National Audit Office

REPORT

The Farming and Countryside Programme

Department for Environment, Food & Rural Affairs

SESSION 2024-25
HC 123

Key facts

£12bn
budget for the Farming and Countryside Programme (the Programme) for the period 2020-21 to 2024-25

40,700
number of farmers signed up to agri-environment schemes as at April 2024

62%
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.