

Summary: Intervention & Options

Department /Agency: Defra	Title: Impact Assessment of implementation of the CAP Health Check reforms relating to the Single Payment Scheme and other direct payments	
Stage: Implementation	Version: Final	Date: August 2009
Related Publications:		

Available to view or download at:

<http://www.defra.gov.uk/corporate/consult/sps/index.htm>

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What is the problem under consideration? Why is government intervention necessary?

The recent Common Agricultural Policy (CAP) Heathcheck resulted in, amongst other things, a number of changes to the direct payment schemes available for farmers, including the Single Payment Scheme (SPS). The SPS is the main support payment paid to farmers in the EU.

This consultation covered three areas where Member States have some discretion in relation to the SPS and other direct payment schemes: the setting of a minimum claim size, the introduction of an objective test to determine who is eligible to apply for payment and the implementation options for decoupling of support for nuts and proteins. Government intervention is necessary to ensure that the implementation approach meets the objectives described below.

What are the policy objectives and the intended effects?

The changes to the EU regulations introduced in the CAP Health Check were designed to streamline and modernise the CAP and ensure it is working effectively, efficiently and simply. Within areas of our discretion we intend to make sure that the effort required by business and Government to make and process claims is proportionate. For the options on decoupling of nuts and protein payments, the implementation approach should be equitable and in line with the SPS model adopted in England.

What policy options have been considered? Please justify any preferred option. As the three issues on which we consulted arose from the CAP Health Check, they have all have been included in the same Impact Assessment.

Q1 (Minimum Claim) –The option chosen (1ha) excludes the fewest farmers from the scheme and was supported by most consultation respondents. The decision takes account of the fact that a higher minimum would have resulted in only modest administrative savings for the Rural Payments Agency.

Q 2 (Objective Farmer Test) –It has been decided not to introduce an objective farmer test as it would be difficult to administer and could disadvantage farmers who have diversified.

Q3-4 (Decoupling of nuts & protein support) – The option chosen for incorporating the nuts and protein funding into the SPS is the simplest to administer, whilst also producing an equitable outcome for growers, which is in line with the existing SPS model. Having chosen this option, question 4 is not relevant.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? The Single Payment Scheme will be subject to the wider review of the CAP at the end of 2012.

Ministerial Sign-off For final proposal/implementation stage Impact Assessments:

I have read the impact assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs

Signed by the responsible Minister:

..... Date:

Summary: Analysis & Evidence

Policy Option: 1A

Description: Minimum claimed area of 1ha

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' The one-off costs shown are RPA costs resulting from the need to change IT systems (£100,000) and administrative costs to process claim rejections and deal with customer enquiries (£60,000). There are no administration costs for farmers for simply being excluded from the scheme.
	One-off (Transition)	Yrs	
	£160,000		
	Average Annual Cost (excluding one-off)		
	£ 0	3	Total Cost (PV) £ 160,000
<p>Other key non-monetised costs by 'main affected groups'.</p> <p>An estimated 1,500 farmers will be ineligible to apply for SPS payment. The value of SPS payments to other applicants will be unaffected. RPA could incur extra costs over a period of 2 years for processing additional transfers of land and entitlements (but likely to be minimal).</p>			

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' The annual benefits are reduced RPA administration costs resulting from fewer claims to inspect and process to payment (£70,000) and reduced admin costs for the farming industry as less annual SPS application forms will be submitted (£1.2M).
	One-off	Yrs	
	£ 0		
	Average Annual Benefit (excluding one-off)		
	£ 1.27M	3	Total Benefit (PV) £ 3.68M
<p>Other key non-monetised benefits by 'main affected groups' RPA will have a reduced number of claims to process, which should free up resource annually to be utilised on processing of other SPS claims. However, resource concerned is very small so knock-on benefits to overall scheme processing are marginal. Farmers can benefit if they sell/transfer their entitlements to others.</p>			

Key Assumptions/Sensitivities/Risks Assume 1,500 claims will fall below the minimum claim size. It is assumed that the vast majority of these claimants will be excluded in the first year (2010) and will not re-apply to the scheme in later years.

Price Base Year	Time Period Years 3	Net Benefit Range (NPV) £	NET BENEFIT (NPV Best estimate) £ 3.52M
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What is the geographic coverage of the policy/option?	England			
On what date will the policy be implemented?	2010			
Which organisation(s) will enforce the policy?	RPA			
What is the total annual cost of enforcement for these organisations?	£ 0			
Does enforcement comply with Hampton principles?	Yes			
Will implementation go beyond minimum EU requirements?	No			
What is the value of the proposed offsetting measure per year?	£ 0			
What is the value of changes in greenhouse gas emissions?	£ 0			
Will the proposal have a significant impact on competition?	No			
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)		(Increase - Decrease)	
Increase of £ 0	Decrease of £ 1.07M	Net Impact	£ -1.07M

Summary: Analysis & Evidence

Policy Option: 2A

Description: Objective farmer test – maintain the status quo

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' This option maintains the status quo so there are no changes to the costs.
	One-off (Transition)	Yrs	
	£ 0		
	Average Annual Cost (excluding one-off)		
	£ 0		Total Cost (PV) £
Other key non-monetised costs by 'main affected groups'			

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' This option maintains the status quo so there are no changes to the benefits.
	One-off	Yrs	
	£ 0		
	Average Annual Benefit (excluding one-off)		
	£ 0		Total Benefit (PV) £
Other key non-monetised benefits by 'main affected groups'			

Key Assumptions/Sensitivities/Risks

Price Base Year	Time Period Years	Net Benefit Range (NPV) £	NET BENEFIT (NPV Best estimate) £
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What is the geographic coverage of the policy/option?	England			
On what date will the policy be implemented?	2010			
Which organisation(s) will enforce the policy?	RPA			
What is the total annual cost of enforcement for these organisations?	£ 0			
Does enforcement comply with Hampton principles?	Yes			
Will implementation go beyond minimum EU requirements?	Yes			
What is the value of the proposed offsetting measure per year?	£ 0			
What is the value of changes in greenhouse gas emissions?	£ 0			
Will the proposal have a significant impact on competition?	No			
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)		(Increase - Decrease)	
Increase of	£ 0	Decrease of	£ 0
		Net Impact	£ 0

Summary: Analysis & Evidence

Policy Option: 3A

Description: Decoupling of nuts and proteins – Add funding to flat rate value of existing entitlements in 2012

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' The key monetised cost includes a one-off update to the RPA IT system (in the range £1.9M-£2.1M) and limited one-off RPA administration costs associated with dealing with customer enquiries (£15,000).
	One-off (Transition)	Yrs	
	£ 1.9M - £2.1M		
	Average Annual Cost (excluding one-off)		
	£ 0	3	Total Cost (PV) £2.015M
Other key non-monetised costs by 'main affected groups' Area Payment for Nuts and Protein Crop Premium funds (€10m) will be distributed across entitlements held by all SPS applicants. So, nuts and protein growers will see a decrease in funding, whilst other SPS applicants will see an increase. This is not shown separately above as it is only redistribution of funds.			

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' There will be a small annual benefit to nuts and protein growers from reduced administration costs from recording fewer split fields and crop rotations.
	One-off	Yrs	
	£ 0		
	Average Annual Benefit (excluding one-off)		
	£ 14,0000	3	Total Benefit (PV) £ 14,000
Other key non-monetised benefits by 'main affected groups' Funds of approx. €10m will be distributed across payment entitlements held by all SPS applicants. This is not shown separately above as it is only redistribution of funds.			

Key Assumptions/Sensitivities/Risks

Price Base Year	Time Period Years 3	Net Benefit Range (NPV) £ -1.92 to -2.12 M	NET BENEFIT (NPV Best estimate) £ -2.0M
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What is the geographic coverage of the policy/option?	England			
On what date will the policy be implemented?	2012			
Which organisation(s) will enforce the policy?	RPA			
What is the total annual cost of enforcement for these organisations?	£ 0			
Does enforcement comply with Hampton principles?	Yes			
Will implementation go beyond minimum EU requirements?	No			
What is the value of the proposed offsetting measure per year?	£ 0			
What is the value of changes in greenhouse gas emissions?	£ 0			
Will the proposal have a significant impact on competition?	No			
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)		(Increase - Decrease)	
Increase of	£ 0	Decrease of	£ 12,500
		Net Impact	£ -12,500

Evidence Base (for summary sheets)

Background

The Single Payment Scheme (SPS) is the principal support payment paid in the European Union to farmers and forms part of the Common Agricultural Policy (CAP). In England it is administered by the Rural Payments Agency (RPA). To claim under the SPS you must be a farmer and you must hold SPS entitlements. You must also have an eligible hectare of land for each entitlement you decide to claim payment on and this land must be at your disposal on 15 May of the scheme year. To receive the payment, farmers and growers do not have to undertake any agricultural production, but they do have to comply with standards covering public, animal and plant health, environmental and animal welfare (known as cross compliance). In 2008, there were approximately 106,000 applicants under the scheme in England.

Two of the other CAP direct payment schemes available for farmers are the Area Payment for Nuts and Protein Crop Premium. Farmers apply to these schemes on the annual SPS application form. Under these schemes farmers are paid based on the area of land they use to grow eligible nuts and protein crops. Eligible nut varieties are: almonds, hazelnuts, filberts, walnuts, pistachios and locust beans (carob pods). Eligible proteins are: peas, field beans and sweet lupins. Farmers can also use land growing proteins and nuts to support their SPS claims.

2008 saw the CAP Health Check, a scheduled review of the CAP to determine whether any adjustments to the CAP mechanisms needed to be made following the last major CAP Reform in 2003. Political agreement on the Health Check was reached at the EU Agriculture Council on 20 November 2008 and the legal text was adopted on 19 January 2009. The Health Check has resulted in a number of changes to the SPS and other direct payment schemes. This consultation, one of a series of Defra consultations on different aspects of the CAP Health Check, covered the following three areas of discretion available to Member States: the setting of the minimum claim size, possible introduction of an objective farmer test and options for decoupling of nuts and protein support.

For this Impact Assessment the Costs and Benefits have been assessed over a three year period, this is because there will be a further review of CAP direct payments in 2013, which could impact on the reforms in this document.

Options: costs and benefits

In the consultation paper, we considered the following questions:

Question 1. Minimum claim size – the minimum hectareage which should be set

Question 2: Introduction of an objective farmer test – whether to introduce an objective farmer test and, if so, what the objective criteria should be.

Question 3: Decoupling of nuts and proteins - method of integrating the funds into the SPS

Question 4: Decoupling of nuts and proteins – the reference year

Minimum claim size (Question 1):

In an attempt to eliminate the need for Member States to spend time and money processing very small claims, Member States will be required from 2010 to set a minimum claim size under the SPS and other direct aids. Member States are able to choose whether to base the minimum size on area or monetary value. Defra has decided to base the minimum on area, as basing it on value would still require significant processing of each claim to calculate its value, thereby removing the intended cost savings. Member States also have some discretion as to the level of the minimum: for the minimum area option, the UK is able to choose a minimum of between 1ha and 5ha. In England it has been decided to choose a minimum of 1ha.

Costs

Under the chosen option for Question 1 the associated costs are those incurred by the delivery body, the Rural Payments Agency. The costs are for a one-off change to RPA's IT system (a cost of £100,000). There is also likely to be a one-off admin cost to RPA (of approx £60,000) as they process claims, and deal with queries, from farmers who fall below the minimum. Based on RPA data for SPS 2008 (the most recent year for which validated data is available), an estimated 1,500 farmers (about 1.4% of the SPS claimant population of 106,000) will be excluded from the scheme.

There will be no admin costs for farmers for simply being excluded from the scheme. However, for the affected farmers the minimum claim size would remove their eligibility to remain in a scheme they once had access to. Some respondents to the consultation suggested that certain sectors, such as nursery crops and rare breeds, could be particularly likely to fall below any new minimum claim size.

Farmers that have been excluded from the scheme because they fall below the new minimum size could sell or lease their entitlements to other farmers or buy additional land and entitlements themselves (although several respondents to the consultation noted that this was unlikely to occur much in practice). This would result in extra costs for the RPA in processing entitlement and land transfers. This action could take place over a 2 year period after which time any entitlements which have not been used to claim payment return to the National Reserve (and the scheme is then due to be reviewed in 2012) and are of no benefit to the farmer. This has not been monetised as few farmers are expected to take up this option. There are also environmental costs (which have not been monetised) of excluding farmers from the scheme as this reduces the number of farmers subject to cross compliance requirements. The environmental costs are difficult to quantify as some farmers will choose to continue to comply with cross compliance standards even though they are no longer claiming SPS. Therefore, not all the environmental benefits of cross compliance will be lost.

Benefits

There are annual cost savings to RPA as the introduction of the 1ha minimum claim size will result in an estimated 1,500 fewer claims to fully process, thus saving on annual administration and inspection costs. Some processing of the claims will be required in order to determine whether they are below the minimum claim size, but there is still a very small net reduction in annual administration costs (of £70,000). Several respondents to the consultation noted that these small administrative savings for RPA were unlikely to have a significant beneficial impact on overall scheme processing.

The main benefits to individual farmers will be the removal of the administration costs of applying to the scheme. The total reduction in administrative burdens for farmers has been calculated using the estimate of 1,500 excluded farmers and a standard rate of £824.50 per

application (this standard rate is taken from the 2005 PWC study, which fed into Defra's Simplification Plan). This gives reductions in industry admin burdens of £1.2M.

There will also be some reductions in the farmer costs associated with needing to comply with cross compliance. However, as noted in the 'costs' section above, some farmers may choose to continue to meet cross compliance standards and therefore will continue to incur some compliance costs. As such, the benefits are difficult to quantify.

Farmers can receive a benefit if they choose to sell or lease their entitlements to another farmer on the open market. In line with the 'costs' section above, this has not been monetised as in practice many of the affected farmers will not consider it worthwhile to carry out this transaction.

Objective farmer test (Question 2):

Member States have the option from 2010 to set objective criteria to exclude from the SPS, and other direct payment schemes, claimants for whom agricultural activity is not the main part or purpose of their business. This option was introduced in response to concerns at EU level that payments were not being directed to 'genuine farmers'.

Costs and Benefits

As the chosen option is to maintain the status quo, there are no costs or benefits.

Decoupling of nuts and proteins (Question 3):

The 2003 CAP Reform decoupled the main EU farm subsidies from production. However, some mandatory coupled support remained (as well as some voluntary coupled support). The 2008 CAP Health Check has paved the way for the decoupling of these mandatory support schemes. The Area Payment for Nuts and the Protein Crop Premium (claimed by 65 and 5,400 farmers respectively in England in 2008) must be decoupled in 2012 at the latest.

This means that the schemes will end and the funding will be transferred into the SPS. The consultation paper asked for views on the method (and year) of integrating the funds into the SPS. Farmers are already aware that proteins and nuts are to be decoupled by 2012 at the latest.

Decoupling of nuts and proteins will lead to a transfer of €10.5 million into the SPS budget in the UK, with about €10 million of this falling to England. It has been decided to distribute the available support between all SPS applicants (by adding the funds to the flat rate element of the value of all SPS entitlements) in 2012.

Costs

Under the chosen option the associated costs will be for changes to the IT system (one-off IT costs in the range £1.9M - £2.1M) and one-off admin costs to RPA for dealing with customer queries (£15,000). Once the funds have been incorporated into the SPS, there are no significant annual costs for RPA. There are no farmer costs as RPA will automatically increase the value of all entitlements to incorporate the new funding.

The fact that this is the simplest option to administer was recognised by most of the consultation respondents.

Benefits

There are no significant benefits to RPA under the chosen option.

As the €10M of funding is simply being transferred from the Area Payment for Nuts and Protein Crop Premium to the SPS, the overall funding for the farming community will be the same after decoupling as before. The year of decoupling (2012) will, however, see a redistribution of funds between farmers, with a move from historic nuts and protein growers to the wider SPS applicant population.

There will be some benefits to nuts and protein growers of reduced administration costs from having to apply to fewer schemes (which will marginally simplify the application process, by reducing the need for farmers to separately record split fields and supply associated supporting documents for nuts and protein areas). These admin savings have been calculated using the estimate of 10,000 split fields and a standard rate of £16.55 per 12 split fields (this standard rate is taken from the 2005 PWC study, which fed into Defra's Simplification Plan). This gives reductions in industry admin burdens of £14,000.

Question 4

As the chosen option for Question 3 is to introduce the flat rate in 2012, question 4 is not relevant.

Monitoring and review

The measures being considered will be reviewed under the general review of the EU CAP at the end of 2012.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	<i>Results in Evidence Base?</i>	<i>Results annexed?</i>
Competition Assessment	No	Yes
Small Firms Impact Test	No	Yes
Legal Aid	No	Yes
Sustainable Development	No	Yes
Carbon Assessment	No	Yes
Other Environment	No	Yes
Health Impact Assessment	No	Yes
Race Equality	No	Yes
Disability Equality	No	Yes
Gender Equality	No	Yes
Human Rights	No	Yes
Rural Proofing	No	Yes

Annex 1 Specific Impact Tests

1 Competition Assessment

The policy decisions covered by this Impact Assessment are not expected to have a significant impact on competition as they will affect a relatively small proportion of farmers. We estimate that approximately 1.4% of SPS applicants (1,500 farmers) will be excluded from the SPS as a result of setting the minimum claim size at 1ha. It has been decided not to introduce an objective farmer test, so this decision has no impact on competition as it maintains the status quo.

Decoupling of nuts and protein support will have no impact on the overall budget for SPS and other direct payments. It will result in a redistribution of approx €10m between farmers, but this is a relatively modest sum in comparison to the total annual SPS budget of around €2bn. It is nuts and protein growers who will be affected most by decoupling (as support moves from them to the wider SPS population in 2012), but the Area Payment for Nuts and Protein Crop Premium is currently claimed by only 5% of SPS applicants (5,400 farmers).

2 Small Firms Impact Test

For the purpose of Impact Assessments small firms are classified as those with fewer than 20 employees. Therefore the overwhelming majority of farm business can be classified as small firms; however the decisions made in relation to decoupling of nuts and proteins apply equally to all and will not disadvantage smaller farms in relation to large ones. The minimum claim size of 1ha will affect the smallest of farm businesses, they will retain entitlements to lease or sell to other businesses if they wish, any unused entitlement that remain after 2 years will revert to National Reserve. An objective farmer test is not being introduced.

3 Legal Aid

The proposals do not create new criminal sanctions or civil penalties therefore there will be no impact on Legal Aid.

4 Sustainable Development

The proposals conform to the five principles of sustainable development to which the Government is committed (living within environmental limits; ensuring a strong, healthy and just society; achieving a sustainable economy; promoting good governance; and using sound science responsibly).

5 Carbon Assessment

The amendments will have no effect on carbon/greenhouse gas emissions, as the nature and scale of the farming activities and related industries remain the same.

6 Other Environment

The amendments have no implications in relation to climate change, waste management, landscapes, water and floods, habitat and wildlife or noise pollution.

7 Health Impact Assessment

The regulation change will not directly impact on human health or well being and will not result in health inequalities.

8 Race/Disability/Gender Equality

The proposals apply equally to all individuals and businesses involved, regardless of race, disability or gender. They do not impose any restriction or involve any requirement which a person of a particular racial background, disability or gender would find difficult to comply with.

9 Human Rights

The proposals are consistent with the Human Rights Act 1998.

10 Rural Proofing

The overwhelming majority of those involved in farming businesses are based in rural areas but the proposals apply equally to all involved, whether in urban or rural areas.