



Department
for Environment
Food & Rural Affairs

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CAP Reform in England

Status report on the new Rural Development Programme

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1 Introduction

1.1 European Union Ministers reached political agreement on the next Common Agricultural Policy (CAP) in June 2013. The new Rural Development Programme (RDP) in England, as part of CAP, will begin in January 2015. This will follow a transition year in 2014.

1.2 This paper provides an update on developments with some factual background on Rural Development Programme. It covers where we have got to in agreeing the new EU Rural Development Regulation which sets out what England's RDP should cover, an update on the next RDP programme for England, plans for transition to the new programme and next steps.

1.3 The new Rural Development Programme is a major opportunity to invest in the rural economy, the environment and the farming and land-based sectors in particular. We will work with delivery partners and customers to develop a Programme that:

- enhances competitiveness & productivity, the rural economy and the environment, promoting jobs and growth;
- delivers against a broad range of activities, where it will provide the best outcomes and value for money, for taxpayers and consumers;
- is implemented in ways that are as simple, effective and affordable as possible; and
- keeps the bureaucratic burden on farmers and small businesses to a minimum and reduces implementation costs.

1.3 Autumn 2013 will see certain issues finalised in the EU. The European Parliament should agree to an EU budget for 2014–2020, known as the EU multi-annual financial framework, which funds the CAP. Final legal texts for all CAP regulations need to be produced. Once the regulations have been formally adopted, Delegated and Implementing Acts need to be negotiated and agreed. These will determine how aspects of the new regulation may be implemented. We are expecting agreement on these by early 2014. During the coming months, the Government will need to finalise how to implement the new Rural Development Programme in England in detail and settle the budget for it.

1.4 We plan to consult formally about implementation of the new Rural Development Programme later in 2013. This formal consultation will set out in more detail some of the issues for the new programme, in particular where there are options about implementation. Linking with CAP reform as a whole, we need to look carefully at what we want to achieve for the next RDP and how we deliver that. We are committed to working with all interested groups on this.

2 Our approach to implementing the new Rural Development Programme

2.1 Where the European regulations give Member States options on how to implement them, our aim will be to do so in a way that is as simple, effective and affordable as possible, while seeking to achieve good value for taxpayers and customers.

Ways of Working

2.2 We will seek, wherever possible, to be consistent with the principles adopted by the [Farming Regulation Task Force](#), in taking forward the new Rural Development Programme:

- **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;
- **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.

Avoiding disallowance

2.3 Since 2007, under the current Rural Development Programme we have incurred about £8 million in disallowance (fines imposed by the European Commission for deficiencies in the implementation of European rules). We are developing a new system to deliver CAP reform in England. This and the way that we design the new Rural Development Programme give us a timely opportunity to build on recent improvements in our delivery of CAP payments and further reduce disallowance across the CAP as a whole and contribute to reducing the deficit.

3 How much money will be available?

3.1 At this stage in developing the new Rural Development Programme in England we do not know the level of funding available for it. The EU budget deal cut the EU budget for CAP by 13%. The UK allocation of the CAP budget is still to be finally confirmed. However we expect that for the period 2014–2020 the UK will receive £17.8 bn for the part of the CAP that includes direct payments (known as Pillar 1) and £1.84 bn for rural development (known as Pillar 2). Discussions are underway within the UK on the split of this UK budget between England, Scotland, Wales and Northern Ireland.

3.2 Member States must spend at least 30% of their EU rural development allocation on environmental measures. This includes investments in agri-environment schemes, organic farming, Water Framework Directive payments and forestry. Member States must also use the Leader local delivery approach for at least 5% of their EU rural development allocation.

3.3 Member States may transfer up to 15% of the part of the CAP budget that includes direct payments to rural development. Member States are likely to have to inform the Commission of the rate of transfer by 31 December 2013. Member States would be able to review their transfer rate with effect from 2018.

3.4 The final budget in England will therefore depend on the final allocation of EU rural development funds to the UK, the split of that UK allocation between England and the Devolved Administrations, the amount transferred from the mainly direct payments budget

to rural development in England, the available Government funding and exchange rates. In addition, the budget for new activity will also be affected by commitments carried forward from the current Rural Development Programme. For England, existing commitments to be carried forward are likely to be in the region of £2.1bn over the next programme period.

4 The new Rural Development Regulation

4.1 Under the draft new Rural Development Regulation, Member States have considerable flexibility to design Programmes that best suit their needs, while delivering cross-cutting objectives of climate change, innovation and the environment. The draft Regulation outlines six broad priorities for the EU on Rural Development, of which Member States must aim to meet at least four. The six broad priorities are:

- Fostering knowledge transfer and innovation;
- Enhancing competitiveness, productivity and farm viability;
- Promoting food chain organisation and risk management;
- Restoring, preserving and enhancing ecosystems;
- Promoting resource efficiency and supporting the shift towards a low carbon and climate resilient economy; and
- Promoting social inclusion, poverty reduction and economic development in rural areas.

4.2 The Rural Development Regulation includes a series of measures that Member States can use to meet these objectives, and minimum spending obligations. These include:

- measures to protect and enhance the environment. Eligible measures include: agri-environment (which are compulsory), organic farming, Natura 2000 and Water Framework Directive Payments, forestry, co-operation and investments in physical assets. Member States must spend at least 30% of their EU rural development allocation on this;
- measures to enhance innovation and farmers' competitiveness (including information and advisory services, knowledge transfer, investments in physical assets and a new European Innovation Partnership);
- measures to promote rural economic growth;
- Member States must spend at least 5% of their EU funds using the local Leader delivery approach.

Annex A provides more detail of the agreement on the new Rural Development Regulation.

5 What we will spend RDP money on

5.1 Defra's priorities are to grow the rural economy, improve the environment, and safeguard animal and plant health. Building on previous RDPs, the next Programme will need to support these priorities and secure substantial environmental benefits as well as

increasing agricultural competitiveness and productivity and supporting rural economic growth. This will allow us to contribute to achieving a broad range of linked policy ambitions, commitments and legal obligations. These include:

- legal commitments such as the Birds and Habitats Directives and Water Framework Directives;
- policy commitments such as in the Natural Environment White Paper and the Forestry and Woodlands Policy Statement of January 2013; and
- Government policy ambitions such as encouraging rural growth and devolving decision-making.

5.2 We will aim where possible to meet the broadest range of outcomes through the activities we will fund in the new Rural Development Programme. However we may need to choose between using rural development funds to meet our legal and contractual obligations, particularly on the environment, and other national policy objectives. In taking decisions, the Government will review the evidence and consider assessments of value for money. The new Rural Development Programme will be underpinned by an analysis of strengths, weaknesses, opportunities and threats.

5.3 This evidence will help inform consideration of, and consultation on, the focus of spend under the new programme. The current Rural Development Programme will spend around £3.7bn over seven years. Currently the balance, of total rural development funding in England, is:

- environmental land management (83%);
- farming and forestry competitiveness, productivity and skills (5%);
- wider rural growth (8%); and
- Leader (4%).

5.4 We anticipate a continued major focus on the environment and land-based industries. We will also be considering the focus that should be put on areas such as productivity and competitiveness in farming and forestry, innovation, improving skills and providing advice, upland areas, new entrants to farming, Water Framework Directive obligations, Leader projects and general rural growth.

6 EU Structural and Investment Funds Growth Programme

6.1 In England, the European Regional Development Fund (ERDF), the European Social Fund (ESF) and part of the EU rural development funding are being brought together as a single 'EU Growth Programme'. The Growth Programme will enable the Funds to be managed in a more consistent and complementary way, targeted on fewer, more specific activities. Local Enterprise Partnerships (LEPs) will identify through investment strategies how the funds concerned should be focused in their own areas.

6.2 LEPs will need to submit final strategies by January 2014. We have issued [guidance](#) on completion of these strategies. This sets out what the relevant funding can be used for. In the case of rural development funding this is:

- building knowledge and skills in rural areas. (Business skills specifically for the agricultural and forestry industry may be supported through the next rural development programme);
- funding new and developing micro, small and medium sized rural business;
- funding small scale renewable and broadband investments in rural areas; and
- support for tourism activities in rural areas.

6.3 Ministers have not yet decided what proportion of EU rural development funding to put through the Growth Programme.

7 Transition

7.1 Ministers intend to offer a package of Rural Development Programme support in the transition between programmes in 2014. We have yet to agree at the EU level the detailed rules about the actions we will be able to support in 2014. However, subject to that, we are now planning towards delivering the following:

- new Higher Level Stewardship (HLS) agri-environment agreements costing about £26m per year. That includes offering Higher Level Stewardship agreements to those with eligible expiring old style 'classic' agreements and new agreements for Sites of Special Scientific Interest, other high priority cases and to meet Water Framework objectives including those related to Natura 2000 sites;
- uplands and organic Entry Level Stewardship. We also plan to offer Entry Level Stewardship for land coming out of 'classic' schemes in 2014 that does not qualify for HLS. This will cost about £4m per year. This will ensure a smooth transition for areas that have been under environmental management for a long time;
- catchment sensitive farming capital projects and advice of up to £14m, including for Water Framework Directive-related action on Natura 2000 sites;
- up to £0.5m to fund essential one-off capital investments for forestry grants; and
- making available up to £1m to potentially continue some existing strategic projects.

7.2 We have said that we will make available up to £3m of RDP funding in 2014 to help maintain Leader local delivery capacity and expertise from the current programme.

7.3 We will also in 2014/15 provide continued support through the Campaign for the Farmed Environment. This is already proving, through partnership and voluntary action, that the sector is fully willing and able to take responsibility for the farmed environment.

7.4 We do not plan to offer the Energy Crops Scheme in 2014. Ministers do not wish to incentivise through the Rural Development Programme the growth of energy crops and would like to see a greater use of waste in bioenergy (particularly in anaerobic digestion).

8 New delivery arrangements

8.1 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. It will replace an ageing array of IT systems, and costly and inflexible

contractual arrangements. The bodies involved in delivering CAP schemes, including Natural England, Forestry Commission and Defra will use the new system. It will make it far easier to people to do business with us.

8.2 The new system will enable us to offer an online application and payments system. This means that the system will be sufficiently straightforward and attractive to use that we can expect farmers and their agents will prefer to use it. We want to move to a position where the customers' primary interaction with the Defra and delivery bodies from 2015 onwards will be online.

8.3 We recognise that there may be circumstances where customers may be unable to use an online system for all or part of their needs. In these cases, we will offer assisted digital support. We are currently working on the scope and range of the assisted digital programme.

9 How are we consulting?

9.1 We are working closely with a range of organisations representing rural development interests to help develop the new Rural Development Programme by sharing information, promoting a common understanding of the issues, and ensuring that we are aware of views and concerns. Our discussions will continue through the autumn and into next year.

9.2 We envisage a more formal consultation process later in 2013, when we will publish more details of how we propose to implement the Rural Development Programme in England. While we hope to give more detail at that stage, there may still be some uncertainties, not least because the European implementing regulations will still be in negotiation in Brussels.

Draft New Rural Development Regulation — Implications

Context

1. The Rural Development Regulation provides the overarching legal framework for determining what Member States can support using the European Agricultural Fund for Rural Development (EAFRD).
2. The new Rural Development Regulation was agreed at Agriculture Council on 25 June, as part of the overall CAP reform package. This marks the end of 2 years of negotiations for reform of the CAP for the period 2014 to 2020.
3. A formalised deal depends on final agreement over the EU budget for 2014 to 2020 (the Multi-annual Financial Framework). The Multi-annual Financial Framework was provisionally agreed by the Prime Minister and other Heads of Government in February 2013, with a further deal done at the end of June. The Multi-annual Financial Framework deal includes the flexibility to transfer up to 15% from Pillar 1 to Pillar 2 of the CAP, and no obligation to co-finance this transfer from national funds.
4. The next Rural Development Regulation is underpinned by two other regulations: the Horizontal Regulation (part of the CAP Reform deal) and the Common Provisions Regulation (sitting across the four EU Structural and Investment Funds, on which negotiations are yet to be completed).

What has been agreed?

5. The new Rural Development Regulation outlines six broad 'priorities' for the EU in Rural Development. Member States must aim to meet at least four of priorities in the design of their Programmes. The six priorities agreed are:
 - fostering knowledge transfer and innovation in agriculture, forestry, and rural areas;
 - enhancing farm viability and competitiveness of all types of agriculture in all regions and promoting innovative farm technologies;
 - promoting food chain organisation, animal welfare and risk management in agriculture;
 - restoring, preserving and enhancing ecosystems related to agriculture and forestry;
 - promoting resource efficiency and supporting the shift towards a low carbon and climate resilient economy in agriculture, food and forestry sectors;
 - promoting social inclusion, poverty reduction and economic development in rural areas.
6. To fulfil these priorities the Regulation outlines 'measures' that Member States can use in the design of their domestic Rural Development Programmes, and the various rates

of national co-financing required for each. Member States can create their programme from the regulation's 'a la carte' menu, but certain elements are obligatory.

The Menu of Measures

7. **Agri-Environment Climate:** Land management that protects and enhances the natural environment (including, in some cases, climate change mitigation). Member States must include this in their Rural Development Programmes. Short-term agri-environment schemes are not allowed, apart from as extensions to existing agreements. An explicit link has been made to training and information. Support will be available to land managers other than farmers, and to groups of farmers.

8. Support will also be available for farmers to convert to organic farming, and to support the implementation of Natura 2000 and Water framework directive where there is a substantial change in farm management required.

9. **Forestry:** The regulation contains a suite of forestry measures. This includes woodland creation incentivised through payments for agricultural income foregone for up to 12 years. Support is also possible for prevention and restoration of damage to forestry caused by pests and diseases.

10. **Areas Facing Natural Constraints:** Enhanced subsidy for land less suitable for agricultural use (e.g. Uplands in England). This tightens up the previous less favoured areas (LFA) categorisation which was criticised by the European Court of Auditors on grounds of value for money. There is a new delimitation for Areas with Natural Constraints (ANC) (with effect from 2018 at the latest) based on eight biophysical criteria.

11. **Innovation and Knowledge Transfer:** A new 'European Innovation Partnership on sustainable agriculture' will be established with the aim of promoting resource efficiency, productivity, resilience and low emissions in agriculture and forestry (more detail to be worked through). Measures on "investments in physical assets" aim to promote innovation. There is a specific measure on knowledge transfer. In addition, Programmes are required to contribute to the cross cutting objective of innovation.

12. **Information and Advisory Services:** Attempt to strengthen on farm advisory services. Aims to link advice on climate change mitigation and adaptation to environmental challenges and to economic development and training.

13. **Co-operation:** A new co-operation measure has been introduced to fund a range of activities undertaken in co-operation with others. Farm and Business Development and Investments in Physical Assets allows for support to farmers and rural business to boost their economic and environmental sustainability and competitiveness.

14. **LEADER:** This is now part of the wider Community-led local development approach, for European Structural and Investment Funds. A minimum of 5% of the EU funds must be spent on Leader.

15. Other measures agreed under the new Rural Development Programme include support for:

- Quality Schemes for agricultural products and foodstuffs;
- Setting up Producer Groups;
- Animal Welfare;
- Risk Management toolkit.

What is obligatory?

17. Member States must spend at least 30% of their Pillar 2 allocation on environmental measures. This includes investments in physical assets, agri-environment schemes, organic farming, Natura 2000 and Water Framework Directive Payments, Forestry, and Co-operation.

18. Member states must also spend at least 5% of their Pillar 2 allocation on locally developed LEADER projects.

Funding

20. Different measures under the Rural Development Programme are eligible for varying levels of EAFRD financing. Rural Development now recognises the same three types of regions as the Structural Funds: Less Developed, Transition and More Developed regions.

21. The rates at which Member States must provide national co-financing to match EU funds are set as standard for each region: 25% for less developed; 37% for transition regions; and 47% for more developed regions. Certain measures have preferential co-financing rates, such as those that contribute to the environment.

Devolved Administrations

25. The CAP negotiations allow Member States to implement CAP at a regional level. Scotland, Wales and Northern Ireland will all develop their own Rural Development Programmes.