



Department
for Environment
Food & Rural Affairs

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CAP Reform in England

Status report on Direct Payments

August 2013

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PB14016

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1 Introduction

1.1 The Agriculture Council and the European Parliament reached a political agreement about the reform of the Common Agricultural Policy (CAP) in June 2013. A new direct payments system for farmers will replace the current Single Payment Scheme (SPS) in 2015. In this note, we provide a summary of what has been agreed about the new direct payments system and set out our approach to implementation in England.

1.2 There are still areas of uncertainty. A few details are still to be agreed between the Agriculture Council and the European Parliament. The regulation reflecting the political agreement is not expected to be adopted nor available in final form until the autumn, so there remains some uncertainty about what exactly it will say. Once it has been adopted, the European Commission will need to publish a number of delegated acts and implementing acts to fill in the details. We expect these implementing and delegated acts will be concluded only in spring 2014. Finally, we will need to decide how some elements of the direct payments system will work in detail in England.

1.3 The regulation gives Member States some areas of discretion about how to apply the new direct payments system to reflect needs in different parts of the EU. Implementing CAP is a devolved matter, so the Scottish Government, Welsh Government and Northern Ireland Executive will be making decisions about how the direct payments system will be applied in other parts of the United Kingdom. In this note, we explain the options and describe the principles we will use in deciding those options, solely in relation to England.

1.4 What follows is based on our best understanding, but some details could change significantly before the new direct payments system actually comes into operation in January 2015. We have set out only a high level view, because detailed rules are not yet available. If you expect to claim direct payments, you should not rely on this note when making business decisions but instead you may want to seek professional advice.

1.5 We have already met organisations representing farmers, tenants, agents and environmental groups, to share information and to develop a common understanding of the issues. In this note we take account of the initial views which these organisations have given us. Our discussions will continue and we want as much as possible to find common ground and agreed solutions. There are some choices where we may need to reach an early decision in order that we can deliver the direct payments system on time in 2015. In these cases, we will continue to do our best to discuss them with representative organisations to help us decide.

1.6 Where we have already formed an initial view we have set this out in this note to help you understand how the system might work. We are still developing our plans and they may change.

1.7 In this note, 'we' means Defra and where the context requires also delivery bodies, including the Rural Payments Agency (RPA) and Natural England. 'You' means farmers in England. When we refer to the 'regulation', we mean European regulations. Words underlined like this are explained in the [glossary](#).

2 Summary of changes from 2015

2.1 The new direct payments system will be similar to the current SPS in many ways. You will need to apply in spring each year, you will need to have [entitlements](#), and you must have [eligible hectares](#) at your disposal to match the number of [entitlements](#) on which you are claiming payment (the underlined terms have broadly the same meaning as in the SPS, but these and other terms are more fully explained in the glossary in Annex A). Your payments will be calculated as a flat rate per [entitlement](#), rather than linked to the level of your agricultural production. Under the SPS, payment rates are different in each of three regions in England and the direct payments system also contains provisions allowing for different rates in different regions.

2.2 If you apply under the SPS, you must meet the requirements of [cross compliance](#), which means that your land must be kept in good agricultural and environmental condition, and you must also meet the statutory management requirements. Many of these requirements replicate existing European or English legal obligations. These features will be largely carried forward into the new direct payments system.

2.3 There will however be a number of changes. One of the most important is that 30% of your direct payment will be dependent on meeting certain [greening](#) requirements, which mean you must apply the environmental practices set out in the regulation or in equivalent national schemes. There are other changes too. We will need to choose whether to reduce any large payments to you which exceed a threshold or, alternatively, to make extra payments for the first few hectares of your claim. You will be able to receive direct payments only if you meet a new ‘active farmer’ test. The direct payments system will also boost support to you in some circumstances if you are a young farmer. More details are given below.

3 Our approach to implementing the schemes

3.1 Where the regulation gives Member States options on how to implement the direct payments system, we will seek to adopt the simplest approach which is most likely to minimise the burden on you and the RPA, while seeking to achieve good value for taxpayers and good outcomes for our other policy goals.

Farming Regulation Task Force

3.2 We want this [CAP](#) implementation to be a model of the partnership approach set out by the [Farming Regulation Task Force](#). In the context of implementing the direct payments system, we particularly mean:

- **Early engagement** — a ‘no surprises’ culture where industry is warned of new developments, and we maintain engagement throughout the policy-making process, avoiding long silences and uncertainty;

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- **Co-design** — involving the industry in developing solutions, focusing on the desired outcomes and looking at the practical on-farm impact of how policies are implemented;
- **Working in partnership in the EU** — involving stakeholder organisations closely in our policy development and using their expertise in developing our negotiating briefs.

Simplicity and economy

3.3 We will seek to implement a direct payments system which is simple and accessible to you, by eliminating unnecessary complexities, and by avoiding gold-plating. We also want to minimise the burden placed on the RPA: in this way, we can ensure that the RPA can focus on delivering a lean and straightforward system, which avoids any unnecessary reliance on manual processing of your claims, and so reduces the cost to the public of making payments.

3.4 One example would be not to implement a specific scheme for [small farmers](#), which we believe will offer few benefits but would add to cost and complexity.

Online application

3.5 We will adopt the Government's commitment to a [digital by default](#) application process, so that the online system is so attractive that it is the natural medium for nearly all applications submitted by you and your agents. But we will ensure that an assisted digital service is available to you if you cannot reasonably apply online.

Avoiding disallowance

3.6 We have incurred substantial disallowance since 2005 under the SPS, particularly in relation to the early years of the SPS. We are developing a new IT system to deliver CAP reform in England and this gives us a timely opportunity to build on the recent improvements in our delivery of CAP payments and further tackle the issue of disallowance, and so help contribute to reducing the deficit.

4 How much money will be available?

4.1 The amount of money provisionally allocated for direct payments (*i.e.* payments within pillar 1 of the CAP) to UK farmers is £17.8 billion over the 2014–20 budgetary period. The amount which will be available for direct payments to farmers in England will be announced once the allocation between England, Scotland, Wales and Northern Ireland has been decided.

4.2 We have the option to transfer up to 15% of the money available for direct payments to the budget for rural development (*i.e.* pillar 2).

5 Allocation of direct payment money

5.1 The term ‘direct payments’ refers to the total amount available for direct support to farmers. This total will be divided into several components. We must set some of this aside to fund [greening](#), to provide additional support through a scheme for [young farmers](#) and to provide a [national reserve](#). We have the option to set more aside for other optional schemes. What remains is used to make the basic payment, which is similar to the SPS under the current system. If you are eligible, you will receive a direct payment which will comprise:

- the basic payment,
- the [greening](#) payment,
- the [young farmers scheme](#) where applicable to you,
- any payments due to you under other direct payment schemes if they are adopted in England (see **How much will I receive?** for more details about these).

5.2 The full list of possible options for structuring direct payments schemes is shown in the table in Annex B. While some of these must be implemented by all Member States, others are discretionary. Ministers’ initial view is that we will only want to adopt these where there is a strong case to do so, in accordance with the approach set out in section 3 above.

6 Allocation between the English Regions

6.1 In 2005 the Government decided to adopt three regions for SPS:

- land in non-severely disadvantaged areas (SDAs) land (*i.e.* the lowlands outside the SDA)
- land in SDAs other than moorland (*i.e.* the uplands below the moorland line), and
- moorland (land above the moorland line)

Annex C shows where the three types of land are found.

6.2 The money allocated to England for SPS was split between these regions so that the proportion of funding within each region remained broadly similar to that under the preceding agricultural subsidy schemes. This meant that more money per hectare went to the lowlands. With the new direct payments system, we have the option of revisiting the question of whether to have regions and if so whether to retain the same number and the same boundaries. Any regions will have to be defined by objective criteria. Ministers’ initial view is that we should maintain the three regions as currently defined, so as to avoid a complex and costly exercise to map new regions.

6.3 If we conclude that we should maintain the present three regions, we will consider to what extent we should change the proportion of the funds allocated to each region. Under the SPS, the proportion of funds allocated to each region is broadly consistent with the historic distribution of agricultural subsidies. This means that, because farming is less

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productive in upland areas owing to poor climate, soils and terrain, upland farms receive a lower SPS payment per hectare than lowland farms. Ministers' initial view is that hill farming plays a crucial role in maintaining the social, environmental and economic fabric of the uplands. It also has the potential to deliver ecosystems services. For these reasons, hill farming should be compensated by some movement of basic payments 'uphill' from the lowland region to the SDA and moorland regions.

Areas facing Natural Constraints

6.4 Areas facing Natural Constraints (ANC) are a designation replacing the Less Favoured Areas as part of CAP reform. ANC in each Member State will be based on a consistently applied set of criteria devised by the European Commission. This requires a mapping exercise, which we are leading in England and co-ordinating at UK level. We [consulted](#) on an initial map for England earlier in 2013.

6.5 We have the option to operate a top up which would increase the amount of the basic payment on land falling within the ANC at the expense of other farms in the same region. The boundaries of the ANC as currently mapped are similar (although not quite identical) to those of the SDA area, which means we could achieve the effect of providing more support to farms in these areas by adjusting the amounts allocated to each region. Moreover, ANC areas do not need to be formally designated until 2018 and using the designation would mean we must update our rural land register to reflect the new ANC boundaries. This could be time-consuming and costly for the RPA and farmers.

7 Will I qualify for payments?

7.1 As now, you will be able to apply only if you have eligible agricultural land at your disposal in each scheme year. As a farmer, you may be an individual or a legal entity such as a partnership or limited company. Eligible agricultural land is likely to be defined in much the same way as now, with certain features being ineligible.

7.2 You must declare all your agricultural land (whether or not it is eligible agricultural land) which is part of your holding, even if it not being used as the basis for your claim (e.g., because you do not hold sufficient entitlements). The rules on [cross compliance](#) are expected to apply to all the agricultural land in your holding, not just the land on which your claim is made.

Cross Border Farms

7.3 You must make a single application covering all your agricultural land, wherever it is in the United Kingdom. If your application includes land outside England, then as now, there will be rules to define whether you must apply to the RPA or one of the paying agencies in Scotland, Wales or Northern Ireland. Those rules will also set out how the amount of the payment will be calculated.

7.4 We will discuss in detail how these rules will operate with the Governments for Scotland, Wales and Northern Ireland.

Minimum Claim Size

7.5 We must establish a minimum size for a claim for direct payments. If your claim falls below the minimum claim size, you would not be able to claim. We must set a minimum claim by area, in the range one to five hectares, or by value, in the range €100–€200. The current minimum claim size for SPS in England is one hectare.

7.6 If we set a minimum claim size by value, this would have the effect of setting a lower threshold than currently exists, except in moorland areas. It would be out of step with concerns raised under the CAP Health Check that Member States were spending time and money on processing very small claims. We therefore propose to set a threshold by area.

7.7 Ministers' initial view is to set the minimum claim size at five hectares. This would exclude around 16,000 claimants (*i.e.* about 15% of the current number), whose claims currently cover about 50,000 hectares, or about 0.6%, of the land on which claims are made. It would make a modest reduction in the cost of administering the scheme and by reducing the number of claims it would simplify RPA's task in launching the new scheme.

7.8 The majority (60%) of holdings below five hectares are not being farmed primarily for business purposes. We believe there would be minimal adverse impact to the environment, as these holdings are below the size at which the greening provisions will apply. The extent of land which would be removed from cross compliance obligations is less than 1%. Moreover, many of the things which must be done under cross-compliance will continue to apply because they are requirements under existing English or EU law.

Entitlements

7.9 You must hold entitlements in order to claim payments under the direct payments system.

7.10 We have the option either to roll forward the existing SPS entitlements or to cancel the SPS entitlements and allocate new entitlements at the start of the new scheme. We have not yet decided which of these options we will use. The European Commission will be making detailed rules about the allocation of entitlements. What follows is a general summary of what appears in the regulation but the way these rules will apply in detail will not be clear until later.

7.11 Whether we roll forward entitlements or allocate new ones, the value of each entitlement will be recalculated to take account of the new budget.

7.12 In order to be allocated new entitlements or to be allowed to use any existing entitlements which are rolled forward if we choose that option, you must be an active farmer.

National reserve

7.13 Up to 3% of the basic payment scheme will be used to fund a national reserve. If you are a qualifying new entrants or a young farmer, you will be able to apply to the

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national reserve for entitlements but the detailed criteria are not yet known. There may be other circumstances under which a farmer could apply to the national reserve, although they may not be appropriate in England.

Entitlements rollover

7.14 If we choose to roll forward entitlements and the number of entitlements you hold in 2015 is greater than the number of eligible hectares you have in 2015, we must cancel the excess entitlements.

New entitlements

7.15 If instead we choose to allocate new entitlements, you would be eligible to apply for them in 2015 provided that you are an active farmer and also received an SPS payment for the 2013 SPS year.

7.16 We must then decide either:

- that the number of entitlements allocated will be equal to the number of eligible hectares you have at your disposal and declare in 2015, except in the case of *force majeure* or exceptional circumstances, or
- that the number to be allocated is the lower of the number of eligible hectares you declared in 2013 and the number you declare in 2015.

7.17 We have the option to allocate entitlements to farmers who didn't receive SPS payments in 2013 but who by May 2013 were growing fruits, vegetables, ware potatoes, seed potatoes, ornamental plants or vines.

7.18 We have the option also to grant entitlements to farmers who never held SPS entitlements and who in 2015 submit verifiable evidence that by May 2013 they produced, reared or grew agricultural products. We have the option to add our own eligibility criteria covering appropriate skills, experience or education.

7.19 Where the total number of eligible hectares in any region has increased significantly since 2009, we have the option to scale back the number of entitlements allocated to farmers who have more eligible land than they had in 2011. We also have the option to scale back entitlements related to land under permanent pasture in difficult climatic conditions and to exclude from the entitlements allocation areas under vines or under permanent greenhouses.

7.20 If you have sold or leased all or part of your holding but otherwise meet the requirements for receiving an allocation of entitlements, you may enter into a private contract signed before the 2015 application deadline to transfer the right to receive entitlements to other active farmers. This is known as the 'private contract' clause.

The Active Farmer Test

7.21 In order to qualify for a direct payment (and to be eligible for some measures under the Rural Development Programme), you must satisfy an 'active farmer test'. This has two parts.

7.22 First, if you operate railway services, airports, waterworks, real estate services or permanent sporting and recreational facilities, you will be ineligible, unless you show that:

- your direct payments represent at least 5% of your non-agricultural receipts,
- your agricultural activities are not insignificant, or
- your organisation's principal objective is exercising an agricultural activity.

We have the option to add to the list of operations on this list, but, in order to keep the scheme as simple as possible, Ministers' initial view is that we will not use this option. We must also set a minimum threshold, not higher than €5,000, so that if your direct payments fall below this threshold, the list will not apply to you.

7.23 Second, if the majority of your land is naturally kept in a state suitable for grazing or cultivation and you do not undertake a minimum level of activity on that land you will be ineligible. We expect the European Commission to produce some detailed rules on this.

Common Land

7.24 Commoners are entitled to claim under the SPS in respect of rights of common (provided that entitlements were established in 2005 or have since been acquired from other farmers). Commoners may claim on a notional area of the common proportionate to their share of the total number of grazing rights. For example, a commoner with a right to graze 50 sheep on a 20 ha common which has several other rights totalling 250 sheep in all could claim $50/250 \times 20 = 4$ ha. Unclaimed rights are not recycled within the common, so commons with few active commoners and many inactive right holders will attract a relatively small total SPS payment (because much of the notional area of the common is unclaimed). Unclaimed SPS was recycled within the region as a whole at the start of the SPS scheme, boosting the regional rate. Special arrangements currently apply in the New Forest.

7.25 The legal rules for direct payments on common land are expected to be set out in delegated acts made by the European Commission. We established a working group in September 2011 to seek consensus on options for delivery of direct payments on common land. The working group includes representatives of the National Farmers' Union, Country Land and Business Association and Moorland Association, as well as commoning stakeholders such as two regional commoning federations. The group is now administered by the Foundation for Common Land. The group has considered alternative payment models to the present arrangements but we will not be able to decide on how payments should be made until after the draft delegated acts have been published later this year.

8 Cross Compliance

8.1 Cross compliance is the baseline set of rules that you must meet when claiming direct payments or payments under certain rural development schemes. These rules cover public, animal and plant health, the environment and animal welfare.

8.2 Under the reformed CAP, the number of cross compliance requirements has been reduced. There will be thirteen Statutory Management Requirements (SMRs) and seven Good Agricultural and Environmental Conditions (GAECs).

8.3 These requirements for the most part reflect rules that already exist in EU and national legislation. This is particularly true of the SMRs which mirror parts of specific EU directives and regulations, as we have implemented them in the UK. Some GAEC requirements also echo existing legal requirements but in other cases we must put in place cross compliance specific rules. Rules around inspections and reductions for breaches of cross compliance requirements will be similar to those in place now.

8.4 We are looking at how the GAEC rules in particular will be defined. We will bear in mind the recommendations put forward by the Farming Regulation Task Force as well as wider Government commitments to reducing the burden of regulation.

9 Greening

Background

9.1 CAP reform requires farmers to deliver basic annual environmental measures that go beyond cross compliance, in order to secure more tangible environmental outputs from direct payment subsidies. These new requirements are known as 'greening'.

9.2 We will pay you 30% of your direct payment if you undertake the greening measures. In the first two years, you will not be penalised for non-compliance beyond the loss of the 30% payment itself. In future years if you don't undertake the greening measures it is likely that you will be penalised in addition to not receiving 30% of the direct payment.

9.3 Under the regulation, greening will comprise three standard measures which apply throughout Europe—

- **Crop diversification** — if you have more than 10 ha of arable land, you must cultivate at least two crops. If you have more than 30 ha, you must cultivate at least three.
- **Permanent grassland** — we must designate particularly sensitive areas of permanent grassland on sites covered by the Birds or Habitats Directives. We have the option to designate additional areas of valuable permanent grassland. If your farm has any of this designated grassland then you will not be allowed to plough it up.

In addition, we must ensure that the ratio of permanent grassland to eligible land does not fall by more than 5%. We have the option to calculate the ratio at the

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national, regional, sub-regional or farm level. If we choose to do it at the regional level then this measure will operate in a similar way to our current control of permanent pasture. If the ratio falls by more than 5% then we must put in place measures to require the conversion of former permanent grassland or former permanent pasture back to grassland. The detailed rules will be set out in regulations made by the European Commission in due course.

- **Ecological focus areas (EFAs)** — if you have more than 15 ha of arable land, you must maintain at least 5% of that arable land as EFA. We will define the features which will qualify as meeting the EFA requirement; these could for example include fallow land, landscape features or buffer strips.

9.4 We have the option to operate a national certification scheme as an alternative to the greening standard measures. A national certification scheme may contain some or all of the measures set out in paragraph 9.3 above, alongside alternative environmental measures with at least equivalent environmental outputs, so that the measures can be tailored to local circumstances. This option may give us the opportunity to offer measures more suited to circumstances in England.

9.5 You may be exempt from individual measures or from the greening requirements as a whole (but will still be eligible for the greening payment). For example, organic farms are wholly exempt, whereas a holding which is at least 75% permanent grassland will be exempt from the requirement to maintain ecological focus areas, may be exempt from the requirement for crop diversification but will be subject to the requirement to limit the loss of permanent grassland. However, the exact requirements, and the terms of the exemptions, are quite complicated and more detailed advice will be published when we have decided the detail how greening will be implemented in England.

Design considerations for a greening scheme for England

9.6 The design for a greening scheme for England will be based upon the following design considerations. Some of these are complimentary, but some will pull in opposite directions.

- **Maximise environmental gain** — greening is an environmental measure. The greening scheme for England must be designed in a way that maximises possible environmental benefits.
- **No ‘gold-plating’** — Ministers have already been clear that the English scheme will not impose burdens on businesses which go unnecessarily beyond the requirements of the EU legislation.
- **Simple delivery** — the ideal will be to devise a scheme which is as straightforward as possible for both farmers and the delivery bodies.
- **Minimise disallowance risk** — greening must be implemented in a way which minimises the possibility of disallowance.
- **Work with stakeholders** — we are committed to working with stakeholders in the design for a greening scheme for England.

Approaches to the implementation of greening

9.7 There are two broad approaches that we could take to greening implementation.

Option 1

9.8 This option is based upon the direct implementation of the measures set out in the Council Regulation, without the introduction of a Certification Scheme designed to offer additional equivalent measures. All possible exemptions from greening would be allowed. Decisions would be made on which of the EFA options would be allowed as contributing to the 5% requirement on English farms and which would be disallowed.

Option 2

9.9 This option is based upon the implementation of greening in England through a Certification Scheme approach. The Certification Scheme would offer farmers a choice between the basic measures contained in the Council Regulation and a selection of additional, alternative and equivalent measures, drawn from those which are to be published by the European Commission as an Annex to the Council Regulation (currently known as 'Annex X'). Consideration would be given to whether to allow all the exemptions envisaged under Option 1. This option would give the possibility of providing some EFA options which are more challenging for farmers but provide a higher level of environmental benefit.

9.10 The following sections draw on the wording used in the drafts of the Council Regulations. At the time of writing, the final legal texts are not available. It is at least a possibility that the final text may differ in some respects.

Crop Diversification

The Basic Measure

A three tier approach:

- Farms with less than 10ha of arable land are exempt from this requirement.
- Farms with between 10 and 30ha of arable land must grow at least two different crops.
- Farmers with more than 30ha of arable land must grow at least three different crops.

Various exemptions apply. Detailed rules on minimum areas for each crop will apply.

Note: winter and spring varieties of the same species do count as different crops.

Equivalent alternative measures that we could consider under Option 2

- Variations on the crop diversification theme which require a higher number of crops, apply lower thresholds or specify qualifying crop types.
- A requirement for crop rotation.
- A requirement for winter soil cover. (European Commission to determine rules)
- A requirement to grow catch crops (European Commission to determine rules)

Permanent Grassland

The Basic Measure

No conversion and no ploughing allowed of designated environmentally sensitive grasslands in Natura 2000 sites and possibly elsewhere.

Overall area of permanent grassland not to fall by more than 5%. Remedial action to be taken if it does.

Equivalent alternative measures that we could consider under Option 2

Requirements not just to preserve grassland, but also requirements to manage grassland.

A range of management commitments permitted, such as:

- Cutting and mowing regimes
- Maintenance of landscape features within grassland and control of scrub
- Specification of grass varieties and / or seeding regime for renewal of grassland
- Rules on forage / hay
- Appropriate management regimes for steep slopes
- Fertiliser regimes
- Pesticide restrictions

Similarly, management commitments for extensive grazing systems, such as:

- Timing and maximum stocking densities for grazing
- Rules on shepherding and mountain pastoralism
- Requirements to use local/traditional breeds

Ecological Focus Areas (EFAs)

The Basic Measure

Where arable land exceeds 15ha, 5% of that land must be designated as EFA

The Regulations contain a list of qualifying EFA options as follows, from which member states may choose which to allow and which not to allow:

- Land laying fallow
- Terraces
- Landscape features
- Buffer Strips
- Supported agro-forestry
- Uncultivated land along forest edge
- Areas of short-rotation coppice
- Afforested areas
- Areas with catch crops or green cover
- Areas with nitrogen-fixing crops

Equivalent alternative measures that we could consider under Option 2

- Ecological set-aside
- The creation of buffer zones around high nature value areas
- The management of uncultivated buffer strips, e.g. with seeding regimes, prohibitions on pesticide use or irrigation
- Borders, in-field strips and patches managed for wildlife
- Active management requirements for landscape features
- Environmental protection measures for arable peaty / wet soils under grass
- Arable land where production is without the use of fertiliser and/or plant protection products or irrigation etc..
- Land converted from arable use to extensively farmed permanent pasture.

10 Coupled support

10.1 We have the option to use a proportion of the amount available for direct payments to fund coupled support schemes to maintain levels of production in certain sectors. A key achievement of the 2005 reform of the CAP was a progressive move away from coupled support schemes in order to promote a more market oriented farm sector, and in England the last coupled schemes ended in 2011. Ministers' initial view is not to reintroduce any coupled support schemes.

11 How much will I receive?

11.1 You will receive a basic payment, calculated as a flat rate for each eligible hectare appropriate to the region, and a [greening](#) payment. In addition, if you are a qualifying [young farmer](#), you will receive an extra payment.

11.2 We must either reduce large payments to you ([progressive reductions](#)) or make a higher rate of payment for up to the first 54 hectares of [eligible land](#) claimed by the farmer ([redistributive payments](#)).

11.3 Finally, we may be required to reduce payments if total spending in the EU on [pillar 1](#) is likely to breach the agreed EU budget ([financial discipline](#)). These various provisions are described in the following paragraphs.

Young Farmers scheme

11.4 We must operate a scheme to provide a supplement to you if you are a young farmer. We must set aside for this scheme up to 2% of the amount available for direct payments. We have several options to calculate the supplement but it will be in the region of an extra 25% per eligible hectare which you claim under the basic payment scheme. However, we must reduce the supplement proportionately so that the total paid under this scheme falls within the 2% ceiling. We cannot pay the supplement above a ceiling on the number of hectares, which we must fix in the range 25 to 90 hectares. You may claim the supplement for a maximum of five years, or a shorter period depending on the number of years passed since setting up your farming business and submitting a first application.

11.5 You will qualify as a young farmer if you:

- are an individual (*i.e.* not an incorporated body, see below),
- are not more than 40 years old in the year when you make your direct payment application,
- set up as a farmer (*i.e.* as 'head of holding') within the previous five years, and
- meet additional criteria which we have the option to set on skills and training.

11.6 We will be working with stakeholders to help us decide whether to impose additional criteria about skills and training on applicants for the young farmers scheme. For example we could ask that you need to have carried out certain training or have a clear business plan for how you will use the extra funds. This could help us target the extra payment to those who most need it, but we will have to weigh this up against the bureaucracy of checking people against all of these criteria, and the burden placed on applicants.

11.7 The European Commission may make regulations which set out the conditions under which 'legal persons' (*e.g.* companies or partnerships) may qualify for the young farmers scheme. We do not know yet whether the Commission will do this or what conditions they might adopt.

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11.8 In addition to the young farmers scheme, we must also make some of the entitlements from our national reserve available to new entrants to farming. We are still waiting for the final text of the regulation to determine how this will work.

11.9 In parallel we are working on the design of the future Rural Development Programme, where we will also want to think about how to best support young farmers and make sure that they can access the support that other farmers get to help them improve their business and environmental performance and develop their skills and ability to innovate.

Small Farmers' Scheme

11.10 We have the option to use up to 10% of our direct payments to operate a special payment scheme for small farmers.

11.11 In a small farmers scheme, you could (irrespective of the size of your claim) opt in and receive a standardised payment each year which would replace all direct payments you might otherwise have received. You would also be exempted from cross compliance and greening requirements.

11.12 Payments under the Small Farmers' Scheme must be capped at €1,250, which in England is approximately equivalent to a payment for a farm of five hectares in the non-SDA (lowland) region. Thus if we adopt a minimum claim size of five hectares, the small farmers scheme would be largely redundant because nearly all claimants would receive a smaller payment by opting in. Ministers' initial view is that a small farmers scheme would add complexity to the direct payments system, and would be of little benefit.

Progressive Reductions, and the Redistributive payment

11.13 We must reduce payments which go to the largest claimants. We may choose between two alternatives of progressive reductions or the redistributive payment but we alternatively have the option to use both.

Progressive reductions

11.14 The first option is a system of progressive reductions. If we adopt this option, we must reduce the amount of any direct payment to you over a threshold of €150,000. The minimum rate of reduction has not yet been finally agreed between the European Council and the European Parliament but is expected to be 5%. We expect to have the option to apply higher rates of reduction at additional higher thresholds. The rate of reduction available to us may reach as high as 100%.

11.15 We have the option to allow you to exclude salaries and related employment taxes linked to your agricultural activity from the amount of your direct payment, before we apply any progressive reduction: this is called salary mitigation. For the purposes of salary mitigation, your salaries and related employment taxes would be those spent in the previous year to your payment. We may also be required to exclude the amount of the greening payment from the amount of your direct payment which we take into account.

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11.16 The following table gives an example of progressive reduction with and without salary mitigation:

	without salary mitigation	with salary mitigation
direct payment due	€180,000	
eligible agricultural salaries	€20,000	
assume progressive reduction at 5% on a threshold of €150,000		
direct payment liable to progressive reduction	€180,000	€180,000– €20,000=€160,000
progressive reduction	(€180,000– €150,000) × 5%=€1,500	(€160,000– €150,000) × 5%=€500
direct payment after progressive reduction	€180,000–€1,500=€178,500	€180,000–€500=€179,500

11.17 Any money which is recovered as a result of the progressive reduction must be transferred to the Rural Development programme.

11.18 Ministers' initial view is that salary mitigation would be too complex to administer, and that if we must reduce your claim because of progressive reduction, we should reduce the gross amount (without allowing for salary mitigation) which will enable more funds to be recycled to rural development as well as saving administration costs.

Redistributive payments

11.19 The second option is a system of redistributive payments. If we adopt this option, we must pay a supplement in respect of the first tranche of hectares in your claim up to a national ceiling. We can set aside up to 30% of the amount available for direct payments in each region for this scheme. The supplement can be up to 65% of your basic payment. The supplement can be flat rate (*i.e.* a fixed rate for a fixed first number of hectares) or graduated (*i.e.* so the supplement would be larger on say the first 20 ha than on the 21st to 40th hectare). We must not make payments above a ceiling on the number of hectares fixed by us, which must not be higher than 54 hectares.

Generally

11.20 You must not seek any advantage by artificially creating circumstances which would avoid the effect of progressive reductions or which would increase the amount paid out as redistributive payments, where the changes take place after 19th October 2011 (the date the European Commission published their proposal for the regulation). RPA will enforce these provisions.

11.21 We are currently evaluating the potential impacts of these alternatives, and discussing these with stakeholders.

Financial Discipline

11.22 We must reduce direct payments if in any year the ceiling setting the amount available in the European budget will be exceeded. If that happens, the European Commission will propose an 'adjustment rate', which will apply to your direct payment.

11.23 This replicates the arrangements in the current scheme, which are being implemented for the first time in 2013. It is however probable that the procedure will be used more often in future, as the EU budget envelope now contains provisions for a crisis reserve.

12 Compliance

12.1 We will carry out administrative checks, on-farm inspections and inspections via remote sensing. If we find that you have not complied with the rules then we may be required to impose reductions or penalties. The detailed rules will be set out in regulations made by the European Commission in due course.

Complaints and appeals

12.2 Following the implementation of CAP reform, if you are not satisfied with the service you receive from us, or with a decision we have made, we will work with you to try to resolve it satisfactorily. Both the [RPA](#) and [Natural England](#) will continue to offer a complaint resolution service.

13 New delivery arrangements

13.1 CAP reform will be implemented in England through an entirely new CAP delivery system. We are investing now in a much more efficient, customer friendly, online system ready to support implementation from 2015. The system includes a single online application system ready for use in scheme year 2015. This will replace an ageing array of IT systems, and costly and inflexible contractual arrangements. All the bodies involved in delivering CAP schemes, including the RPA and Natural England, will use the new system. It will make it far easier for you to do business with us.

13.2 The new system will enable us to offer a digital by default application and payments system. This means that the system will be sufficiently straightforward and

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attractive to use that we can expect farmers and their agents will prefer to use it. Most farmers will interact online with the RPA from 2015 onwards: this will mean that the service is:

- quicker — you may access and amend pre-populated direct payments data, and submit an application electronically and quickly;
- easier — you may check applications for common errors so they can be corrected before submission;
- reassuring — you will receive an on-screen acknowledgement that the RPA has received your application.

13.3 You may for some reason be unable to use an online interface for all or part of your needs. In these cases, we will offer assisted support to enable you to fulfil your requirements. We are currently working on the scope and range of the assisted programme.

13.4 The new system will enable you to view your holding online on the Rural Land Register. Before long, we expect that you will also be able to update details of your holdings (e.g. to identify new ineligible features or amend field boundaries).

Glossary

Agriculture Council: a meeting of Ministers from EU Member States to set regulatory policy on the production of food and foodstuffs

CAP: Common Agricultural Policy

CAP Health Check: measures agreed by Agriculture Council in 2008 to “modernise, simplify and streamline the CAP and remove restrictions on farmers”

coupled support: a scheme under which payments are linked to the level of production e.g. payment per head of livestock or area under crop

disallowance: fines imposed on Member States by the European Commission for deficiencies in the implementation of European rules

direct payments: European Union subsidies to farmers within pillar 1 of the CAP, which (in England) are related to farm size and not related to levels of production

entitlements: these form the basis of payments to farmers under the Basic Payment Scheme — each entitlement has a value and can be used by a farmer to claim payment each year, where they have met the relevant scheme rules

eligible land: broadly speaking, land is eligible under the Basic Payment Scheme if it is arable, permanent grassland or pasture or permanent crops, but exceptions apply

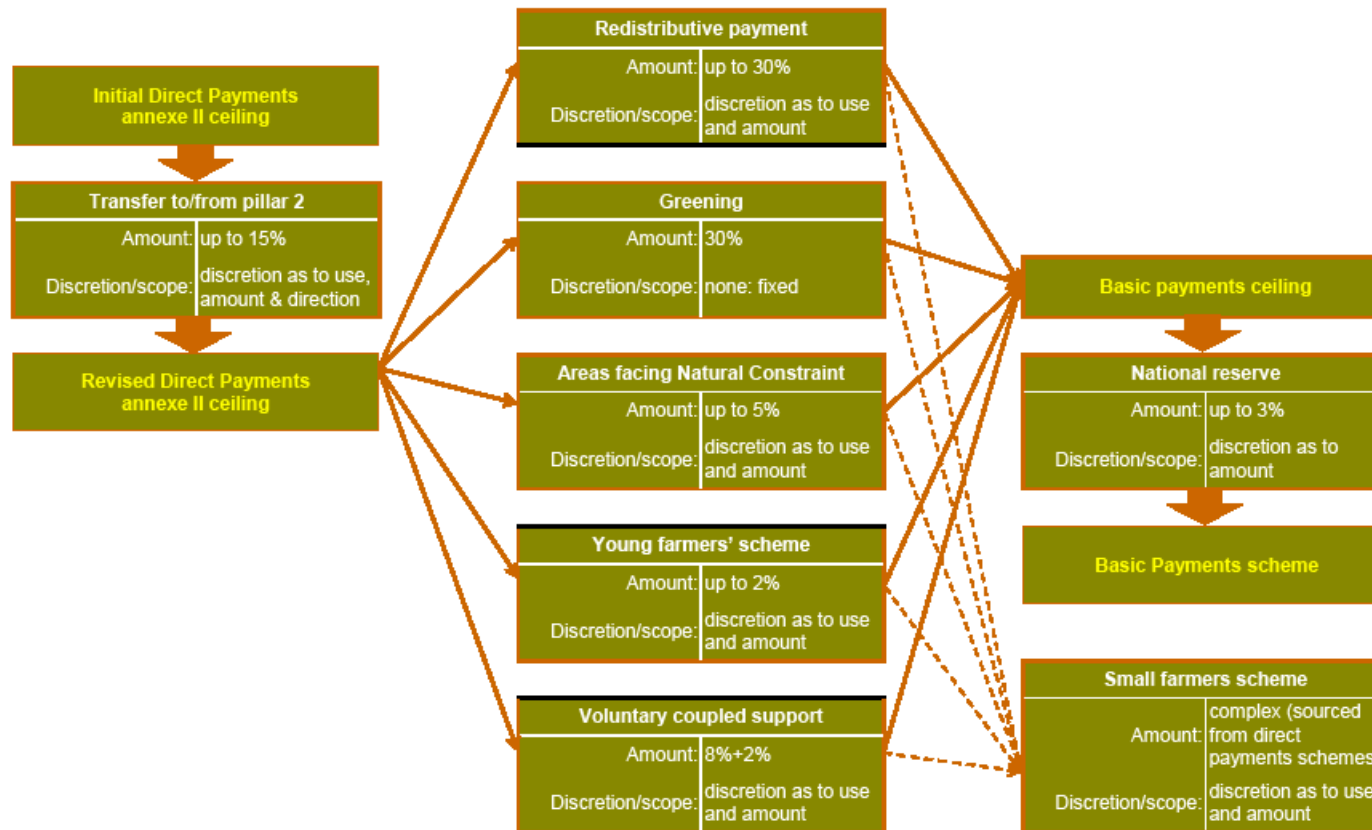
pillar 1 and pillar 2: the CAP is divided into two parts — pillar 1 deals with direct payments and market management measures, and pillar 2 deals with rural development

severely disadvantaged areas (SDA): part of the less favoured area (LFA) (designated under a European directive on hill farming in the LFAs) where agricultural production is severely restricted by soil, relief, aspect or climate conditions

Single Payment Scheme (SPS): the EU’s main agricultural subsidy scheme, in which payments are not tied to production, but (in England) proportionate to the farmer’s area of land farmed

Design of direct payments

This diagram shows the structure for direct payments schemes referred to in paragraph 5.2.



Single Payment Scheme regions

This map shows the SPS three regions referred to in paragraph 6.1.

