

Agenda Item	14
Report No	EDI/50/18

HIGHLAND COUNCIL

Committee: Environment, Development and Infrastructure

Date: 16 August 2018

Report Title: Stability and Simplicity – proposals for a rural funding transition period post BREXIT

Report By: Director of Development and Infrastructure

1 Purpose/Executive Summary

1.1 This paper summarises the Council's response to the Scottish Government's Stability and Simplicity Consultation – proposals for a rural funding transition period post Brexit.

2. Recommendations

2.1 Members are asked to:

- agree to homologate the consultation response prepared and submitted to the Scottish Government on 15 August 2017; and
- highlight any further comments that will/can be submitted post the consultation deadline

3. Background

- 3.1 This Consultation is part of a wider process which the Scottish Government is currently undertaking to inform the debate on a comprehensive new approach to the rural economy, agriculture, land and environment post Brexit. It forms part of the Civic conversation being led by National Council of Rural Advisors in respect of the rural economy.
- 3.2 The consultation is focused on stabilising and simplifying support for land managers individuals and organisations and particularly at those in receipt of or benefit from Direct Payments and SRDP funding. Responses to the consultation are required by **15 August 2018**; officers have prepared and submitted the attached response but have advised that supplementary comments may be issued following the meeting of this Planning, Development and Infrastructure Committee. The consultation can be found at <https://beta.gov.scot/publications/stability-simplicity-proposals-rural-funding-transition-period>

4 Consultation

- 4.1 The consultation focuses on the following points
- What might be done to provide stability in the period immediately after Scotland leaves the EU; and
 - What short term simplification could be introduced to 1) help current claimants of CAP related support and 2) improve /enhance the delivery of policy goals.
- 4.2 The Scottish Government paper suggests the following possible amendments and seeks views on these:
- Providing a transition period of approx. 5 years from 29 March 2019 until 2024, with minimal changes to current funding and payments i.e. keeping direct support payments and rural development payments (CAP Pillar 1 and 2) largely as they are certainly for those first 2 years, if not until 2024;
 - Providing a 2 year implementation period (period of stability) immediately after the UK leaves the EU in 2019 when UK still needs to implement EU rules on CAP;
 - How to reduce the administrative burden on a range of steps in the subsidy process including inspections, mapping and scheme rules;
 - Consider simplifications to existing Schemes that could aid the farmers'/crofters' experience and improve/enhance the delivery of policy goals and performance;
 - Starting to change rural support, explore capping of agricultural payments (Pillar 1) and using freed up resource to test new approaches;
 - How to protect and enhance long term future support for Less Favoured Areas;
 - Continuation of, and streamlining some of the Pillar 2 schemes including Forestry, Crofting Grants, New Entrant Grants and Environmental Payments (**a more detailed consultation on SRDP is to follow later in the year**); and
 - Should regional pilots be used to expand on activity we want to continue into the future and testing fresh ideas and innovation?
- 4.3 Key points to note:

- the consultation is based on the assumption that we will leave the EU in March 2019;
- as yet there has been no agreement or commitment as to what funding may exist if any post 2024 and so no stated policy goal thereafter;
- there is still ongoing uncertainty about the amount of funding that might be available over the proposed transition period;
- this consultation focuses primarily on Pillar 1 (direct payments) and in the main the continuation of the status quo;
- the Scottish Government aims to consult on Pillar 2 (SRDP – agri - environmental schemes/Leader etc. later in the year);
- it will be essential for the Highlands that ongoing support for Less Favoured Areas, agri -environmental schemes and Leader are continued to avoid disadvantaging our land managers and rural communities. It will therefore be critical that the Council responds to the Scottish Governments' Pillar 2 (SRDP) consultation to ensure that the specific environmental and cultural land use characteristics of the Highland and likely impacts of Brexit on the region are taken into account i.e. that a compelling case for distinctive and targeted policy interventions is made for Highland; an
- the proposed Transition period will give land managers some much needed time to prepare for whatever post Brexit may bestow. It will also create some time for rural policies to be formulated which will reflect the new financial and political environment going forward. As such the proposals in respect of a transition period and simplification(minor amendments) can be broadly welcomed by the Highland Council

4.4 The Council's response has not addressed all of the questions posed but provided broad responses to the consultation.

5. Implications

5.1 Resource/Risk –The Council is assuming that the transition period will apply equally to Pillar 1 and 2 and that support schemes will stay fundamentally the same. This may not prove to be the case and as such we will need to lobby the Scottish Government to ensure that Highland is not disadvantaged due to its unique biophysical constraints.

5.2 Legal, Community (Equality, Poverty and Rural), Climate Change/Carbon Clever, Gaelic – While the consultation report directly/indirectly addresses a number of these issues, there are no direct implications for the Council arising.

Designation: Director of Development and Infrastructure

Date: 1 August 2018

Author: Nicole Wallace, Environment Manager

Stability & Simplicity Consultation: Highland Council Response

Overview:

The distinctive environmental and cultural characteristics of the Highland region, together with the exposure of extensive livestock grazing (its dominant agricultural land use) to Brexit-induced pressures, make a compelling case for distinctive and targeted policy interventions. These should be consistent with Scottish Government's National Performance Framework and international commitments.

If an agricultural industry and the necessary critical mass in terms of rural population within the Highland region are to continue and grow, then long term we need to ensure that any further policy changes and systems of rural support acknowledge:

- the additional production costs in Highland imposed by market remoteness
- the importance that Highland region plays within Scotland's Food & Drink Sector
- our more intense need to offset biophysical constraints to ensure employment opportunities, continued provision of public services for remote communities (2nd jobs), and multiplier effects for regional supply chain & upstream input suppliers.
- the critical lifeline that LFASS payments plays in Highland's agricultural and rural communities
- the vital role Highland can play in maintaining significant High Nature Value and internationally/nationally important habitats and landscapes for the long term public good, through better targeted environmental payments
- the exacerbated ageing population issue within much of the Highland area and the importance of crofting to maintaining our rural fabric.

Overview taken from: Post Brexit

Implications for Agriculture and Associated Land Use in the Highlands and Islands, a report commissioned by Highlands and Islands Agricultural Support Group (May 2018)

https://www.sruc.ac.uk/site/scripts/google_results.php?q=highlands+and+islands+agricultural+support+group

Consultation Questions

Qs 1-5: Direct Payments - Stability approach for Transition Period / Deliver with a lighter touch / Operational changes required / Continuation of CAP rules /Greening

Stability & Simplicity Consultation: Highland Council Response

Highland Council agrees that if its agricultural and rural community is to survive, then it is critical that we have a 5 year period of transition. Key features of this transition period should include;

- a continuation of the current primary support payments and,
- stability in administrative and delivery procedures i.e. limiting the number of changes particularly given that we are currently unsighted on what policy will be come 2024. Incurring significant changes (and learning curve) now only to incur them again in 2024 will have negative impacts on the industry and Scottish Government resources.
- Implementing any more substantial short term significant changes or approaches to Schemes, when the long term goal is as yet unknown, risks audit compliance and tying up additional Government resources rather than continue to focus on effective delivery and timely payments.

Any changes to Schemes or application processes should comprise minor amendments rather than more substantial changes. For example, IACS returns could utilise a simple tick box for applicants claiming below a certain level of funding and where there are no changes to their previous year's declaration/claim. This could assist in particular but not exclusively, the small landholder, crofter and older claimant (noting that the age demographic is an issue in parts of Highland). Typically these will comprise smaller claims and relatively lower risk to the public purse.

The primary focus of SG resources during the Transition Period must surely be to ensure that payments are critically issued in time to help cash-flows generally but in particular to address livestock overwintering and fodder costs. As has been clearly demonstrated over the last 12 months in Highland region in particular, being able to secure good quality fodder in good time is critical to avoiding economic and potentially welfare issues.

Continuation of some/all CAP rules on inspections and compliance: Until such time as policy post 2024 becomes clear including WTO rules, then Highland Council advocate the continuation of the principle CAP rules at least short term and, in terms of those inspections and compliance regulations upholding quality standards key to the environment and health of the industry's markets in the future, these should be retained for the full period e.g. livestock traceability and animal welfare.

Greening - Even historically within Highland's limited arable areas, there is not a pattern of extensive, continuous swathes of single cropping as there is elsewhere e.g. England. As such, the need for the current 2 or 3 crop rule could be removed within Highland or at the very least, the minimum areas demanding their implementation, be increased. This would

Stability & Simplicity Consultation: Highland Council Response

assist in the administrative burden of both land managers within Highland and Government without negatively impacting on the environment.

Q6-9: Maximising Available Funding / Capping Direct Payments

Any redistribution of CAP funding between schemes, cannot be allowed to disadvantage those producers who already suffer from distance from markets and/or limited opportunities for agricultural enterprises as this sector will already be facing greater changes to adapt to policy changes post 2024.

It is the view of Highland Council that a system of capping does have potential but this money would be best utilised to benefit the majority within the industry rather than the few and not be ring fenced to the region of origin, if Agriculture PLC is to change for the positive. This could be done by providing additional funding for and encouraging **innovation**, to achieve more **efficient sustainable production** and mitigating climate change. Highland does not have many very large claimants but does present significant opportunity for innovation and market/performance issues. *See comments on Innovation.*

Any capping of direct support payments during the Transition Period should be pitched at a level to still enable the majority of businesses (even the larger more intensive) which are already operating extremely tight/no margin, to have a realistic chance to make radical strategic business changes if the agricultural rural economy is to survive in Highland post 2024. It could be argued that some very large recipients will be meaningful employers whilst others will be making little contribution in this regard.

As greening payment is essentially an environmental payment then it is only right that this should not be subject to capping. Likewise, LFASS should be excluded from any capping mechanism.

Qs 10-12 LFASS:

LFASS payments are, and will continue to be a critical lifeline to sustaining viable rural agriculturally based communities within Highland. As such these payments help to keep our land managers on-site and so be better able to be positive guardians of our many internationally and nationally important designations and environmental areas.

It is imperative that LFASS/equivalent payments are at the very least maintained and safeguarded. Whilst making this a top-up to current Pillar 1 IACS payments may appear on the surface to aid simplification, as LFASS is currently under a separate regulation, continuing with the status quo would provide much needed stability for a vulnerable sector and also enable Scottish Government to make a real and meaningful commitment to these communities beyond 2024, rather than putting this funding at the risk of decisions pertaining to Pillar 1 direct support and Westminster.

Qs 13-15 Mapping / Inspections / Penalties

A huge amount of work has gone in over the years to create and maintain the current mapping system. Whilst it is agreed that this labour intensive for both land manager and SG, we would caution against any action that would significantly undermine the asset that now exists, until such time as post 2024 becomes clear. Any simplifications which would reduce the circumstances that require map changes or farmer notification would however be welcomed, particularly given some of the very extensive parcels within Highland which carry a lower payment value.

Inspections – we advocate that inspection selection continues to be focused on those claimants who have previously incurred errors/penalties and those who are claiming larger sums of subsidies or have only recently started claiming to reflect the level of risk.

We advocate the use of new technology such as drones, particularly for the more extensive areas however this should not be at detriment of “human contact” between inspector and claimant.

Likewise, penalties should be proportionate to both the error made, history of errors and most importantly risk to the public purse i.e. amount of money or % involved. Currently many claimants, especially those of Pillar 2 schemes feel they are at risk of incurring penalties if they overclaim but also, if they “play safe” and under-claim as this then does not tally with the computerised approved schedule/plan.

Q19-21 Innovation / Collaboration /Monitor Farms

It is the view of Highland Council that providing funding for and encouraging **innovation**, to achieve more **efficient sustainable production** and mitigating climate change, must provide a key element of any additional monies accrued through capping or other similar methods. Such funds would be best utilised to benefit the majority within the industry rather than the few if Agriculture PLC is to change for the positive.

Such measures should focus on shortening the chain between research/innovative projects and on-the-ground farming or indeed marketing co-ops to secure land manager buy-in at an early stage, and fast track those pilots with greatest potential to deliver positive outcomes for Scotland’s Food & Drink Sector and the environment longer term.

Other examples include examining new ways of utilising existing undervalued products such as wool, and other “by-products” (and so turn a cost into income), along with timber and other natural resources, to proactively address global and national issues e.g. plastic.

Stability & Simplicity Consultation: Highland Council Response

With the diverse agricultural crofting and forestry systems and land types within Highland, including our key environmental challenges and geo/national parks, there is real opportunity to create a closer link between suitably funded monitor or pilot farms/crofts and those at the cutting edge of innovation (production and environmental).

Qs 22-23 Performance

The implementation of environmental audits e.g. carbon, nitrogen audits, should aim to include a clear outcome/benefit not just for the wider public but also for the market and commercial business, to help add value to the end product.

History has shown that KPIs can be difficult to establish for such a broad range of business scale/intensity/geography which typifies Highland, however further expansion of 1-1 detailed audits for individual businesses examining these issues or for proactive benchmarking and collaborative working has merit especially in areas where there may be a degree of social isolation.

Q24 Forestry

As a key element of land use in Highland and a very long term life cycle, stability and continuity is vital to this sector and it is agreed that changes should be limited.

Qs 26-27; Qs29-30 Q31 -35 Agri-environment; Crofting ; Capital Schemes

It is important that continuity of existing environmental outcomes is maintained and so agree that the current Agri-Environment Climate Scheme continue but with consideration being given to setting up “regional pilots” to test new approaches to such funding post 2024.

If significant in roads are to be made into land managers actively contributing to the environment, then funding levels should include an incentive, and make it easier for those more intensively farmed areas where it could be argued there is greater scope to make a meaningful contribution, and for small holdings to participate. More targeted “geographical” schemes like the Cairngorms Environmentally Sensitive Area Scheme, with potentially 2 Tiers of payment, although requiring some extra Government administration, could have the potential to deliver better more meaningful outcomes.

It is imperative to the success of Highland’s rural economy that **CAGS** continues and in a form that is easily understood by claimants. We would therefore encourage any streamlining of administration and also proportionate application of penalties, where funding has been “significantly” over-claimed as opposed to under-claimed against an approved schedule.

Stability & Simplicity Consultation: Highland Council Response

Capital Support – There is a real need for all farm businesses to be able to build the necessary capital and strategic infrastructure now, in order to be more resilient and have a chance of survival in the face of the more radical changes ahead. Consideration should be given as to what mechanisms including favourable loan schemes, grants etc, could be utilised to make this feasible.

In terms of **New Entrants**, there is potential for progress to be made by linking this to projects addressing retirement, encouraging partnerships and linkages promoting the principle of shared /contract farming arrangements for example which enables critical experience to be gained but potentially at a more manageable initial cost. This should include expansion of mentoring links including with older/retiring farmers (including parents of on-going family partnerships may now no longer be fully “employed”).

Climate Change – financial assistance with capital infrastructure to help mitigate climate change for all and which requires substantial investment by the business but for the greater public good e.g. conversion of agricultural machinery to non-fossil fuels.

See also comments under Innovation.

Q 36, 37 LEADER - Ongoing support for local rural communities should also form part of the proposed transitional period to avoid any loss of community capacity built up in the sector over the previous programme(s). A transitional period will also ensure that the skills and experience of local officers and LAGs are not lost to the areas and that there is no gap in provision/support.

Mention is made of transferring Leader to the proposed Shared Prosperity Fund. **Further details on how this will operate need to be provided in order to comment effectively.**

The Council strongly supports the vesting of responsibility for projects/development plans with the LAGS with delegated authority for each area to manage the funding within their area as they see fit (**set within outline principles set by SG**). The LEADER approach should not be lost as we exit the EU, instead it should be reviewed and bureaucracy significantly reduced to be the adaptable, innovative, community led fund it was designed to be.

The Highland Council is keen to see local socio economic development policies and plans produced within the Highlands with ring-fenced funds put aside for these purposes.

The Highland Council Headquarters
Glenurquhart Road
Inverness IV3 5NX