National Audit Office

REPORT

The Farming and Countryside Programme

Department for Environment, Food & Rural Affairs

SESSION 2024-25
HC 123

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The Farming and Countryside Programme

Department for Environment, Food & Rural Affairs

Report by the Comptroller and Auditor General

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Gareth Davies
Comptroller and Auditor General
National Audit Office

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Contents

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Key facts

£12bn	**40,700**	**62%**
budget for the Farming and Countryside Programme (the Programme) for the period 2020-21 to 2024-25	number of farmers signed up to agri-environment schemes as at April 2024	proportion of the food that we eat in the UK that is produced by UK farmers (2023)

35%	proportion of farmers confident in the ability of the Department for Environment, Food & Rural Affairs (Defra) and its agencies to deliver changes to schemes and regulations
48%	proportion of farmers saying they are not at all positive about their future in farming
102,000	farm holdings in England in 2023
Around 50%	of farms inspected by the Environment Agency (EA) in 2022-23 and 2023-24 that had at least one area of non-compliance with environmental regulations. EA inspections are risk-based, so will likely find a higher rate of non-compliance than there is within the sector as a whole
48%	proportion of farmers in 2023 rating satisfaction with Sustainable Farming Incentive as 8 out of 10 or better, 81% rating it as 6 out of 10 or better
Eight days	average time taken to process Sustainable Farming Incentive applications from farmers in 2024, compared to several months in 2021

Summary

Background

1 The farming sector is a small but vital part of the UK economy. Despite only accounting for 0.6% (£13.9 billion) of the economy in 2022, the farming sector in the UK produced 62% of the food we ate in 2023. This increases to 75% when only considering food that it is possible to grow in the UK. There are 102,000 farm holdings in England employing 292,400 people. Farms cover around 70% of the UK's land and farming shapes the countryside, influences the quality of the environment, affects the health and abundance of wildlife, and supports rural communities.

2 Following the UK's decision to leave the EU, the government has been developing a new approach to farming and the countryside in England, describing it as the "biggest change in agricultural policy in half a century". This transformation is taking place at a time when extreme weather, market conditions and world events are combining to put many farm businesses under pressure. The government's vision for the transformation was set out in the Agricultural Transition Plan (November 2020), which covers the period 2021 to 2028, and is being delivered by the Department for Environment, Food & Rural Affairs (Defra) through the Farming and Countryside Programme (the Programme). By 2028, Defra is intendingto deliver:

- "a renewed agricultural sector, producing healthy food for consumption at home and abroad, where farms can be profitable and economically sustainable without subsidy; and
- farming and the countryside contributing significantly to environmental goals including addressing climate change."

3 Defra is introducing a range of measures to deliver its vision, including:

- phasing out EU direct payments, which pays farmers based on land area, replacing them with agri-environment schemes that pay farmers for delivering environmental outcomes alongside food production;
- providing grant support to help farmers improve productivity; and
- replacing EU scheme-based regulation and enforcement with a new approach designed to be clearer, fairer and more effective.

4 Defra is the Programme policy lead and has support from its main delivery partners in designing and implementing the Programme: the Rural Payments Agency (RPA); the Environment Agency (EA); Natural England; and the Forestry Commission. The RPA is responsible for processing applications and distributing payments for the range of grant schemes under the Programme and acts as the inspection and enforcement body for a range of farming regulatory requirements. The other delivery partners are also regulators in the farming and rural sector. In addition, the Joint Nature Conservation Committee advises the government and devolved administrations on nature conservation.

5 The Programme offers a number of different schemes and grants (**Figure 1**).

Scope of the report

6 This is our third report on the Programme.[1] It covers how Defra is:

- managing the Programme and addressing key risks (Part One);
- delivering environmental outcomes and food production (Part Two); and
- seeking to improve farm productivity and maintain a viable farming sector (Part Three).

Key findings

Defra's development and management of the Programme

7 Because of the complexity and scale of what the Programme is trying to achieve, Defra decided from the outset to adopt an iterative approach to developing it. The Programme has three main objectives: delivering environmental outcomes, maintaining food production and securing a thriving farming sector. To be successful, the Programme must optimise outcomes across these objectives. Defra aims to deliver the Programme's vision through a combination of agri-environment and productivity grant schemes, regulation, and advice and support for farmers. Because of the underlying complexity of the farming sector, and the scale of what the Programme is trying to achieve, Defra has adopted an iterative approach. This involves amending the structure and design of its schemes as it learns more about their impact. There are some elements of the Programme design that Defra has not pre-determined. For example, it has not set the balance of funding between SFI and more complex schemes in advance. Instead, it intends to allocate the Programme budget flexibly to respond to farmer demand and evidence about what works to deliver outcomes, and keep the funding balance under review. Defra intends o continue to develop the Programme based on emerging evidence, evaluation and learning (paragraph 1.5).

1 Comptroller and Auditor General, *Early review of the new farming programme*, Session 2017–2019, HC 2221, National Audit Office, June 2019; Comptroller and Auditor General, *The Environmental Land Management scheme*, Session 2021-22, HC 664, National Audit Office, September 2021.

Figure 1

Current agri-environment schemes and productivity grants under the Farming and Countryside Programme (the Programme)

The programme offers a range of schemes and grants to support farmers

Agri-environment schemes
- Sustainable Farming Incentive (SFI): pays farmers for a range of actions to manage their land in a more environment-friendly way. Farmers have a choice about which actions, if any, to undertake. Examples include winter crop cover to improve soil health; improved management of hedgerows; and assessing the condition of moorland.   - Countryside Stewardship (mid-tier): pays farmers for actions to improve the natural environment. The actions previously offered under this scheme are to be offered through SFI from summer 2024.   - Countryside Stewardship (higher-tier): pays farmers for a range of more complex, specialist and bespoke actions to look after and improve the environment, including actions to improve biodiversity, expand woodlands and improve habitats.   - Landscape Recovery: pays individual farmers or groups of farmers to undertake long-term, large-scale projects covering at least 500 connected hectares. These are bespoke agreements, awarded through a competitive process, and are intended for larger-scale, longer-term, tailored actions.
Productivity and advice grants
- The Farming Investment Fund (FIF) provides competitive grants to improve productivity, animal health and welfare and to bring environmental benefits. FIF is made up of two separate offers supporting smaller and larger investments: - The Farming Equipment and Technology Fund (for grants between £1,000 and £50,000).   - FIF larger grants (between £25,000 and £500,000). Within this offering there are six sets of grants: Improving Farm Productivity, Water Management, Adding Value, Slurry Infrastructure, Calf Housing and Laying Hen Housing.   - Farming Innovation Programme: The Department for Environment, Food & Rural Affairs is partnering with Innovate UK to fund innovation projects awarded through competitions.   - The Farming Resilience Fund: designed to provide free business support to farmers affected by the removal of direct payments. It does this by awarding grant funding to organisations who provide advice to farmers.

Notes

1 Agri-environment schemes: schemes set up to support farmers to manage their land in an environment-friendly way, often through payments for the delivery of environmental outcomes.

2 Countryside Stewardship was originally introduced in 2015.

3 Capital grants are available alongside both SFI and Countryside Stewardship revenue agreements.

Source: National Audit Office review of Department for Environment, Food & Rural Affairs documentation

8 **The iterative approach allows Defra to improve schemes over time, but is creating widespread uncertainty and risks for the sector.** The Agricultural Transition Plan sets out the government's intention to co-design its policies with farmers and other experts and to test, learn and adapt. This approach has allowed Defra to take corrective action in response to feedback or when it identifies risks to achieving its objectives. For example, it has recently capped the amount of land that farmers can devote to some environmental actions to limit the impact on food production. Government guidance for civil servants notes that in a real-life setting – as opposed to a model or simulation – interventions can be tested in small-scale pilots, "where many different options are tested in many isolated trials". By doing this, an iterative approach can be relatively low-risk. We support Defra's approach of continuing to improve its schemes over time. However, for the Programme, the risks arising from the iterative approach are potentially higher because the Programme has made significant changes on a national scale, which has made it difficult for farmers to plan their businesses (paragraphs 1.5, 1.6, 1.15 and 1.19).

9 **Defra lacks some of the data it needs to make timely decisions about Programme design changes, increasing the risk of unintended consequences.** Defra is developing a more structured monitoring and decision-making process. However, it has not yet set up the mechanisms to collect all the data it needs, for example, on environmental outcomes, to measure the Programme's progress and make the best decisions about scheme design changes. While Defra acknowledges it has work to do, it has established an environmental monitoring strategy and implementation plan and has put in place a significant research programme to better understand environmental outcomes. Defra previously used direct payments claimant data as a robust indicator of the incidence of farm businesses leaving the sector. As a result of the phasing out of direct payments, it has lost this important indicator of the impact of the Programme, and now relies on survey data, market monitoring and general feedback from stakeholders. Defra stated that this still provided good information to gauge the extent of exits from the sector (paragraphs 1.19 to 1.21).

10 **Farmers' ratings of their experience of SFI have steadily improved since the pilot but Defra has not succeeded in building their confidence in its overall ability to deliver change.** Farmers were asked to rate their experience of SFI, and ratings have improved over time with 48% rating it 8 out of 10 or better in 2023 compared with 28% in 2022 and only 15% for the SFI pilot. In 2023, 81% rated it 6 out of 10 or better. However, in October 2023, only 35% of farmers were confident in Defra's ability to deliver change to schemes and regulations. Defra views building the trust of farmers and landowners as "mission-critical to success" and acknowledges that distrust could hinder further increases in scheme participation. Some stakeholders told us that farmers' uncertainty over how schemes will develop and Defra's caution over sharing information, in areas such as land-use change and the impact on food production and farm viability, are undermining trust (paragraphs 1.25 to 1.27).

11 **The Infrastructure and Projects Authority (IPA) highlights positive features in the way Defra is managing the Programme, and its latest amber rating largely reflects the ongoing external risks to delivery.** The IPA provides ongoing scrutiny of the Programme. In its most recent review in September 2023, the IPA review team was impressed with how the Programme had continued to deliver despite significant challenges and highlighted good performance in programme leadership and management, risk management and stakeholder engagement. The review highlighted the need to sharpen the plans for 2024 and improve the longer-term plans for the Programme to ensure high confidence in deliverability and scheduling of the more critical elements. It rated the Programme as 'amber' overall, largely to reflect the many external factors and risks that are impacting the Programme (paragraphs 1.8 and 1.9).

12 **Defra is relying on outdated legacy systems, and this has created a risk to delivery of existing agreements and payments to farmers.** Defra took the decision to build on the legacy rural payments service IT system that was used to pay farmers under the EU's Common Agricultural Policy. Its support contract for this service has been extended several times, but cannot be renewed again after January 2025. The need to address the issue of the contract expiry was first flagged in January 2020, but work has only been underway to explore possible options since 2022. This has left Defra in a high-risk position in terms of delivering existing agreements, paying farmers and further developing the schemes. Defra is aiming to mitigate this risk by securing a new three-year contract through an open competition while it develops a new unified service to replace the legacy systems. If Defra is unable to secure a contract for further support, its current supplier is obliged to provide 'termination assistance' for 18 months from the end of the contract and Defra told us this should enable ongoing payments to be made through it but would not permit further development of schemes. There has been limited progress on developing the new service and Defra expects it to take three years before it is ready (paragraphs 1.12 to 1.14).

Delivering environmental outcomes and food production

13 **Defra has a set of environmental objectives for the Programme, but some are still in development and there are weaknesses that Defra needs to address.** Programmes need specific outcome-based objectives and reporting mechanisms to track progress towards achieving them. Defra has established a set of 16 environmental objectives and undertaken work to make them SMART (specific, measurable, achievable, realistic and time-limited). While the design of the objectives are at different stages of development, if achieved, they would lead to significant improvements to the environment. Defra has established three outcome-based objectives for water quality, air quality and carbon reductions with a number of output-based objectives sitting below these. Defra told us that these output-based objectives (for example, number of farmers adopting nature-friendly farming) allow for timely reporting. It continues to develop its understanding of the relationship between the outputs it is funding and outcomes. However, there is no specific outcome measure for improving species abundance. The ‘apex’ goal of the government’s Environment Improvement Plan 2023 is to achieve “thriving plants and wildlife”. Defra told us it is planning to have a measure in place by March 2025. The 16 objectives do not include an objective for the reduction of pesticides, which is also a key element of the Environment Improvement Plan (paragraph 2.2).

14 **Defra is making rapid progress in increasing the rate of take-up of agri-environment schemes and has achieved a step-change in the speed of processing SFI applications.** As at 1 April 2024, Defra had achieved 17,690 accepted agreements for SFI2023, and it reports that 40,700 farmers are involved across all agri-environment schemes, exceeding Defra’s target of achieving 39,000 by early 2024. The number of agri-environment scheme agreements has doubled from 27,500 in 2020 to over 56,000 in April 2024. Defra has also achieved a sharp fall in the time taken to process SFI applications, from several months in 2021 to eight days in 2024 (paragraphs 1.12, 2.4 and 2.5 and Figures 4 and 5).

15 **Defra intends to take a more targeted approach to SFI to deliver its environmental outcomes, but has not specified the timing for this.** Achieving some of Defra’s environmental objectives requires widespread take-up, for example, reducing water pollution from farming. To encourage take-up, Defra simplified SFI in 2023, giving farmers a free choice on which actions they undertake instead of prescribing specific packages of actions. Defra acknowledges that the quality of actions (whether in the right combination, in the right places and coordinated with other farms), will be vital and that it needs to encourage farmers to take more targeted and ambitious actions. It has started to do this through introducing premium payments for actions with higher environmental outcomes. However, the Agricultural Transition Plan update in January 2024 was vague about the timing of further moves towards this more targeted approach (paragraphs 2.4 and 2.6 and Figures 2 and 5).

16 **Unconstrained demand for SFI could crowd out funding for more complex schemes.** Countryside Stewardship higher-tier schemes and Landscape Recovery are more complex, specific and locally adapted. Defra acknowledges that these schemes will be essential to delivering its environmental outcomes alongside the wider take-up of SFI. Without some limits, high demand for SFI could crowd out funding for more complex schemes, resulting in more limited environmental outcomes overall (paragraphs 2.8 to 2.10).

17 **Defra expects productivity gains and increased crop yields to offset the impact of its agri-environment schemes on food production in the long-term.** Defra has been working to ensure that environmental outcomes and food production can be delivered in tandem, and it has undertaken analysis to understand the tensions and trade-offs. Defra intends to publish this analysis as part of its Land-Use Framework, but has not yet done so. The type of changes in land-use that will be necessary to deliver statutory environmental targets will depend on future policy choices as well as the decisions of farmers and land managers. The required land-use changes will range from changing the way food is produced (for example through systems like agroforestry) to taking some areas of land out of food production altogether. Targeting changes to the least productive land will reduce the impact on food production. Defra has set payment levels for its agri-environment schemes to make it more financially attractive for them to be implemented on less productive land. Defra's provisional analysis shows that, over the long term, the levels of land-use change should be consistent with broadly maintaining or increasing food production. Until this analysis is published it is difficult for parliament, the sector and the public to understand and scrutinise what government is trying to do (paragraphs 2.17 to 2.21).

18 **Defra is taking action to improve environmental regulation of farming, but farmers' compliance with some aspects of current environmental regulation is low.** The Agricultural Transition Plan set out Defra's intention to improve environmental regulation of farming by moving from a 'detect and penalise' approach to an 'advise and prevent' approach. However, farmers' compliance with some aspects of regulations is low. The EA found non-compliance in around 50% of farm inspections in 2022-23 and 2023-24. Defra told us that EA inspections are risk-based, so will likely find a higher rate of non-compliance than there is within the farming sector as a whole. As the changes to regulation have only recently been introduced, and EA has significantly changed its inspection regime, there is not yet reliable time series data to assess progress (paragraphs 2.14 and 2.15).

Securing a thriving farming sector

19 **More than a third of farm businesses covered by Defra's modelling are likely to need to make productivity improvements to maintain viability after 2028, given the reductions in direct payments.** The Programme's grant schemes were not designed to be a like-for-like replacement of direct payments. Defra has modelled the impact of the agricultural transition on the viability of farms. This modelling is indicative only, and not a forecast: it is highly uncertain and does not take account of wider market influences, such as price fluctuations or underlying productivity growth. The modelling attempts to estimate the net impact of farming reforms on farm viability, not to predict farm viability itself. The model, which covers the largest farms (55% of farms and 98% of agricultural production), highlights the challenges facing farmers as direct payments are phased out by 2028. It provides a useful baseline to understand the productivity changes farmers need to make. The model indicates that 39% of the farms in scope of the modelling may need to make productivity improvements over the course of the seven-year agricultural transition period (2021 to 2028) to maintain viability from 2028 onwards. If farms that are less productive make the productivity improvements assumed in Defra's modelling, 92% of the farms in scope of the modelling would be viable from 2028 onwards, all other factors remaining equal. The model additionally indicates that one in nine farm businesses in scope could need to make productivity improvements of more than 10% to maintain viability. Some farm types face more challenge than others: grazing livestock farms, which made up over 40% of farm holdings in England in 2022, need to make the largest productivity improvements on average (paragraphs 3.6 to 3.11).

20 **Defra assumes farmers will become more productive as direct payments are phased out, but recognises this is uncertain.** One of Defra's key assumptions on farm viability is that most of farmers' productivity improvements will occur as a result of the loss of direct payments because farmers have a strong incentive to increase productivity to compensate for the loss of income. However, the evidence to support this is inconclusive. Defra told us farmers have increased diversification and efficiency since it started to reduce direct payments and statistics show that agricultural rents have been falling in real terms which causes productivity to increase. However, Defra acknowledges that there is uncertainty around whether all farmers can make the scale of changes needed. Defra expects its productivity-related grant schemes, advice and guidance, and other agri-environment schemes will also improve productivity. It reports good take-up of its productivity-related grants, but the number of grants available is small and the schemes are competitive and oversubscribed (paragraphs 3.13 to 3.16).

21 The advice and support available to farmers is not yet adequate to support them to make the business changes needed. Good-quality advice is essential to the success of agri-environment and productivity grant schemes, but Defra has not yet put in place all of the advice and support that farmers need. A range of stakeholders told us that the current advice available is too focused on business support rather than broader ‘whole-farm’ advice. Defra acknowledges that, without further improvement, the existing model of advice provision is not adequate and will not ensure it achieves its objectives. It plans to make improvements (paragraphs 1.22 and 1.24).

22 The government committed to maintain the level of financial support to the farming sector at £2.4 billion a year until March 2025, but some of the measures Defra has introduced to achieve this could reduce value for money. While Defra has not managed to spend the £2.4 billion funding commitment in every year, Defra is forecasting that it will meet the £12 billion overall total for the five years (2020-21 to 2024-25), although inflation has reduced the real value of this funding. The level of funding for 2020-21 to 2024-25 was based on the historic level of EU funding rather than an assessment of what is required to meet Defra’s objectives for the Programme. Defra acknowledges that some of the measures it has put in place to increase spending will reduce value for money in the short term compared to the level of value for money if these new measures had not been introduced. For example, it has doubled the payment made to farmers to cover management and administrative costs of participating in agri-environment schemes, reducing value for money in the short term. However, Defra considers this will lead to higher take-up of schemes by farmers in the future (paragraphs 3.2 and 3.3 and Figure 9).

Conclusion on value for money

23 The Farming and Countryside Programme aims to fundamentally change England’s farms. The stakes are high for the environment, food production and the viability of the sector. To achieve the Programme’s objectives, many farmers need to transform the way they farm, and Defra’s modelling shows the extent of productivity improvements that are needed for farm businesses to maintain viability. Take-up of schemes is rapidly increasing, but some of what Defra is paying for now are actions that, for many farmers, do not result in significant immediate change to farming practices. Instead, they are expected to encourage farmers to do more for the environment in the long-term. Defra expects the removal of direct payments to stimulate most of the required productivity improvements. It says it has seen some improvements already as farmers adapt to life without direct payments, but the evidence is inconclusive on whether the scale of change needed will be achieved. Farmers need quality advice and support to adapt, but Defra has not yet ensured that they can access what they need. Around half of England’s farmers say they are not at all positive about their future in farming.

24 The Programme will continue to change, but Defra has not yet provided a long-term view of how it expects the Programme to develop, for example, in terms of the balance of funding between SFI and more ambitious schemes. Defra's iterative approach to Programme design makes it difficult for farmers to plan their businesses to remain viable, to continue to produce the food we need and to achieve the Programme's environmental objectives. Currently, gaps in the Programme's data on environmental outcomes is limiting Defra's ability to fully understand the impact on the environment, or whether it is on track to achieve value for money.

Recommendations

25 Defra should:

a ensure that the full Programme business case for Phase 3 of the Programme, currently in preparation, includes a comprehensive and realistic assessment of the funding needed to meet all the Programme's objectives;

b use the full Programme business case for Phase 3 of the Programme to provide a clearer indication of the Programme's overall direction, for example, by identifying the expected balance between SFI and more complex schemes to deliver its environmental and other objectives;

c complete work to strengthen the Programme's set of environmental objectives, particularly ensuring there is an outcome-based objective for species abundance by March 2025 and a quantified objective for the reduction in pesticide use;

d ensure continuing developments to the Programme's digital and data infrastructure comply with Defra's corporate digital and data principles and reduce reliance on legacy systems as soon as possible;

e develop a comprehensive and unified package of advice for farmers that will best support them in making the changes needed and help them to progress towards activity that delivers greater environmental benefit;

f use available feedback channels to explore in more depth farmers' capacity for, and response to, continuing change going forward and how it will affect trust and levels of engagement; and

g increase the level of transparency to stakeholders particularly in areas such as: farm viability modelling; land-use change modelling; and its plans to increase the regulatory baseline and stop payments as actions become standard industry practice. In particular, the analysis relating to land-use change and the impact on food production should be put in the public domain as soon as possible to allow both parliamentary and public scrutiny.

Part One

Programme development and management

1.1 This Part reviews the Department for Environment, Food & Rural Affairs' (Defra's) approach to developing and managing the Farming and Countryside Programme (the Programme). It identifies some key risks associated with Defra's approach and reviews its progress in areas that are important for reducing the risks.

Delivery landscape

1.2 Defra is developing the Programme in a challenging delivery landscape. The farming industry in England consists of over 100,000 farms which vary by size, type of business, geography and landscape, and tenure. These variations affect a farm's productivity, how much food it produces, its ability to deliver environmental outcomes, and how farmers respond to incentives to make changes. Many factors affecting farm businesses are beyond the Programme's control, including the weather, market conditions, international trade deals, and other demands for land-use change in England. Defra monitors market conditions and uses this to inform its budget forecasting and also scheme design, for example, increasing payments to farmers to reflect inflation, as announced in January 2024.

1.3 Since Defra published its Health and Harmony consultation in February 2018, outlining the government's plans to change how agricultural land is used, there have been six different Secretaries of State for Environment, Food & Rural Affairs, adding uncertainty about policy emphases and priorities, to which Defra has had to respond. It has also had to respond to the views of a wide range of stakeholders, including representatives of the farming industry and environmental organisations with a diverse range of strong views on what the future of the farming sector should look like.

Overall funding

1.4 In 2019-20, English farmers received £2.4 billion in payments through the EU's Common Agricultural Policy (CAP). The government committed to maintain this level of funding in every year from 2020-21 to 2024-25. However, this level of funding is not based on an assessment of what is required to meet Defra's objectives for the Programme. There is currently no confirmation of funding levels beyond 2024-25. The Programme's forecast administration spending for 2023-24 is £161 million against total available budget of £189 million, with £40 million of this coming from the £2.4 billion per year government funding commitment for the farming sector between 2020-21 and 2024-25. The £40 million is a continuation of the arrangements under CAP, referred to as Technical Assistance. In March 2024, the core Programme team within Defra had 383 full-time equivalent staff. In addition to the core Programme team, Defra funds around 1,300 staff from other parts of Defra and its arm's-length bodies to support the Programme.

Defra's iterative approach

1.5 The Programme has three main objectives: delivering environmental outcomes, maintaining food production and securing a thriving farming sector. To be successful, the Programme must be designed to optimise outcomes across these objectives. Defra aims to deliver the Programme's vision through a combination of agri-environment and productivity grant schemes, regulation, and advice and support for farmers. The Agricultural Transition Plan sets out the government's intention to co-design its policies with farmers and other experts and to test, learn and adapt. Because of the underlying complexity of the farming sector, and the scale of what the Programme is trying to achieve, Defra has adopted what it describes as "a process of rolling iteration and evolution of the Programme's schemes, systems and processes". This involves amending the structure and design of its schemes as it learns more about their impact in a live setting and how farmers are responding, and taking corrective action when it identifies risks to achieving its objectives. There are some elements of the Programme design that Defra has not pre-determined. For example, it has not set the balance of funding between the Sustainable Farming Incentive (SFI) and more complex schemes (Countryside Stewardship higher-tier and Landscape Recovery) in advance. Instead, it intends to allocate the Programme budget flexibly to respond to farmer demand and evidence about what works to deliver outcomes, and keep the funding balance under review. Defra intends to continue to develop the Programme based on emerging evidence, evaluation and learning. The evolution of SFI, one of the main schemes offered to farmers, illustrates this iterative approach (**Figure 2**).

Figure 2

The evolution of the Sustainable Farming Incentive (SFI) scheme

SFI provides an illustration of how the iterative approach to developing the Farming and Countryside Programme works in practice

SFI pilot	In March 2021, the Department for Environment, Food & Rural Affairs (Defra) began the process of getting several hundred farmers involved in piloting SFI, which pays farmers for a range of actions to manage their land in a more environment-friendly way. Farmers in the pilot tested the scheme to help make sure it worked in practice. The pilot tested eight 'standards' each consisting of a package of required actions and three levels of ambition. Defra told us that the pilot provided valuable information on streamlining the application process and the need to reduce the number of actions under each standard as this could impact take-up due to complexity.
SFI2022	Launched in June 2022, SFI2022 was a limited offer containing three standards with a smaller number of required actions within each standard than the pilot. Defra told us that feedback from farmers indicated that the standards approach was too restrictive and led to low take-up. It withdrew the offer in June 2023 and paid compensation (a 'closure payment') totalling £16 million to those farmers who had incurred a financial loss as a result.
SFI2023	Launched in June 2023, SFI2023 moved away from the standards approach, with a number of actions required under each standard, to an approach based on individual actions where farmers have the freedom to pick any combination of actions. Uptake of this iteration of SFI has been significantly higher.
SFI2024	In January 2024, the government announced an expanded SFI offer for 2024, adding approximately 50 new actions across SFI and Countryside Stewardship for farmers to choose from, to be introduced from summer 2024.

Source: National Audit Office review of Department for Environment, Food & Rural Affairs documentation

1.6 Defra's iterative approach allows Defra to improve schemes over time as it learns more about what works best to make them more attractive to farmers and more likely to deliver intended outcomes. There are a number of examples where Defra has made successful design changes in response to feedback. For example, it has recently capped the amount of land that farmers can devote to some environmental actions to limit the impact on food production. However, there are risks associated with this approach. Defra needs to find the optimal path to balance the three primary objectives for the Programme. While it tries to determine what this path is, it runs the risk of unintended consequences such as reduced food production, more limited environmental outcomes or impacting the viability of some farm businesses. It also means that the specific details of the schemes will continue to evolve each year, leading to some continued uncertainty for farmers, delivery bodies and other stakeholders. This uncertainty could erode trust and hinder further increases in scheme participation.

1.7 Through our examination of the Programme, we have identified six areas that we consider are key to managing these risks:

- putting effective core programme management structures in place;
- developing the digital infrastructure;
- minimising major Programme design changes;
- establishing a robust monitoring process to indicate when Programme design changes are needed to keep it on track to meet its objectives and to provide information to support these decisions;
- providing the right advice and support to farmers; and
- building trust with farmers and other stakeholders.

In the rest of this Part, we examine the extent to which Defra is doing this.

Putting effective core programme management structures in place

1.8 We have not examined Defra's core programme management structures in detail because there is already extensive ongoing scrutiny by both the Infrastructure and Projects Authority (IPA) and Government Internal Audit Agency (GIAA).

1.9 The IPA's two most recent reviews in July 2022 and September 2023 have been largely positive about Defra's management of the Programme. In its September 2023 review, the IPA review team was impressed with how the Programme had continued to deliver despite significant challenges, and highlighted several areas of good management including programme leadership and management, risk management, and stakeholder engagement. IPA's review identified the need to sharpen the plans for 2024 and improve the longer-term plans for the Programme to ensure high confidence in deliverability and scheduling of the more critical elements. The September 2023 review rated the Programme as 'amber' overall, reflecting the many external factors – for example the political context within which the Programme is working – and risks that are impacting and could impact the Programme.[2]

1.10 GIAA provides real-time assurance of the Programme. Its final position statement for the year 2022-23 was positive overall, highlighting effective governance at senior level, improving relations between Defra and its arm's-length bodies, and a good understanding of governance roles and responsibilities. It gave an overall 'moderate' delivery confidence rating but identified weaknesses in areas including benefits management and realisation.

2 IPA amber rating definition: Successful delivery of the programme/project to time, cost and quality appears feasible but significant issues already exist requiring management attention. These appear resolvable at this stage and, if addressed promptly, should not present a cost/schedule overrun.

Developing the digital infrastructure

1.11 The IPA review raised significant concerns about the Programme's digital systems and recommended that Defra makes rapid progress in its planning of future digital technology and highlighted the need for longer-term, more strategic approaches to planning digital systems. We have similar concerns, particularly around Defra's slow progress in building new systems to underpin payment and administration.

Digital infrastructure for the agri-environment schemes

1.12 For its agri-environment schemes, Defra decided to build on the legacy rural payments service that was used for payments to farmers under the EU's Common Agricultural Policy. Defra told us it has made incremental improvements, for example, by introducing automation, a new payments engine and a new front-end for customers. As a result, Defra has achieved a step-change in the average speed of processing SFI applications from several months in 2021 to eight days in 2024. We have documented the risks of relying on legacy systems in our 2022 report, *Modernising ageing digital services,* including the additional costs of operating them and the risks of operational failure and cyber security incidents.[3] At the time, we found that more than half (55%) of the 2,000-odd applications that were in use across Defra were in extended support and 30% were out of support.

1.13 To keep the legacy systems running, Defra has a contract that has been renewed several times. It is due to expire on 31 January 2025 and cannot be extended further. The contract provides maintenance, support and ongoing development of the rural payments service, which supports annual payments of £2.4 billion to approximately 90,000 farmers, but is becoming increasingly out-of-date. The need to address the issue of the contract expiry was first flagged in January 2020, but work has only been underway to explore possible options since 2022. In June 2023, the Programme commissioned a 12-week 'discovery' exercise to look at options, but this work took longer than anticipated and did not report until January 2024.

3 Comptroller and Auditor General, *Modernising ageing digital services*, Session 2022-23, HC 948, National Audit Office, December 2022.

1.14 Without continuation of the support provided by the current supplier, or the introduction of a new system, Defra's ability to deliver existing agreements and payments would be put at risk. There has been limited progress so far in developing a unified service to replace the legacy systems. A recent analysis by Defra suggests that procurement and mobilisation of a new platform, and migration to it, will take three years and so, although some elements of the new service may be available sooner, the full service would not be available for use until early 2028. This has left Defra in a high-risk situation. It is a major risk to delivery, Defra's reputation and the achievement of scheme outcomes. Defra is seeking to mitigate this by securing a new three-year contract through an open competition until the new unified service is ready for use. If Defra is unable to secure a contract for further support, the current supplier is obliged to provide 'termination assistance' for 18 months from the end of the contract and Defra told us this should enable ongoing payments to be made through it but would not permit further development of schemes.

Minimising major Programme design changes

1.15 To reduce uncertainty, it is important that Defra minimises the need for major changes to the Programme while continuing to evolve Programme design in line with the iterative approach. Government guidance for civil servants recognises the value of testing interventions in a real-life setting, as opposed to a model or simulation, to understand the potential impacts of interventions, but notes that this can be done in small-scale pilots, "where many different options are tested in many isolated trials".[4] By doing this, an iterative approach can be relatively low-risk when a system is already well-developed. We support Defra's approach of continuing to improve its schemes over time. However, for the Programme, the risks arising from applying an iterative approach to the live system are potentially higher because the Programme has made significant changes on a national scale, which has made it difficult for farmers to plan their businesses.

1.16 We think there are two key ways in which Defra can reduce the need for major changes to the design of the Programme:

- ensuring that the initial design of schemes and individual actions are tested and robust; and
- developing a longer-term view of the overall structure and design of the Programme as evidence becomes stronger.

1.17 Defra has put a lot of work into the first of these, including:

- co-design: extensive stakeholder and expert user engagement to design schemes and actions;
- tests, trials and pilots: to test schemes with a subset of farmers before they are fully rolled out;

4 Government Office for Science, *The civil servant's systems thinking journey: weaving systems thinking throughout the policy design process*, 2022.

- existing expertise: the content of individual actions has been developed with input from Natural England, the Forestry Commission, the Environment Agency, Defra policy teams and external practitioners and experts; and
- existing and new research, for example, Natural England's established monitoring and evaluation of previous agri-environment schemes, and Defra's qualitative impact assessment of land management interventions.

1.18 Defra's approach means that the design of the Programme is still evolving, and this increases the likelihood that it will need to continue to make design changes. However, both existing and emerging evidence should allow Defra to start to set out and communicate the design it is working towards, for example, by providing a broad indication of the intended mix of schemes. Doing so could help to avoid major course corrections. This would reduce uncertainty for farmers, facilitate the provision of better advice and support to farmers, and help Defra's delivery bodies to plan their resources.

Establishing robust monitoring to aid decision-making

1.19 As discussed above, the Programme's design is likely to change as Defra learns more about the impact of schemes and the response from farmers. To avoid unintended consequences and a reduction in value for money, Defra must understand the progress it has made, the impact of changes to the Programme's design, and when change is needed. There are a number of examples where Defra has responded effectively to feedback by making changes to the design of schemes and individual actions, including:

- improving access to schemes for tenant farmers;
- improving its offer to upland farmers;
- making SFI more flexible for farmers, resulting in a significant increase in take-up;
- changing the structure of its grassland habitat actions to ensure there is the right incentive to maintain existing grassland as well as to create new grassland; and
- capping land area for some SFI actions to avoid large amounts of land being taken out of food production.

1.20 However, Defra recognised it needed a more structured monitoring and decision-making approach based on consistent information. For example, the Programme had multiple processes for reporting progress, making it difficult to give a single picture of the Programme's progress. In response, Defra introduced a strategic management tool in February 2024 which brings together information on a range of strategic indicators of the Programme's progress and provides a red/amber/green rating against four tests for each indicator. This is being tested and refined. Developing the new approach has highlighted some limitations in Defra's data to assess progress, for example on environmental outcomes, as it has not set up the mechanisms to collect all the required data. Defra stated that, without a more comprehensive view of progress, appropriate scheme design changes and therefore progress against objectives could be limited. While Defra acknowledges it has work to do, it has established an environmental monitoring strategy and implementation plan and put in place a significant research programme to better understand environmental outcomes.

1.21 Defra previously used direct payments claimant data as a robust indicator of the incidence of farm businesses leaving the sector. As a result of the phasing out of direct payments, it has lost this important indicator of the impact of the Programme, and now relies on survey data, market monitoring and general feedback from stakeholders. Defra stated that this still provided good information to gauge the extent of exits from the sector.

Providing the right advice and support to farmers

1.22 The provision of high-quality advice to farmers is vital to the success of agri-environment schemes, and Defra acknowledges that, without further improvement, the existing model of advice provision is not adequate and will not ensure it achieves its objectives. Our discussions with a range of stakeholders highlighted shortcomings in the current advice available to farmers. For example, Defra's main mechanism for providing business advice is through the Programme's Farming Resilience Fund (FRF). Defra designed this fund to primarily focus on business resilience, supporting farmers to adapt their business at the start of the transition away from direct payments. Defra's evaluation of the fund found that farmers were generally positive about it and have made changes as a result of the support. Defra also funds advisers in its arm's-length bodies to provide advice to farmers on the ground and has a programme of work to extend and improve this. Stakeholders and farmers told us they would now welcome more holistic and tailored 'whole-farm' advice to help farmers decide which combinations of actions would be most beneficial to the environment and best suited to their business.

1.23 England's agricultural advice landscape is diverse, with providers that include commercial organisations, government bodies, environmental bodies and farmer-funded organisations. Currently, the Programme offers advice to farmers through the following:

- Defra has established the FRF with a total budget of £32 million where providers give free advice to farmers. As at 15 May 2024, 21,200 farmers had received direct face-to-face support across the three phases of the scheme. Defra has a target to provide support to 40,000 farmers by March 2025 with 32,500 face-to-face interventions. Defra states that it increased efforts to communicate the scheme to farmers and that these communications continue. Based on the current level of take-up, it is forecasting around 30,000 farmers will have received face-to-face support by scheme closure in March 2025.
- The Farming Advice Service (FAS), a Defra-funded service that offers technical advice to help farmers understand and meet the regulations that apply to their business.
- The Environment Agency has expanded its advice-led approach to supporting farmers with over 7,200 inspections between April 2021 and September 2023, resulting in over 11,400 improvement actions.
- The Countryside Stewardship Facilitation Fund (CSFF) supports individuals who act as facilitators to bring together groups of farmers, foresters and other land managers to improve environmental outcomes in their local area.
- Catchment Sensitive Farming is an advice-led initiative that provides advice to around 7,500 farmers per year, supporting a voluntary approach to meeting minimum standards to avoid air and water pollution, and signposts farmers to funding to support changes. It is delivered through advisers from Natural England and expert advisers from approved suppliers.
- Natural England advisers support every Countryside Stewardship higher-tier application with one-to-one specialist advice and Forestry Commission woodland advisers support the woodland specific options.

1.24 In January 2024, Defra set out how it plans to offer more advice and support by:

- facilitating farmers learning from each other through an improved and expanded CSFF;
- increasing quality advice, for example through better integration of the FAS with other services and initiatives;
- funding more sustainable farming advice to help farmers understand what opportunities are available to them and increase the adoption of tools such as for carbon audits and natural capital assessments.

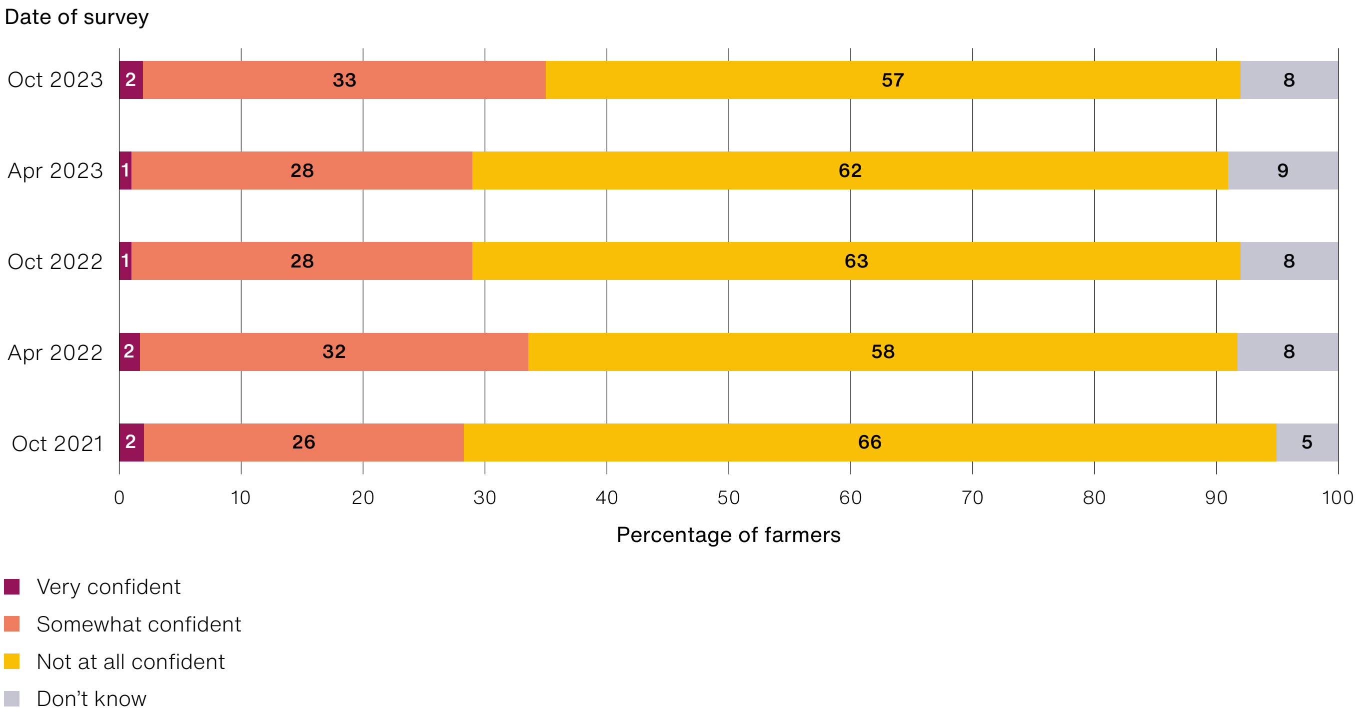
Building trust

1.25 Defra describes building the trust of farmers as "mission-critical to success" and acknowledges that the continuing farmer distrust in Defra and its agencies lowers participation in schemes and, ultimately, reduces the likelihood of achieving the Programme's outcomes. Defra's six-monthly farmer opinion tracker shows that, although there has been some improvement over the last year, trust in Defra and its agencies is still low: in October 2023, just over one in three farmers (35%) were very or somewhat confident in Defra's ability to deliver change to schemes and regulations (**Figure 3**).

Figure 3

Farmers' confidence in the Department for Environment, Food & Rural Affairs (Defra) and its agencies

Despite improvements over the last year, well over half of farmers have no confidence in the ability of Defra and its agencies to deliver change



Notes

1 Survey question: "How confident are you in Defra and Defra agencies' ability to deliver changes to schemes and regulations?"

2 The sample for each wave of the survey was approximately 6,000 farmers. The response rate ranged from 20% to 25%.

3 Figures do not always sum to 100% due to rounding.

Source: National Audit Office analysis of the Department for Environment, Food & Rural Affairs' twice-yearly Farmer Opinion Tracker for England

1.26 Defra's survey of SFI participants shows some improvement in the level of satisfaction with SFI. Ratings have improved over time with 48% rating it 8 out of 10 or better in 2023 compared with 28% in 2022 and only 15% for the SFI pilot. In 2023, 81% rated it 6 out of 10 or better. However, the proportion of farmers that found it easy to apply for SFI2023, at 74%, was 11 percentage points lower than for SFI2022, possibly reflecting the greater complexity of SFI2023.

1.27 Some stakeholders told us that farmers' uncertainty over how schemes will develop, and Defra's lack of transparency and caution in sharing information, in areas such as land use change and the impact on food production and farm viability, were eroding trust. Defra released take-up data by action across its agri-environment schemes in May 2024 and has started to provide more frequent data updates to stakeholders and regular updates on the Programme blog on gov.uk.

1.28 In January 2024, Defra announced that "around 50 new actions" would be added to SFI and Countryside Stewardship. It undertook to make available as many of these 50 actions as soon as possible and to confirm details of timescales for these actions as part of the full scheme details, early in 2024. In May 2024, Defra announced that 23 new actions, including precision farming, moorland, flood and water management, agroforestry and no-till farming will be added and will be available from July 2024. It has also provided an indicative list of SFI actions (which must be undertaken in combination with Countryside Stewardship higher-tier actions) that Defra expects farmers will be available to apply for. It has additionally provided further information on actions available under Countryside Stewardship higher-tier.

Part Two

Delivering environmental outcomes and food production

2.1 This Part examines the progress the Department for Environment, Food & Rural Affairs (Defra) is making to increase environmental outcomes from farming while also maintaining food production.[5]

Delivering environmental outcomes

2.2 To support delivery of its environmental goals, Defra has established a set of 16 environmental objectives for the Programme (see Appendix Two). These cover air quality; biodiversity; peatland and soil health; tree-planting and management; water quality and storage; and net zero. They support the delivery of some of the goals in the Environment Improvement Plan 2023 (EIP23) and delivery of targets under the Climate Change Act 2008. Defra has made progress in defining its objectives and in making them SMART (specific, measurable, achievable, realistic and time-limited). Defra's Agricultural Transition Plan update in January 2024 set out a range of objectives for the Programme and also where it will contribute to the EIP23 goals. While the Programme's objectives are at different stages of design development, if achieved, they would lead to a significant improvement to the environment. Defra has established three outcome-based objectives for water quality, air quality and carbon reductions with a number of output-based objectives sitting below these. Defra told us that these output-based objectives (for example, number of farmers adopting nature-friendly farming) allow for timely reporting. It continues to develop its understanding of the relationship between the outputs it is funding and outcomes, and measures outcomes more broadly. There are some weaknesses that need to be addressed:

- The bespoke species recovery objective (objective G) is an output target. A number of the Programme's output objectives relate to biodiversity and species recovery, for example, restoration and creation of wildlife-rich habitats. However, there is no single quantified outcome objective on species abundance, for example, butterfly population abundance on farmland. "Thriving plants and wildlife" is the 'apex' goal of the EIP23. Defra told us it is undertaking research and is planning to have a measure in place by March 2025.

5 We use the term "environmental outcomes" to refer to environmental, biodiversity and climate change outcomes.

- The 16 objectives do not include a specific objective to reduce pesticide use in farming to support the EIP23 Goal 4 'Managing exposure to chemicals and pesticides'. Defra told us that this is an aim of the Programme, but it was waiting for publication of the government's Pesticide National Action Plan before setting an objective, and that the Sustainable Farming Incentive (SFI) includes actions to reduce pesticide use. For example, the action 'No use of insecticide, nematicide or acaricide on arable crops and permanent crops' (IMP4) currently has over 400,000 hectares of land under this action.
- Further work is needed to remove ambiguities in the definitions of some objectives.

Progress in delivering environmental objectives through agri-environment schemes

2.3 Defra has developed three main agri-environment schemes within the Programme to support delivery of its environmental objectives: SFI; Countryside Stewardship; and Landscape Recovery (see Figure 1). As SFI was only fully launched in 2023 and Landscape Recovery schemes are still in the project development stage, it is too early to assess progress towards the Programme's environmental objectives. However, a number of Defra's objectives have interim targets with delivery dates not far into the future (2028 and 2030). For a number of the objectives there is a significant gap between the current position and the interim target, indicating that rapid progress will need to be made in areas such as sustainable soil management and reducing water pollution from agriculture. Both the Office for Environmental Protection and the Climate Change Committee think progress by the agricultural sector towards meeting environmental and climate change targets is currently insufficient.

2.4 Defra's focus is on a combination of increasing take-up of agri-environment schemes, and encouraging and enabling the right levels of ambition from farmers, as set out in the Agricultural Transition Plan update in January 2024. All of these will be required to deliver its environmental objectives. Some of Defra's environmental objectives will only be achieved with widespread take-up, for example, reducing water pollution from farming. One of its objectives is for "65 to 80% of land managers to adopt nature-friendly farming on at least 10 to 15% of their land by 2030". Defra is making progress as shown in **Figure 4** overleaf, with the total number of agri-environment scheme agreements doubling from 27,500 in 2020 to over 56,000 by April 2024. Defra reported that the total number of farmers in agri-environment schemes was 40,700 in April 2024, exceeding Defra's target of achieving 39,000 by early 2024.[6]

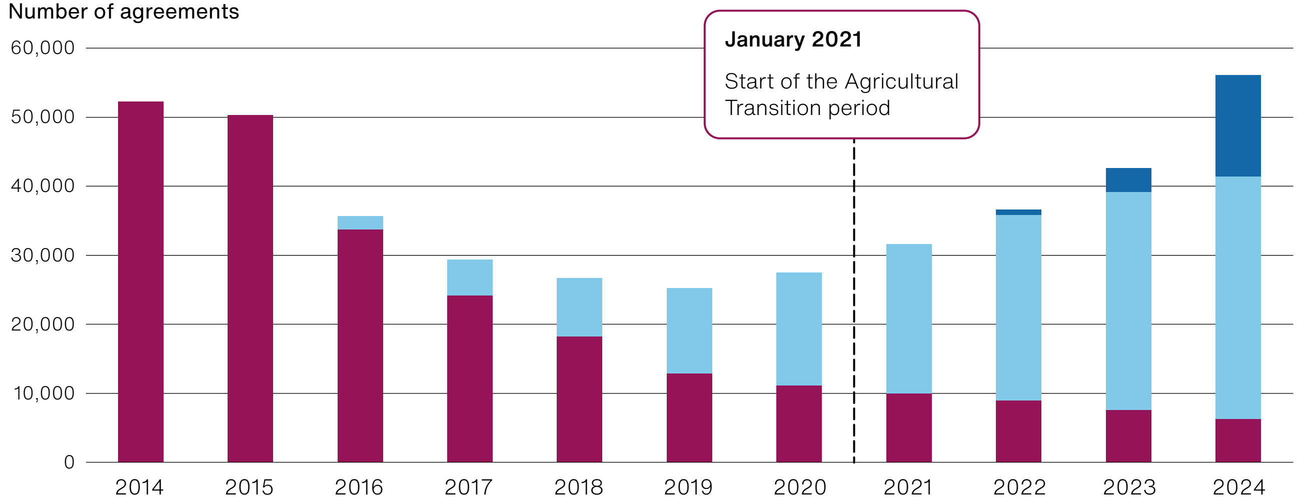
2.5 **Figure 5** on page 29 shows the rapid progress Defra is making on agreements for SFI. As at 1 April 2024, Defra had reached 17,690 SFI2023 accepted agreements.

6 There is a difference between number of agreements and number of farmers as some farmers will have more than one agreement.

Figure 4

The number of agri-environment scheme live agreements by scheme, 2014 to 2024

The number of agri-environment schemes fell between 2014 and 2019 as the Environmental Stewardship scheme came to a close, but has been growing since then



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Environmental Stewardship scheme	52,300	50,300	33,800	24,200	18,300	12,900	11,200	10,000	9,000	7,600	6,300
Countryside Stewardship scheme	0	0	1,900	5,200	8,400	12,400	16,300	21,600	26,800	31,600	35,100
Sustainable Farming Incentive (SFI)	0	0	0	0	0	0	0	0	800	3,400	14,700

Notes

1 Agri-environment schemes: Schemes set up to support farmers to manage their land in an environment-friendly way, often through payments for the delivery of environmental outcomes.

2 Environmental Stewardship scheme is no longer open to new applications.

3 Data for each year taken as of 1 April.

4 SFI data include SFI2022 (which will close once final payments are made), SFI2023 and SFI pilot.

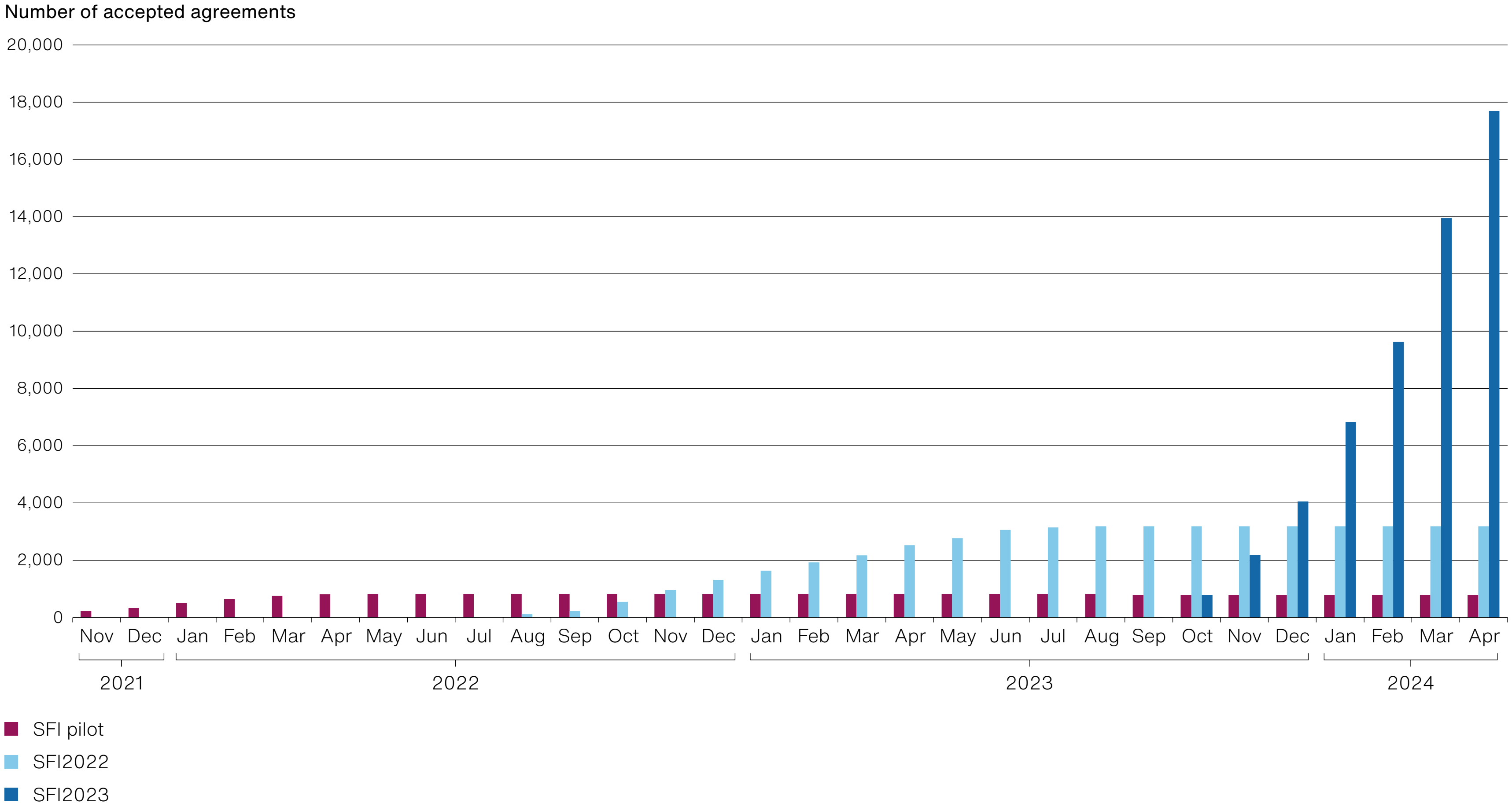
5 Data differ slightly from the Agriculture UK official statistics as the chart above takes data from April each year.

Source: National Audit Office analysis of Department for Environment, Food & Rural Affairs data

Figure 5

Total number of Sustainable Farming Incentive (SFI) accepted agreements, 2021 to 2024

The number of SFI2023 accepted agreements is increasing rapidly, reaching over 17,000 in April 2024



Notes

1 SFI: pays farmers for a range of actions to manage their land in a more sustainable way. Figure 6 shows the actions for which SFI2023 payments are available.

2 The figures for SFI2023 relate to accepted agreements rather than only those which are in place with farmers receiving payments.

3 SFI2022 agreements were live while final payments were being made. These have been closed once the payments have been finalised.

Source: National Audit Office analysis of Department for Environment, Food & Rural Affairs data

2.6 Take-up is important but the quality of the actions taken by farmers (whether in the right combination, in the right places and coordinated with other farms) is also a key factor in meeting environmental objectives. To encourage take-up, Defra simplified SFI in 2023, giving farmers a free choice on which actions they undertake instead of prescribing specific packages of actions. Defra acknowledges, in its Agricultural Transition Plan update in January 2024, that it needs to increase targeting, and has started to do this, for example, with premium payments for SFI actions with higher environmental outcomes. However, the Plan was vague about the timing of further moves towards this more targeted approach. While this targeted approach is being developed, actions and spend will be less optimally targeted and Defra acknowledges that it will be important to continue to optimise actions and spend over time. Some stakeholders raised concerns that Defra's current approach, where farmers have freedom to choose which actions they undertake, will not deliver its environmental objectives. Defra told us that the January 2024 update addresses these concerns by indicating the intention to move to a more targeted approach over time.

2.7 SFI2023 agreements in place as at April 2024 include actions relating to over two million hectares of land.[7] The total value of SFI2023 agreements was £308 million in 2023-24. The action attracting most funding was establishing and maintaining herbal leys, for which farmers are paid £382 per hectare per year (**Figure 6** on pages 31 and 32).[8] This one action accounted for around a quarter of the funding applied for (£74 million). Producing plans, for example, for soil management, integrated pest management or assessing hedgerow condition together accounted for 44% of the actions taken up so far and 11% of the value of payments. Payments for developing plans are not dependent on actions resulting from these plans, meaning the plans are not expected to generate any direct environmental benefits. Instead, the intention is for the development of plans to generate benefits by stimulating take-up of other actions. Defra told us it intends to monitor the impacts of these plans on the take-up of substantive actions in schemes, as part of its monitoring and evaluation strategy. In some cases, the plans must be produced by an accredited adviser and Defra reserves the right to see these plans, but Defra does not monitor their quality or check that they are implemented.

2.8 The overall balance of schemes and relative ease of access for farmers between SFI and more complex schemes (Countryside Stewardship higher-tier and Landscape Recovery) is also a factor in delivering environmental outcomes (see Figure 1). Countryside Stewardship higher-tier and Landscape Recovery are more complex, specific, and locally adapted actions. They are more expensive, but deliver greater returns in terms of environmental outcomes. Defra acknowledges that these schemes will be essential to delivering its environmental outcomes alongside the wider take-up of SFI and that it will be important to get the right balance of funding between schemes to ensure it delivers its environmental objectives in the most efficient way.

7 This may include some double-counting where more than one action applies to the same land or the same stretch of hedgerow.
8 Herbal leys are temporary grasslands made up of legume, herb and grass species.

Figure 6
Value of Sustainable Farming Incentive 2023 (SFI2023) agreements by action, April 2024

Establishing and maintaining herbal leys attracted more than double the funding for any other action

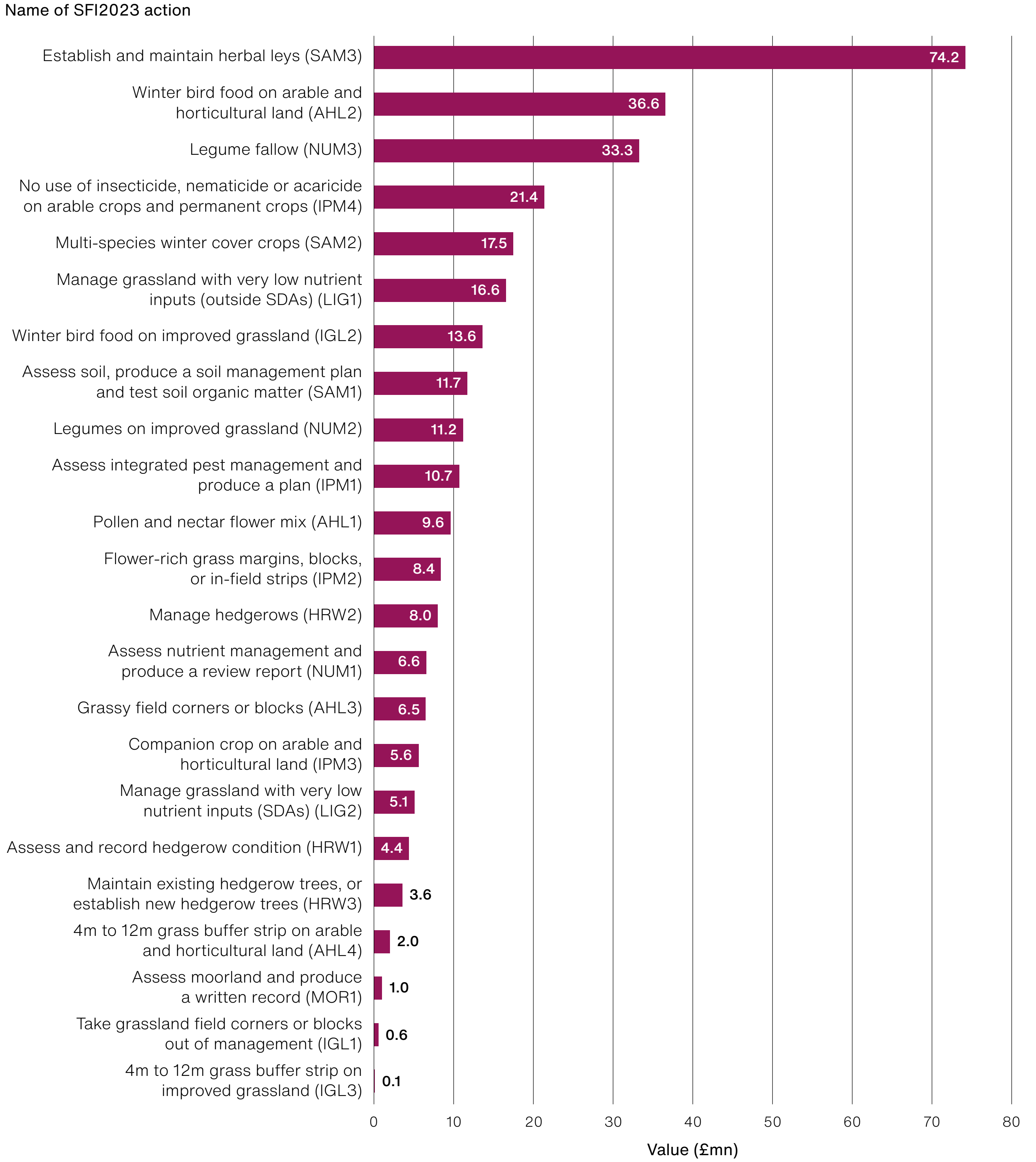


Figure 6 *continued*

Value of Sustainable Farming Incentive 2023 (SFI2023) agreements by action, April 2024

Notes

1 Sustainable Farming Incentive 2023: pays farmers for a range of actions to manage their land in a more environment-friendly way.

2 The management payment, which covers the management and administrative costs of participating in agri-environment schemes, is not included.

Source: National Audit Office analysis of Department for Environment, Food & Rural Affairs data

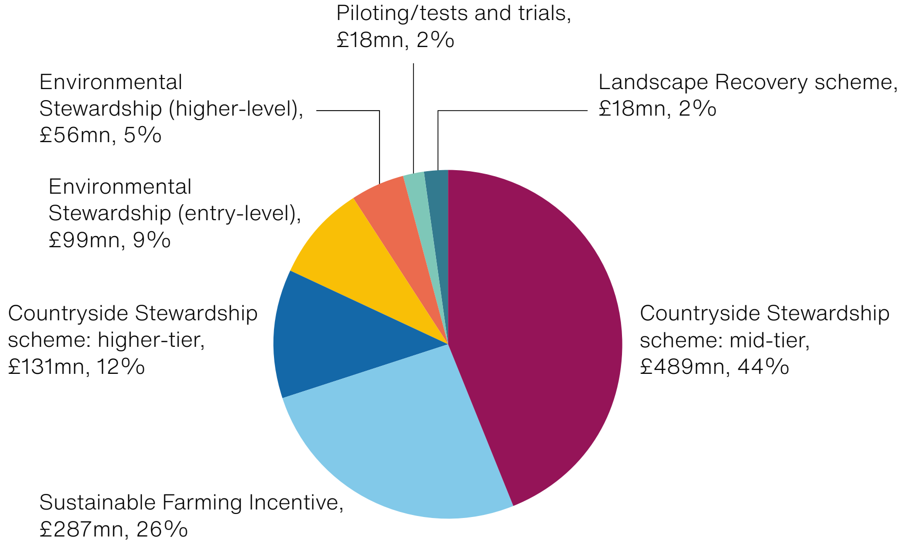
2.9 In its 2021 strategic Programme business case, Defra set out its intention for a "roughly" even split of spend between SFI, mid- and higher-tier schemes by 2028. Defra told us this was based on an earlier version of the Programme's overall design and does not reflect its current intentions. Defra has not said how it expects overall funding to be split between schemes. Current forecasts indicate that Countryside Stewardship higher-tier, Environmental Stewardship higher-level and Landscape Recovery schemes will account for 19% of spend on agri-environment schemes in 2024-25 (**Figure 7**). For Landscape Recovery, the 22 projects approved in round one of the scheme are still in the project development stage. A further 34 projects were selected in round two. Upland farmers have raised concerns about the limited access to higher-tier schemes, which have historically seen high take-up by upland farms. Defra has committed to double the number of higher-tier agreements per year by March 2026, and to continue to develop and extend Landscape Recovery.

2.10 We are concerned that, without some limits, high demand for SFI could crowd out funding for more complex schemes (Countryside Stewardship higher-tier and Landscape Recovery) resulting in more limited environmental outcomes overall.

2.11 Another factor in reducing environmental outcomes is the level of deadweight loss (paying farmers for actions they have already undertaken or would undertake without payment). Some deadweight loss is inevitable to avoid perverse incentives and Defra considers deadweight loss when designing actions and payments in schemes. For example, if payments are only made for new features and habitats, this could create incentives to destroy and subsequently re-create habitats to gain payment. Also, Defra recognises that some farmers have been providing public goods for which they have not previously been paid and therefore that, for fairness, existing provision should be recognised. Changes to the regulatory baseline is one way to reduce deadweight loss. Defra stated that there is no agreed policy direction or detailed plans to make changes to the regulatory baseline. Defra's Programme business case (September 2021) did indicate that reducing financial support for some activities as they become standard industry practice and shifting them into the regulatory baseline is an option. However, we do not think Defra has made it clear enough to farmers that this could be an option for certain actions as this was not set out in either the original Agricultural Transition Plan announcement (November 2020), or the update in January 2024.

Figure 7
Forecast distribution of expenditure on agri-environment schemes in 2024-25

More complex agri-environment schemes are forecast to make up 19% of total spending on agri-environment schemes in 2024-25



Notes

1 Agri-environment schemes: Schemes set up to support farmers manage their land in an environment-friendly way, often through payments for the delivery of environmental outcomes.

2 More complex agri-environment schemes comprise: Countryside Stewardship higher-tier; Environmental Stewardship (higher-level); and Landscape Recovery.

3 Environmental Stewardship scheme is no longer open to new applications.

4 Landscape Recovery: will comprise a small number of long-term projects (20 years plus). Early years funding is to support project development.

5 Figures are shown in £ million out of a total of £1,098 million.

6 'Other' expenditure of £5 million is excluded, representing funding allocated to respond to the Dartmoor Review.

Source: National Audit Office analysis of Department for Environment, Food & Rural Affairs data

Environmental regulation

2.12 Under the EU's Common Agricultural Policy, cross-compliance was a set of minimum requirements linked to payments and was used as the main way of enforcing environmental regulations for farming in England. Farmers had to meet these requirements if they were claiming certain payments. Monitoring of cross-compliance was undertaken by the Rural Payments Agency, with non-compliance resulting in sanctions including financial penalties. Beyond this, activity by the Environment Agency (EA), a key environmental regulator, was limited.

2.13 Cross-compliance ended on 31 December 2023 as direct payments became ‘delinked’ from the need for land or entitlements to receive payments. While cross-compliance was the main environmental regulatory and enforcement regime, most of the rules are underpinned by domestic legislation which will continue to apply. However, there are gaps where domestic legislation does not cover all the cross-compliance rules, including soil protection, hedgerows, watercourse buffer strips, and boundaries such as dry-stone walls. Defra has determined that the only substantive gap was in relation to hedgerows. The new Management of Hedgerows Regulations, which became law in May 2024, put the baseline for hedgerow management practices into law.

2.14 The Agricultural Transition Plan sets out Defra’s intention to improve farming regulation to make it clearer, fairer and more effective. The Agricultural Transition Plan update in January 2024 highlighted some of the actions Defra has taken to move from a ‘detect and penalise’ approach to an ‘advise and prevent’ approach. Defra cites a reduction in the number of complaints from farmers as any early indicator that it is making progress.

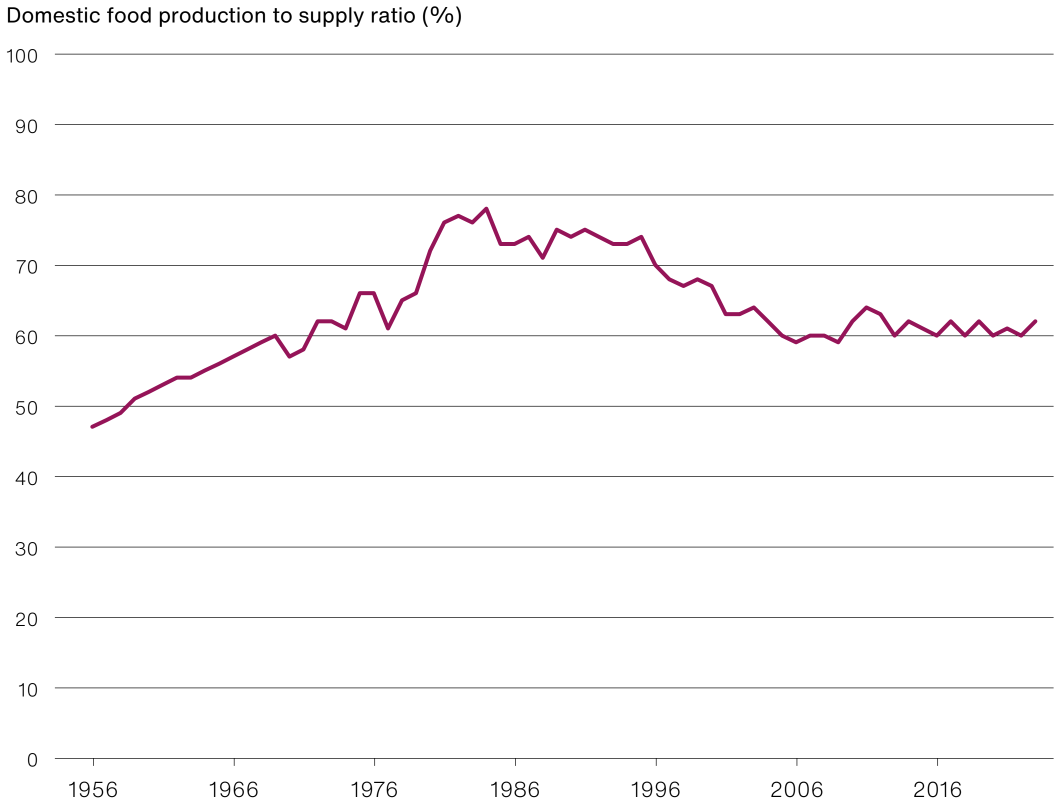
2.15 In the longer term, the indicator of Defra’s success in improving farm regulation will be the extent to which regulatory compliance improves, although other measures such as the slurry infrastructure grant will also impact compliance levels. With more resources, EA has increased its annual farm inspections from a few hundred a year between 2012-13 and 2020-21 to around 4,000 a year (around 4% of farms) in 2022-23 and 2023-24. EA inspects farms to check compliance against environmental regulations governing the storage and application of fertilisers, aspects of livestock management, and other aspects of farming infrastructure and practices where there is a risk of pollution or environmental harm. EA found non-compliance in around 50% of farm inspections, with at least one area of non-compliance with environmental regulations, in 2022-23 and 2023-24. Defra told us that EA’s inspections are risk-based, so are likely to find a higher rate of non-compliance than there is within the farming sector as a whole. As the changes to regulation have only recently been introduced, and EA has significantly changed its inspection regime, there is not yet a reliable time series to assess progress.

Maintaining food production

2.16 The proportion of food we consume that is produced in the UK has remained relatively stable, at around 60% over the last 10 years (**Figure 8**). The government has committed to maintain this level of domestic food production. As part of the Programme’s vision of a renewed agricultural sector, producing healthy food for consumption, the Programme contains a commitment to “broadly maintain the current level of food production we produce domestically”.

Figure 8
Domestic food production to supply ratio, 1956 to 2023

The ratio of domestic UK food production to supply rose to a peak of 78% in 1984 but has remained relatively stable at around 60% over the last 10 years



Note

1 Food production to supply ratio (commonly referred to as the 'self-sufficiency ratio'), is calculated as the farmgate value of raw food production divided by the value of raw food for human consumption.

Source: National Audit Office analysis of Department for Environment, Food & Rural Affairs data

2.17 There are potential trade-offs between delivering environmental objectives and maintaining food production, for example, if a significant area of productive farmland is used solely to deliver environmental outcomes. They can also be complementary, for example, improving soil health has long-term benefits for food production. Defra has been clear that these objectives have to be delivered in tandem. Defra looks to incorporate these objectives when designing its schemes, for example, by requiring Landscape Recovery applications to assess their impacts on food production.

2.18 How well these objectives are balanced will depend largely on how land is used, and Defra is undertaking research to understand the tensions and trade-offs and support an evidence-based approach to land-use decisions. Defra intends to publish this analysis as part of its Land-Use Framework, but has not yet done so. The type of changes in land use that are likely to result from the delivery of statutory environmental and climate change targets will depend on future policy choices as well as the decisions of farmers and land managers. Some changes will involve converting land from agricultural production to delivering environmental outcomes, for example through woodland creation and peatland restoration. Some of which will be small, unproductive areas in fields that otherwise continue to produce food. Other changes will involve land-sharing, balancing food production and delivering environmental outcomes, for example through systems like agroforestry and wood pasture.

2.19 Defra's research also highlights that targeting changes in the use of agricultural land based on the productivity of the land would reduce the impact on food production. As set out in the government's *National Food Strategy*, the least productive land is often the most suitable for delivering environmental outcomes.[9] Improvements in farm productivity, such as increasing crop yields, would reduce the impact further. In addition to the Programme and wider land-use changes, other drivers such as trade policy will also drive trends in domestic food production. Defra's analysis shows that the scale of land-use change required means that trade-offs will need to be minimised to maintain domestic food production through, for example, spatially targeted schemes, technological innovation, investment in farmer skills, and improvements in overall productivity, for example, through improved nutrient and pest management (supported by SFI).

2.20 The Programme has some elements of spatial targeting. For example, the methodology for calculating payment rates for individual actions is based on income foregone plus costs of the median farm. This provides a built-in incentive for less productive land to be used because farms with land that is less productive than the median should be able to earn more by carrying out environmental actions than by producing food. The Programme's agri-environment schemes also have actions which are targeted at specific land types, for example, SFI moorland actions.

9 *National Food Strategy: an independent review for government: The evidence*, 2021.

2.21 Over the long-term, Defra expects these levels of land-use change to be consistent with broadly maintaining or increasing food production. It has carried out some provisional analysis to support the development of the Land-Use Framework, but has not yet published it. This shows that the government's priorities for land-use change will, in isolation, reduce food production by proportionately less than the total expected land-use change. This is due to an expectation that firstly land which is less productive would be taken out of production and secondly spatial targeting of agri-environment schemes would ensure actions are taken on land which is best suited to delivering environmental outcomes. The analysis shows that the impact on food production could be fully or partly offset by technological progress and productivity improvements, leading to improved yields, and improved growing potential due to climate change. According to Defra's analysis, to maintain the current level of food production, the required annual growth in output on land remaining in production would be below the annual growth over the last 15 years. Whereas to maintain food production proportionate to the expected growth in population would require growth slightly higher than over this period.

2.22 Research by the Nature Friendly Farming Network and the Wildlife Trusts examines how food production can be compatible with restoring and improving nature and mitigating climate change. Their report *Farming at the sweet spot* sets out the potential for farming to contribute to nature recovery and increase profitability at the same time.[10] Defra stated that the design of SFI is aligned with the approach outlined in this research.

10 Nature Friendly Farming Network and the Wildlife Trusts, *Farming at the sweet spot*, June 2023. Available at: www.nffn.org.uk/assets/reports/farming-at-the-sweet-spot_1.pdf

Part Three

Securing a thriving farming sector

3.1 This Part assesses the measures in the Farming and Countryside Programme (the Programme) to support farm businesses. It covers government financial support for the farming industry, farm business viability, the need for productivity improvements and how the Department for Environment, Food & Rural Affairs (Defra) aims to achieve them.

Funding for the farming sector

3.2 Defra has not met its commitment to maintain the level of funding for the farming sector at £2.4 billion each year between 2020-21 and 2024-25. It expects to spend £2.9 billion[11] in the final year (2024-25) which means it will meet the government's revised commitment to spend £12 billion between 2020 and 2025 (**Figure 9**). However, the effect of inflation has reduced the real value of government support by 12% between 2020-21 and 2022-23.[12] While Defra has increased payment rates for individual actions to reflect inflation, the overall level of funding has not increased, meaning it will deliver less than originally expected for the funding available. The level of funding for 2020-21 to 2024-25 was based on the historic level of EU funding rather than an assessment of what is required to meet Defra's objectives for the Programme.

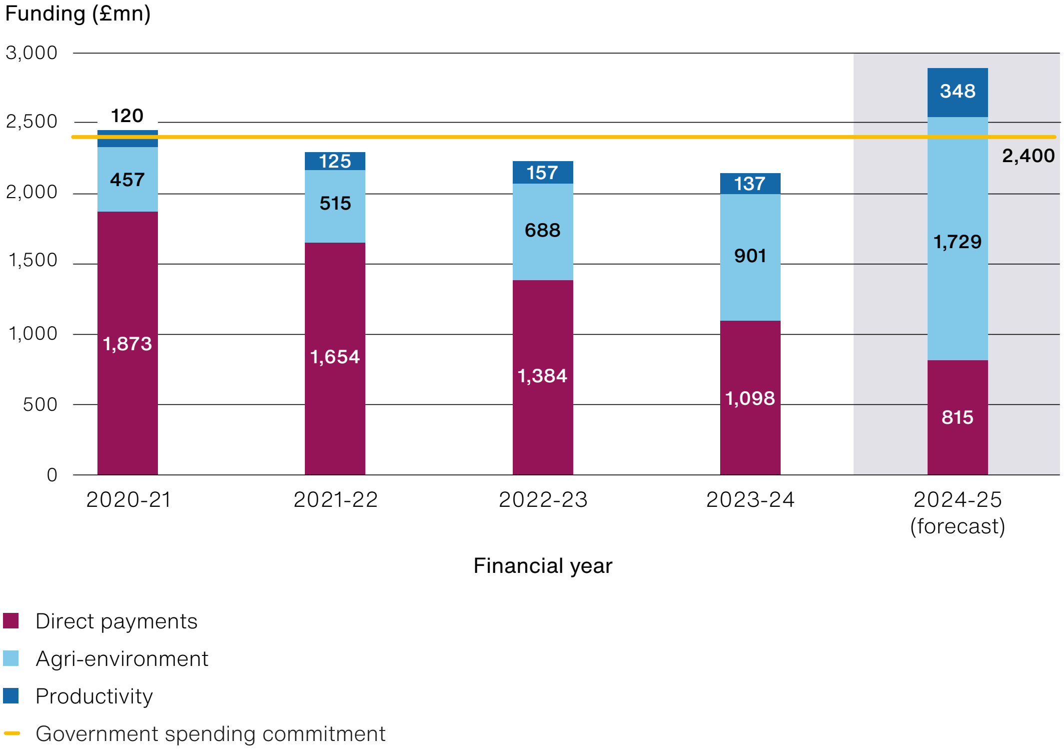
11 The accounting recognition point for the Sustainable Farming Incentive (SFI) schemes is the day before the anniversary of the start date. Some applications (worth £200 million) that start in 2024-25 will not be accounted for until 2025-26. We have included this £200 million in the total spend for the period.

12 Based on a GDP deflator measure of inflation.

Figure 9

Funding for the farming sector in England 2020-21 to 2024-25

The Department for Environment, Food & Rural Affairs (Defra) has not met its commitment to spend £2.4 billion each year between 2020-21 and 2023-24



Note

1 The accounting recognition point for the Sustainable Farming Incentive schemes is the day before the anniversary of the start date. Some applications (worth £200 million) that start, and payments received by farmers, in 2024-25 will not be accounted for until 2025-26. We have included this £200 million in the 2024-25 spend.

Source: National Audit Office analysis of Department for Environment, Food & Rural Affairs data

3.3 Defra acknowledges that some of the recent measures it has chosen to increase spending will not directly support farmers and that others will reduce value for money in the short term (compared to the level of value for money if these new measures had not been introduced) as they increase spending without any additional outcomes:

- **Including spend that was not originally in the Programme budget:** the Programme is seeking opportunities to fund other areas of work across Defra that fall within the Programme's remit. For example, Defra has allocated £75 million of the Programme budget to fund internal drainage boards to support their work on managing water levels on agricultural land. This funding will not go directly to farmers, although it does benefit farmers.
- **Increasing the value of some payments to farmers:** for example, Defra has doubled the management fee, which is a payment to farmers covering the management and administrative costs of participating in agri-environment schemes. It has also increased the proportion of the equipment cost covered by Defra in some productivity grants (**Figure 10**). Defra is aware that these reduce value for money but considers it will lead to increased take-up, particularly from smaller farms, and so provide greater outcomes.

Figure 10

Estimated costs of some of the measures taken by the Department for Environment, Food & Rural Affairs (Defra) to increase spending, 2024-25 to 2027-28

Some of the measures Defra is taking have significant costs and could reduce value for money

Action	Estimated cost 2024-25	Estimated cost 2025-26 to 2027-28
	(£mn)	(£mn)
Doubling the management fee to £40 per hectare per year for the first year of agreements	17	26
Expanding the management fee to cover the combined offer	10	66
Increasing the proportion of the equipment cost covered by Defra in productivity grants (farming equipment and technology grants; water management grants; slurry management grants)	25	99

Notes

1 Defra provided a combined estimated cost for the years 2025-26 to 2027-28.

2 The management fee payment is capped at a maximum of 50 hectares per farm.

3 Combined offer is the joint Sustainable Farming Incentive and Countryside Stewardship mid-tier.

Source: National Audit Office analysis of Department for Environment, Food & Rural Affairs data

Farm viability

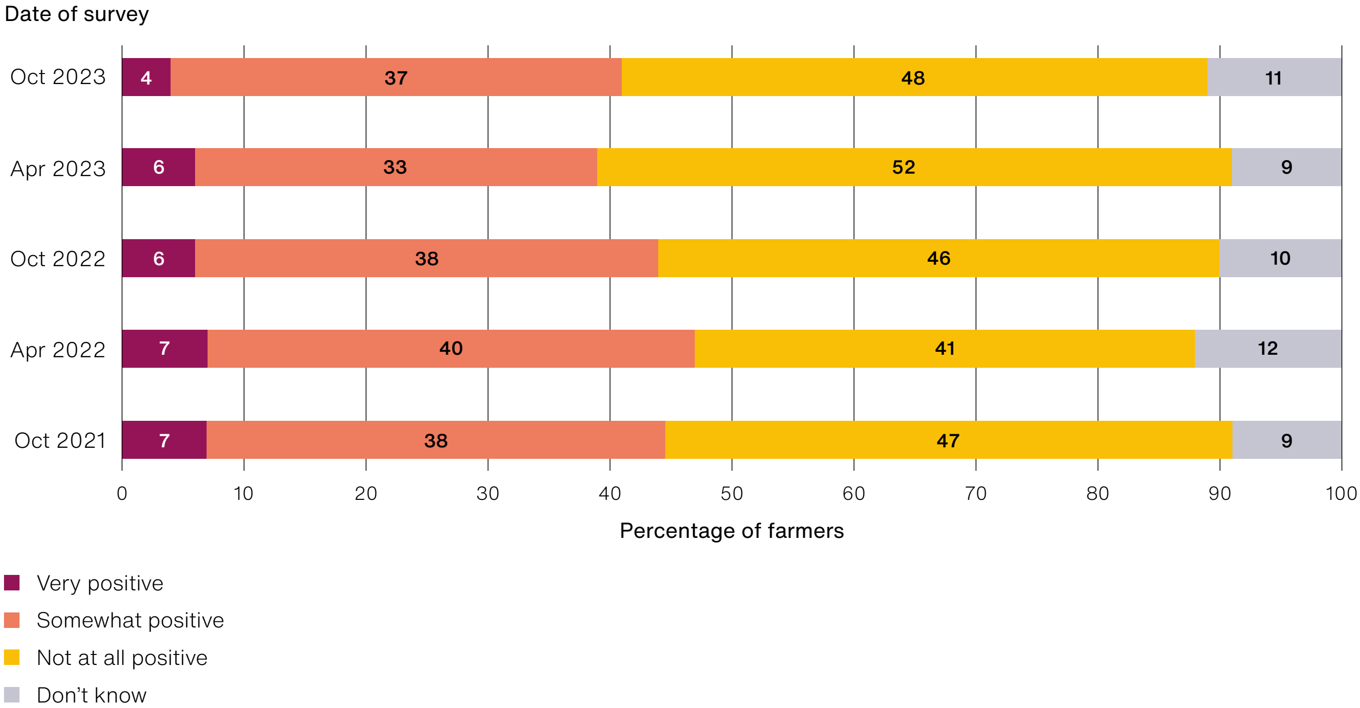
3.4 One of the Programme's objectives is to create "a thriving agricultural sector". Not all farms made a profit even when they were receiving direct payments: over the three years before the start of the reduction in direct payments in 2020-21, 16% of farm businesses in England made a loss, on average. Profitability varies by farm type: only 9% of cereal farms were making a loss before the transition, compared with 26% of lowland grazing livestock farms.

3.5 Many farmers are not confident in their future in farming. Defra's most recent farmer opinion tracker (October 2023) showed that nearly half (48%) of farmers were not at all positive about their future in farming (**Figure 11**).

Figure 11

Farmers' views about their future in farming, October 2021 to October 2023

Nearly half (48%) of farmers say they are not at all positive about their future in farming



Notes

1 Question from Department for Environment, Food & Rural Affairs farmer opinion tracker: "Personally, taking into account the changes to existing payments/regulations and new schemes that will be available, how do you feel about your future in farming?"

2 The sample for each wave of the survey was approximately 6,000 farmers. The response rate ranged from 20% to 25%.

3 Figures do not always sum to 100% due to rounding.

Source: National Audit Office analysis of Department for Environment, Food & Rural Affairs data

Modelling farm viability

3.6 The Programme's grant schemes were not designed to be a like-for-like replacement of direct payments. They are not a like-for-like replacement, as farmers needed to do very little to receive direct payments, but the new schemes require farmers to spend time and money implementing the actions.

3.7 Defra has modelled the impact of the agricultural transition on farm income and farm viability. Its conclusion from the modelling is that, across all farms and farm types, there is a plausible route to maintaining viability for the vast majority of farms and that maintaining viability for most farms will involve thinking about their core business and responding to the loss of subsidy while also participating in grants and schemes.

3.8 The modelling is highly uncertain, and Defra views it as indicative only. The modelling attempts to estimate the net impact of farming reforms on farm viability, not to predict farm viability itself, which will also be affected by wider factors. It does not take account of wider market influences, such as price fluctuations, which have the potential to far outweigh the impact of the Programme and also does not make any assumptions about the underlying trend in productivity growth. In June 2024, Defra updated the model to reflect recent changes to the grant schemes, and it will need to continue to make updates as it iterates the schemes over time. Because Defra's modelling is based on the farm business survey of larger farms, it does not include very small farms: the analysis covers around 55% of farms. However, these very small farms account for only 8% of the total area of farmed land and only 2% of agricultural production, and food production is not the only source of income for many of the farmers.

3.9 The modelling indicates that 92% of farm businesses in scope of the modelling have the opportunity to return to viability from 2028 onwards, all other factors remaining equal.[13] This opportunity is based on farmers being able to increase their productivity so that less productive farms match the performance of their more productive peers with the same structural characteristics (by farm size, region, tenancy, farm type and favoured area status). Defra's modelling does not indicate the expected level of performance improvement, and Defra recognises that some farm businesses who have the opportunity to return to viability may not do so.

13 In the modelling, Defra defines viability as either a positive or maintained level of farm investment income. This allows for some farm businesses to continue making a loss so long as this loss does not increase. This definition recognises the importance of off-farm business income in supporting the current operation of many farm businesses.

3.10 Defra's modelling has three 'layers': complete removal of direct payments, then the addition of new grant schemes, and finally possible productivity improvements by farms. The modelling indicates that the following:

- **Complete removal of direct payment:** without direct payments or the new grant schemes, only 35% of farms would maintain viability from 2028 onwards without any other changes such as productivity improvements. A third of farm businesses could need cost efficiencies of more than 10% to be viable.
- **The addition of new grant schemes:** including Defra's assumption of take-up of the new grant schemes (alongside changes to rents and diversification), the model indicates that 39% of farms may need to make productivity improvements to maintain viability from 2028 onwards, and one in nine farms could need to make productivity improvements of more than 10% to maintain viability.
- **Productivity improvements:** Defra has modelled the scenario that less viable farms improve so their productivity matches that of the 75th percentile of their peers with the same structural characteristics (by farm size, region, tenancy, farm type and favoured area status). These changes would be needed over the course of the seven-year agricultural transition period (2021 to 2028). Defra views this as a realistic scenario and expects that phasing out direct payments will provide the incentive for farmers to change their behaviour and seek out productivity gains. The modelling shows that, if all of the less viable farms achieve this, 92% of farms would be viable. The remainder would require productivity improvements beyond the 75th percentile of modelled performance to maintain viability. However, if the productivity of these farms improves in line with long-term historical trends, between 94% and 96% of farms would be viable. If half of the less viable farms make improvements so their productivity matches that of the 75th percentile of their peers, 86% would be viable. Defra expects its new schemes will help farms maintain viability but anticipates that the loss of profit from direct payments will far outweigh the profit from these new schemes. Defra's analysis shows that, if all farms that required further productivity improvements to maintain viability reached the 75th percentile of performance, average profits across the whole farming sector would increase by 7.5% to £56,900, compared to levels before the agricultural transition. Only the largest farms (over 200 hectares) would see a fall in profits.

3.11 Defra concludes that, to maintain viability, most farm businesses will have to make changes to their business, such as productivity improvements, in addition to participating in its grant schemes. The modelling indicates that 8% of farms in scope of the modelling would have to go beyond the productivity improvements modelled by Defra to remain viable once direct payments are removed, for example, through further participation in schemes or greater diversification. Alternatively, these farmers may choose to stay in farming even if they make a loss, or leave the sector entirely. In 2022, Defra ran a lump sum exit scheme which offered farmers who wished to leave farming an upfront payment. By June 2024, Defra had made 1,131 lump sum payments. The exit scheme has now closed to new applicants. Grazing livestock farms, which made up over 40% of farm holdings in England in 2022, are the most vulnerable to the removal of direct payments (**Figure 12**). Although Defra has taken some action to address this, such as in 2024 increasing the payment rates for some actions that benefit upland grazing livestock farms, it is not clear what will happen to the businesses that are no longer viable (for example, whether they will remain in agriculture).

Achieving productivity improvements

3.12 With productivity improvements key to keeping farms viable and maintaining food production, Defra aims to increase farm business productivity by 4% by 2028 against a 2021 baseline, and by a further 15% by 2048. Defra considers farms can improve their productivity by, for example, adopting new technologies and best practice as well as improving animal health and welfare and better nutrient management. Defra uses total factor productivity to monitor agricultural productivity. This is a long-established measure of how efficiently the agricultural industry turns inputs (such as fertilisers and labour) into outputs (such as wheat and milk). Total factor productivity in England has increased by 31% since the measure was introduced in 1991, an average annual increase of around 1%, albeit with annual fluctuations.

3.13 Defra considers direct payments to offer poor value for money and to have held back productivity growth. One of Defra's key assumptions on farm viability is that most of the necessary productivity gains will occur as a result of the removal of direct payments because farmers have a strong incentive to increase productivity to compensate for the loss of direct payments. However, the evidence to support this assumption is inconclusive. Defra told us farmers are increasing diversification and efficiency since it started to reduce direct payments and statistics show that agricultural rents have been falling in real terms, which causes productivity to increase. However, Defra acknowledges that there is uncertainty around whether all farmers can make the scale of changes needed. Defra has not done its own analysis to assess the likelihood that less productive farms will increase their productivity to match their better performing peers. In addition, Defra assumes that removing direct payments will encourage more entries and exits to the farming sector, also increasing overall productivity as it expects new entrants to be, on average, more productive.

Figure 12

Proportion of farm businesses in scope of Defra's modelling that have the opportunity to maintain viability under different modelled productivity scenarios, once direct payments are removed

Grazing livestock farms are the most vulnerable to the removal of direct payments

Farm type	Proportion of farms with the opportunity to maintain viability, assuming estimated take-up of new schemes but without any additional changes, for each productivity improvement scenario			
	No productivity improvements	With productivity improvements to close half the productivity gap with more productive peers	With productivity improvements to match performance of more productive peers	Farmers who would need to make changes beyond modelled assumptions to maintain viability
	(%)	(%)	(%)	(%)
Lowland grazing livestock	40	70	78	22
Less favourable area grazing livestock (upland farms)	48	67	82	18
Mixed	55	82	91	9
Dairy	65	97	98	2
Cereal	76	99	100	0
General cropping	72	94	100	0
Pigs, poultry and horticulture	87	100	100	0
All farms	**61**	**86**	**92**	**8**

Notes

1 The table shows the proportion of farm businesses that have the opportunity to maintain viability after the removal of direct payments, assuming likely take-up of new schemes and with different degrees of productivity improvements. The left-hand column shows this assuming farms make no productivity improvements. The columns to the right show scenarios where farms make different levels of progress to match the productivity of the farm business at the 75th percentile of farms with the same structural characteristics (by farm size, region, tenancy, farm type and favoured area status).

2 Because Defra's modelling is based on the farm business survey of larger farms, it does not include very small farms: the analysis represents around 55% of farms. These very small farms account for only 8% of the total area of farmed land and only 2% of agricultural production, and food production is not the only source of income for many of the farmers.

Source: National Audit Office analysis of Department for Environment, Food & Rural Affairs modelling

3.14 Defra expects productivity to increase through several routes in addition to the phasing out of direct payments, including the new grant schemes, actions taken through agri-environment schemes, improved advice and guidance and factors not wholly driven by government policy, such as technological advances.

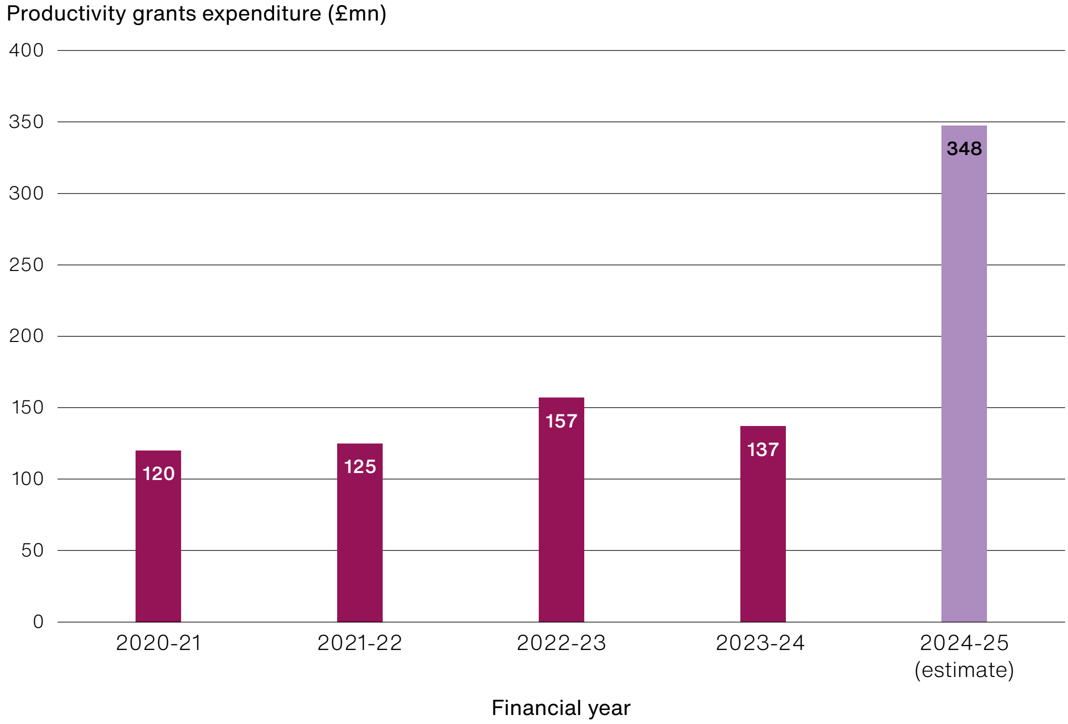
Productivity grant schemes

3.15 There are six grant schemes in the Programme which aim to improve productivity through investing in equipment, technology and infrastructure. For example, the farming equipment and technology fund pays for equipment (such as a transplanter for seedlings) to increase the speed at which activities can be done. Defra expects to spend £887 million on these productivity grants between 2020-21 and 2024-25, 7% of the total Programme spend (**Figure 13**) and reports good take-up so far. Most of the grants cover 40% or 50% of the cost of a project.

Figure 13

The Department for Environment, Food & Rural Affairs' (Defra's) spend on productivity grants, 2020-21 to 2024-25

Defra expects to significantly increase spending on productivity grants in 2024-25



Source: National Audit Office analysis of Department for Environment, Food & Rural Affairs data

3.16 The number of grants available is small in comparison to the number of farms, for example, by June 2024, there have been only 242 successful applications for the Farming and Technology Fund, and 4,529 for the Farming Equipment and Technology Fund, out of 102,000 farm holdings in England. Defra has evaluated these schemes and understands which businesses are benefitting and which are not. For example, the evaluations indicate that the Farming Equipment and Technology Fund is having a positive impact on productivity. There are some barriers to take-up: the cost of the equipment must be paid upfront by the farmer before being reimbursed by Defra, and Defra only pays a proportion of the total cost (around 50%). Defra told us it keeps grants under review and has increased how much it contributes to help smaller farms access these grants.

Other ways to improve productivity

3.17 In addition to the targeted productivity grants, some of the Sustainable Farming Incentive (SFI) actions may also help long-term productivity, farm efficiency and resilience. These include animal health and welfare improvements, nutrient management, pest management and soil management. The SFI actions on soils, with a focus on improving soil health and structure, are intended to improve productivity and benefit food production. For example, Defra pays £129 per hectare per year to farmers to have a multi-species cover crop over the winter months. One of the Programme's objectives is to have 60% of agricultural soil managed sustainably by 2030, but Defra does not yet have a baseline to measure progress against.

3.18 Defra expects that the business support it provides to farmers through the Farming Resilience Fund will stimulate improved agricultural productivity. In a survey conducted between December 2023 and January 2024, 49% of those who had received advice through the Fund said their knowledge of how to make productivity improvements had significantly or somewhat improved.

Appendix One

Our audit approach

Our scope

1 This is our third report on the Farming and Countryside Programme (the Programme). Our last report, published in September 2021, focused on the Environmental Land Management scheme. This report is an examination of the Programme as a whole. We did not consider issues relating to current or future levels of fraud and error.

Our evidence base

2 We carried out evidence collection and analysis between October 2023 and July 2024.

Interviews

3 Over this period, we conducted a total of 46 interviews. These were with government officials in the Department for Environment, Food & Rural Affairs (Defra), the Rural Payments Agency, the Environment Agency, the Forestry Commission and Natural England. We also carried out interviews with environmental and farming organisations including the Royal Society for the Protection of Birds (RSPB), the Soil Association, the Nature Friendly Farming Network, the National Farmers' Union (NFU) and the Tenant Farmers Association (TFA). These organisations were selected because they were closely involved in working with Defra on the co-design and further development of the Programme.

4 We interviewed some of the stakeholder organisations a second time to assess their views following the publication in January 2024 of Defra's Agricultural Transition Plan update.

5 We conducted two online focus groups with farmers, which were organised with the assistance of NFU and TFA.

6 We analysed the interviews and focus groups by identifying key findings and assessing these against the key study themes.

Document review

7 We reviewed relevant documents throughout the study period. This included documents such as board minutes and papers, policy documents, project progress reports and academic research papers.

Site visits

8 We visited two farms, the RSPB's Hope Farm in Cambridgeshire and a farm in East Sussex, to observe how the Programme was being implemented on the ground and to discuss relevant issues with farm managers. The visits took place in March 2024.

Quantitative analysis

9 Between January and July 2024, Defra provided a range of relevant data in response to our requests. We undertook quantitative analysis, looking at areas such as scheme take-up and Programme spend.

10 We reviewed Defra's modelling outputs. The model analysed the impact of the reduction in direct payments, and the extent of productivity improvements farmers would need to make to remain financially viable.

Appendix Two

Environmental objectives for the Farming and Countryside Programme

1 **Figure 14** on pages 51 and 52 sets out the environmental objectives for the Farming and Countryside Programme.

Figure 14

Environmental objectives for the Farming and Countryside Programme

To support delivery of its environmental goals, the Department for Environment, Food & Rural Affairs has established a set of 16 environmental objectives for the Farming and Countryside Programme (the Programme)

National Audit Office reference	Name	Interim objective	Overall Programme objective
Air quality			
A	Ammonia emissions.		Deliver 4.1 kilotonnes cumulative reduction in UK's ammonia emissions by 2028 from a 2023 baseline.
Biodiversity			
B	Sites of special scientific interest (SSSIs) in favourable condition.	50% of SSSIs to have actions on track to achieve favourable conditions by 31 January 2028.	Contribute between 50% and 64% of the eligible SSSI area towards the government's 25 Year Environment Plan commitment of 75% of SSSIs by area maintained in, or restored to, favourable condition in England delivered by 2042 from a 2018 baseline.
C	Wildlife-rich habitat restoration and creation.	Restore or create 140,000 hectares of a range of wildlife-rich habitats outside protected sites by 31 January 2028 (against a 2023 baseline, including contribution from peatland and woodland).	Create and restore between 202,240 and 301,000 hectares of wildlife-rich habitat outside protected sites by 2042 (against a 2023 baseline, excluding contribution from peatland and woodland).
D	Favourable management of existing habitats.		Support continued favourable management of all existing priority habitat already in favourable condition outside of SSSIs (from a 2022 baseline) and increasing to include all newly restored or created habitat through our schemes by 2042.
E	Nature-friendly farming.		Support 65% to 80% of land managers to adopt nature-friendly farming on at least 10% to 15% of their land by 2030.
F	Invasive non-native species.		Deliver between 100,000 and 150,000 hectares of actions to control and manage invasive non-native species by 2030.
G	Bespoke species recovery.		Provide at least 40% of threatened species with targeted actions at sufficient scale to support recovery.
Net Zero			
H	Low carbon farming 2030.		1.63 million tonnes Carbon dioxide equivalent (CO_2e) agricultural emissions abatement per annum by the end of Carbon Budget 6 (2037) within an overall Defra agriculture decarbonisation pathway of 4.8 million tonnes CO_2e agricultural emissions per annum by the end of Carbon Budget 6.

Figure 14 *continued*

Environmental objectives for the Farming and Countryside Programme

National Audit Office reference	Name	Interim objective	Overall Programme objective
Peatland and soils			
I	Restore and maintain peatland.		Bring 240,000 hectares of peatland under new restoration management by 2050 and, from 2026, continue management of all peatland previously brought into restoration management.
J	Sustainable soil management.		Transition up to 60% of England's agricultural soils into sustainable management by 2030.
Trees			
K	Agroforestry.		Deliver agroforestry on 10% of arable land in England by 2050.
L	Tree canopy cover.	Increase England's tree canopy and woodland cover by 34,000 hectares by 31 January 2028.	Deliver around 90% of the target to increase England's tree canopy cover and woodland cover to 16.5% by 2050 (from 14.5% currently).
M	Sustainable woodland management.		Ensure 75% of woodlands in England are in sustainable management by 2040.
N	Woodlands in favourable condition.		Ensure 15% of native woodlands are in favourable condition by 2040.
Water			
O	Water pollution.	Reduce nitrogen, phosphorus and sediment pollution from agriculture to the water environment by 10% by 31 January 2028.	Deliver a 32%–39% reduction in nitrogen (32%), phosphorus (39%) and sediment (37%) input from agriculture into the water environment by 2038 (from a 2018 baseline).
P	Water storage.	Increase water storage used by the agriculture and horticulture sectors by 10% by 2030 (from a 2024 baseline).	Increase water storage used by the agriculture and horticulture sectors by 66% by 2050 (from a 2024 baseline).

Note

1 Based on latest version of objectives as at June 2024.

Source: Department for Environment, Food & Rural Affairs

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