Welsh Government is proposing to phase out the CAP direct payments (Basic Payment Scheme - BPS) over a transition period from 1 April 2025 to 31 March 2029.

6. Further reading

- Senedd Research, **Agricultural support** (2022)
- Senedd Research, **The farming sector in Wales** (2022)
- Senedd Research, **Diversification and resilience of Welsh farming: prospects after Brexit** (2019)