SCOTLAND RURAL DEVELOPMENT PROGRAMME

FIRST STAGE REVIEW

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I would also like to thank the very large range of individuals and organisations from throughout Scotland who took time to contribute to this review, often at short notice and in the midst of busy schedules. I apologise to those I was unable to meet due to lack of time, but I have tried to cover all sectors and interest groups in the preparation of the analysis and advice.

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1. Summary

1.1 Background

This is a first stage review to learn from the first year or so of operation of the 2007 to 2013 SRDP. I have summarised the three questions set in the terms of reference for this review into two aspects; **Delivery** and **Balance**, and the report is structured around these two headings. While I have received a large number of detailed representations on all aspects of the SRDP, this report concentrates on the key strategic issues.

It is important for us all to understand what the Scotland Rural Development Programme (SRDP) is about. The EU Common Agricultural Policy (CAP) has been on a fairly clear path for the last two decades. Agricultural support (the first "Pillar" of the CAP) has been shifting from supporting production to supporting individual businesses, and at the same time funds have been steadily moving to the Rural Development Regulation (the second "Pillar" of the CAP). Pillar 1 supports agricultural businesses. Pillar 2 also supports agricultural businesses, but only in return for the provision of "public goods" i.e. things which benefit the Scottish public in general. The SRDP is the next step in delivering these "public goods" in Scotland. It is ambitious because it brings together a wide range of previous schemes under one umbrella and opens up the scheme to rural communities and organisations, not just farmers and their families.

There are 8 delivery mechanisms for the SRDP;

- Crofting Counties Agricultural Grants Scheme
- Food, Processing, Marketing and Co-operation Grant Scheme
- Forestry Challenge Funds
- LEADER
- Less Favoured Area Support Scheme
- Rural Development Contracts – Land Managers Options
- Rural Development Contracts – Rural Priorities
- Skills Development Scheme

The vast majority of the Programme is working well and receives little publicity. Much of the concern over the early stages of the SRDP has been directed at the **"Rural Development Contracts – Rural Priorities" (RDC-RPs)** delivery mechanism. This is the competitive application scheme for all agricultural and rural businesses and communities, which accounts for around £800M (50%, including £300M of committed legacy support) of the £1.6 billion programme, and replaces previous separate forestry, environmental, business development, diversification and community schemes.

1.2 Delivery: The RDC-RPs Application Process

1.2.1 Has the Rural Priorities Scheme Failed?

Looking at the **scheme statistics** in isolation suggests that to date this is in fact a very successful scheme. There were 5,745 cases in the pipeline, ranging from Statements of Interest (SOIs) to successful proposals, including over 3,000 proposals as at 15 April 2009. Almost £124.5M for 1,802 cases has been approved in the first four Regional Proposal Assessment Committee (RPAC) rounds between August and February 2009 and the indication is that the number of applications is increasing at each round. At the last round, as has been well publicised, the number of applications greatly exceeded expectations. If we look at agri-environment priorities alone, 79% of the total money applied for had been approved in the first seven months of the full application process, equating to 1,174 priorities with a total value of £66.13M. In comparison the Rural Stewardship Scheme (RSS) received a total of 476 applications during its first year (2001), with just under 80% approved.

Consultants and a surprisingly high proportion of farmers have **mastered the application process** (around 18% of scored applications are from producers, compared to only 6% under the old RSS scheme). Many are frustrated by the negative press given to the scheme given the opportunities it presents and **fear any radical change** in the application process which might lead to another steep learning curve. Most view the **SOI as on balance a positive tool**, helping individuals to test their ideas and reducing the number of wasted applications (under the Farm Business Development Scheme (FBDS) around two thirds of applications in some areas were not of sufficient quality or were rejected due to lack of money and of the third approved only around 60% went ahead). The **breadth and range of options** means that almost any development has potential and the **sheer level of funding for individual projects** greatly exceeds anything under previous schemes as grant rates are fixed and there are few ceilings. There is tremendous **potential efficiency** in this integrated scheme, many users are finding benefits in the speed of a computerised approach and it makes a very important point about the future of Pillar 2 support, in delivering **multiple benefits** for the nation as well as individuals – an approach we must learn to grasp.

1.2.2 So What Is The Problem?

Access

The ambition behind developing an **on-line** application is laudable, but to make this the only application route when reportedly around 50% of rural households are not broadband connected, was in my view a mistake. Those without

broadband, without computing skills and with small potential applications which may not justify the cost of a consultant, inevitably feel disenfranchised.
The application process introduces applicants to 7 aspects of justification and a scoring system with 14 criteria, the meaning of which are not transparent. Faced with the level of risk of misinterpretation which this presents to the potential applicant, it seems inevitable that some will avoid application or feel obliged to use a consultant. **Complexity** means a higher **cost** either in applicant time or in consultancy fees. Given the lack of ceilings for large applications the consultant cost per unit of funding received may actually be lower than previous schemes, but this is unlikely to be the case for small applications. Overall, the impact on the Programme in terms of numbers of people excluded or funds not disbursed is likely to be small, but the damage done by the inference that this is a scheme only for the well connected, in terms of on-line technology and consultants, is disproportionately large.

Expectations

It is correct to have to relate your plan to the national outcomes which the Programme is trying to deliver. However, in my view this should not be at the start of the application process. The reality is that individuals make applications out of self interest (otherwise there would be no applications) and there is an implicit deal; “you get your shed, if it meets national goals and if you do the extras which enhance its public benefit”. This deal depends on a keen applicant and therefore the expectation of a user friendly application process, but many state that they are baffled and confused by the structure, even if eventually they find their way through it. “This will not be an agent’s charter” has been quoted back to me many times. This phrase was probably never meant to mean that no use of consultants was required, but it has created an expectation of much less consultancy cost. The reality is that decades of experience across Europe has shown that in any competitive scheme a large proportion of the applications will be prepared by consultants, because applicants believe that gives them more chance of being successful. Following what were felt to be fairly arbitrary scoring decisions in previous schemes such as the RSS, there was an expectation of a more transparent scoring system and a broader evaluation of applications by the RPAC structure. In reality the 14 scoring criteria are not very transparent, there are concerns over the use of some of the criteria and on the scoring of priorities rather than overall plans, and strict cut off scores have had to be used to allocate limited funds. Overall there is the problem of a scheme which promises so much, but which is cash limited. This is and always was the reality, but the important issue is how expectations are managed given this situation.

The Introduction Phase

The problems of the first 6 months or so of the RDC – RPs scheme are well documented. The start was delayed waiting for EU approval. Then introduction was rushed (three RPAC rounds in 5 months in a desire to satisfy pent up demand) and under-resourced. This resulted in bad experiences and inconsistencies which have tainted the scheme ever since. The IT was not fully ready and due to resource and time constraints problems could not be tackled before the system went live. Case officers did their best, but had poor support – there was little time for training and sharing experience between the application rounds and the critical central support structure was inadequate. Case officers were being pushed into a new extension/ development role and some were not ready for it. All of this led to delays as problems were sorted out. There are many hard lessons which must be learned from this experience. However, there was a very difficult choice at the heart of this problem; further delay the whole Programme to get the systems fully sorted, or get it going, warts and all, and get the projects started and money out.

Breadth
This is a strength of the scheme, but case officers and RPACs openly admit that they lacked the experience and expertise to evaluate some of the new community, rural, large environmental and unusual diversification projects. This has created delays and friction between applicants and case officers. Individual case officers and each of the three delivery organisations seem to have varying attitudes to risk and on the degree of prescription required.

Concern over Post-Application Stages
There is a growing concern that resource required to get over the application problems has badly delayed the issuing of contracts and the construction of the claims system.

1.2.3 So Should We Tear It Up And Start Again?

No. This would mean another 6 months delay, expenditure which would be better spent elsewhere and another tortuous learning curve for applicants and advisers.

We need to concentrate on firstly tackling the access problem for the potentially disenfranchised, and secondly improving the existing system.

Given that the next RPAC round has been delayed, we have a great opportunity to use the breathing space to tackle these problems and to get all the stakeholders behind the scheme to make it even more of a success.

1.2.4 Advice on the RDC – RPs Scheme

The following is a brief summary of the advice on the delivery process for RDC-RPs and its justification. See the body of the report for more detail. In terms of priority rating, “Immediate” means in the next 6 months, “Medium Term” means in the next 12 months. “Long Term” is a recommendation to apply the advice within the term of the Programme or at the very least to deal with the issue for the next Programme.

Advice	**Why?**	**Priority**
Statement of Intent (SOI)		
1. SOI – option to bypass at own risk	Agents now have experience, following discussion with case officer, to make a decision on likelihood of amber rating. Speeds up process.	Immediate
2. SOI simplified to 5Ws and Schedule of Works	Shorten and simplify process.	Immediate
3. SOI training for case officers	Central to giving case officers confidence to simplify use of the SOI.	Immediate
Application System		
4. On-Line Application System – Continue improvement.	Shorten and simplify process. Reduce duplication. Remove need for part on-line, part paper application where possible. Ample sensible suggestions for improvement have been made by the IT group and User group and by case officers and RPACs.	Ideally immediate, reality medium term (next 12 months?)
5. Improvements to on-line application; clear statement on what can and cannot be done and in what timescale.	The whole process of engagement with users will lose credibility if the delivery partners do not make a clear statement, now, on what can and cannot be done, and in what timescale. Reality would seem to be that priority for all IT input over the next 6 months must go to building the “back-room” facilities for contracts, claims and reporting.	Immediate statement
Access		
6. Free facilitation service (as per RuralDirect) and/or specified case officers to act as advisers. Will physically sit down with individuals and help them complete the application. For target groups only.	Improve Access for “disenfranchised” groups (no broadband, no computing skills, small applications/ small businesses which cannot justify consultancy fees). Five options reviewed in body of the report: 1. Full paper version;	Immediate

	2. Rural Priorities "Lite"; 3. Fund consultants or a facilitation service; 4. Specified case officers allocated arms length advisory role; 5. Shift some options to a totally different delivery mechanism. Advisory/ facilitation options (3 and 4) are preferred because they are fast, cost-effective and match scale of the problem.	
Quality of Assessment		
7. Strengthen the central support team for case officers. Must include mix of policy, implementation and field staff. Receives queries, forms advice from policy and practice, pumps advice out to all case officers, maintains database of questions and answers, drives update of guidance, issues update memos.	Fills inevitable gaps in guidance. Irons out inconsistency between regions and case officers. Builds case officer confidence. Deals with changes and revisions. While this is a team, they don't all need to be physically centrally based. Core elements of this approach may already be in place, but it needs to be strengthened and resourced.	Immediate
8. Comprehensive training programme for case officers, working through all the key issues; - The role of the case officer as a facilitator - The use of the SOI - The application form - Scoring - Interpretation/eligibility for each option - New areas of expertise in community and rural projects	Will go a long way to tackling many of the perceived problems of the Rural Priorities delivery mechanism.	Immediate
Expectations and Value for Money		
9. On-going approval of "non contentious"	Speed up process. Frees RPAC to concentrate on the	Immediate

applications	larger, complex, marginal applications. Only feasible if item 10 below can be achieved, and where there is still adequate headroom in the relevant budget. "Non contentious" definition based on type, regularly agreed threshold score, funds available, perhaps scale.	
10. Monthly, fortnightly or weekly statement of the funds committed versus funds available for the year	This is essential if we are to allow ongoing approval of non contentious cases. Also essential if are to manage expectations better in a funds limited scheme (may have helped avoid the submission of failed applications at recent February round).	Immediate
11. Revisit allocation of funds by year for rest of programme	Current allocation too flat – always likely to have early peak. Also later recommendations on incentivising faster expenditure in light of the economic downturn, may require a faster movement of funds.	Medium Term
12. Publicise annual funding profile and the ongoing financial situation	Manages expectations.	Medium Term
13. RPAC given power and encouragement to revise priorities	When funds are running out the appropriate people to make decisions on allocating scarce resources should be those closest to the needs of each region of Scotland.	Medium Term
14. Regional budgets. Perhaps based on historic spend, perhaps with a nationally controlled buffer, or national budgets for areas such as communities and designated sites.	Shifts real responsibility to the field, should help target funds on local needs, builds local capacity. Already works for LEADER.	Long Term
15. RPAC given power to delegate evaluation of specific projects to more experienced organisations	Some proposals are outwith the experience of the three delivery organisations and the RPAC. Delegated bodies need to be clearly defined and approved. Their role	Immediate

	would be evaluation, but final decision still rests with case officer/RPAC.	
16. Investigate role of LEADER LAG structure for delegated assessment of some community projects	Better community expertise in the LEADER network than RPACs. Takes pressure off the case officers and RPACs.	Immediate
17. Review the Scoring system	Essential tool, but is it delivering what was intended? Specific issues to review: scoring of whole plans versus individual priorities; “leverage”, “meeting demand” and “multiple outcomes” criteria; sensitivity of Hi/Lo scoring; development of much more discretion by case officers and RPAC to use scoring only as first step.	Medium Term
18. Set ceilings for all investment options. For example ceilings at EU De Minimis level of 200,000 euros, but with case officer discretion to recommend higher rate of support where there are big gains.	Value for money. Feedback is that some large projects would still have gone ahead with less grant funding. This would free funds for more applications and projects.	Immediate
19. Variable Grant Rates. Current grant rates become maxima and norms, with case officer discretion to recommend variation dependent on need.	Value for money.	Immediate

Note that I endorse the 11 key recommendations in the ConFor report of December 2008. Many of those are dealt with above, and those which are not I would recommend to Scottish Government for action. The exception would be the recommendation for more RPAC rounds, which would not be essential if there were a level of ongoing approval and regular financial updates. The secondary ConFor recommendations deal mainly with forestry specific issues on which I lack expertise to comment, but I would also recommend these to Scottish Government for consideration and action.

1.3 The Balance of the SRDP

Balance as considered in this review refers to the objectives of the whole programme, the balance of funding between Axes, the balance between different delivery mechanisms, the annual funding profile and the range of options. Emerging issues such as the economic downturn, climate change, new entrants and hill farming decline must also be considered.

1.3.1 Why look at the Balance of the Programme?

The issues driving potential change include the following.

The perceived failure of the RDC-RPs process. This leads to a call for a shift in the type of delivery mechanism to make the Programme more accessible to potentially “disenfranchised” groups.

Regional differences in uptake of Rural Priorities. These are major – why? Does the scheme better suit some areas or types of rural/ farming structure and does it mean national outcomes are not being delivered? Are there differences in the infrastructure serving rural industries in each area which we can learn from?

Economic downturn. Are particular types of intervention better at stimulating economic activity and protecting jobs?

Climate change. There is new evidence of the speed of climate change, and Scotland has very ambitious targets for woodland and renewables. Does this suggest changes to the Programme?

Hill farming decline. This is a huge issue, but we need to ask “exactly what is the problem and which parts of the problem are actually within the scope of the SRDP?” This is discussed in detail in the body of the report, but the key issue for the SRDP is whether or not there is a “public good” loss from a reduction in hill stock. The general view is that there is in some hills, but not all, in terms of habitats and threats to priority species, game, community cohesion, local critical mass and even landscape. Other supports, such as LFASS are better suited to this problem, but they are effectively frozen until 2010 at least, so it is worth exploring the role of the wider SRDP in the meantime.

New entrants and the development of young farmers is another huge issue, worthy of a review of its own, but once again we need to critically assess the nature of the problem and whether or not the SRDP has a feasible role in its resolution. In most areas there isn't a shortage of keen young people, but a shortage of opportunities to go it alone and get started. This is perhaps inevitable in a 70% owner occupied industry with a tiny turnover of tenancies. The TFF has a major role in addressing the tenancy situation and especially in creating the flexibility to attract new landowners into the system, but we cannot expect the traditional new entrant model with a young farmer progressing through small to large tenancies. The new model is to build up capital outside the sector to allow competition in the land market, and to operate a range of short term contract type arrangements which owners view as less risky. The Rural Priorities "setting up young farmers" interest subsidy option was introduced with very good intentions, but through nobody's fault has become ineffective, with few applications, as interest rates have fallen sharply.

The scope and design of the programme. There are perhaps two issues here. First, the breadth of the programme and of the RPs mechanism in particular, is a great strength, but it does create expectations that are difficult to meet in a competitive Programme which has finite funds and also needs to respect EU rules. Also, while there is a competitive application process, funds have been allocated to individual "pots". In reality there is competition within the pot, and only limited flexibility between them e.g. between forestry and agri-environment. Given that some measures are very high priority (and hence are less in need of a competitive process to decide on the best allocation of resources) – for example forestry under the climate change agenda – is it sensible to have everything under this competitive umbrella? This brings us to the second main concern; the operating cost of the competitive Rural Priorities delivery mechanism in comparison to the benefit it is meant to deliver. Using forestry as an example again, many in the sector would question why an entirely new and complex process was required when the forestry money, while not exactly ring-fenced, is very high priority and could be used to meet planting targets with a much simpler application and eligibility system.

Innovation versus Prescription. There is a tension between applicants who feel they should be free to make a case and deliver the desired outcome in the way they see best, and scheme rules which want to prescribe everything down to the size of way-markers.

Management and the role of stakeholders. Despite detailed consultations and the heavy involvement of stakeholders, there has clearly been a break down in communication, as expectations have exceeded reality.

1.3.2 Advice on the Balance of the Programme

Advice	Why?	Priority
Funding by Axis		
1. No change in balance of funding between Axes	No feeling that this would have a marked effect on the economy or any other priority issue. Main plea is to ensure high quality of projects whatever the Axis.	
LMOs versus RPs, and other Delivery Mechanisms		
2. No general expansion of Land Managers Options (LMOs).	This means no uniform increase in LMO allowances for all businesses. Disaster if lots of good development ideas with long term impact were not funded because money was shifted to LMOs. Could dilute impact by spreading funds too thin. Targeted use, however, should be considered – see below.	
3. "Action for the Hills" LMOs.	To tackle the "public good" losses from the decline in true hill stock numbers. Lack of flexibility in LFASS until 2010 at least and perhaps until 2013, so trial targeted use of LMOs to address this issue until the end of the programme. Key design issues; • Geographically or farm type targeted (can be done via SAF) • Use up existing entitlements plus some limited and regional expansion perhaps triggered by particular options. Not expected to make major impact on RP budget. • Addresses public good losses • Time limited (2013) to trial impact • Build in new entrants enhancement • Some new options, some existing RPs options and link	Medium Term

<table>
<tr><td></td><td>the two delivery mechanisms (see body of report)
Ideally regional input to design and evaluation (RPAC role?)</td><td></td></tr>
<tr><td>4. “Introductory Rural Stewardship Package”</td><td>An important principle is maximum benefit from environmental expenditure through competitive applications.

However, another key principle must be the involvement of as many land users as possible in environmental improvement, especially given the growing climate change agenda. I am not convinced this is achieved through Rural Priorities, and I think the existing LMO environmental options are far too poorly targeted.

<u>I am interested in achieving this principle, and less concerned about how this is done.</u>

The “Introductory Rural Stewardship Package” is one option for which I would urge consideration from Scottish Government, but there may be other routes. Key features of the package;
Through the LMO route, applicant can choose any of the environmental options listed under Rural Priorities
A simple compulsory plan to audit and design the best mix of options must be prepared
Package will have a fixed financial limit (likely to be in excess of the current LMO allowance)
If applicant wants to submit a larger plan they can then follow the RPs route.
This creates the opportunity to link LMOs and RPs in an overall contract, which has never actually been</td><td>Medium Term</td></tr>
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	achieved to date. This package would likely lead to some shift of funds out of Rural Priorities and into LMOs. The large number of environment applications in the early stages of the RP scheme has left a relatively small budget for the rest of the Programme period, so I recognise that this will be a difficult decision.	
5. Investigate the option of rolling up LMO entitlements over several years for small sale capital investment (e.g. forest roads) as suggested in the ConFor report.	More value for some applicants and more public benefit from targeted capital investment. This would only be possible if the proposal is compatible with relevant EU legislation.	Medium Term
6. Review the role of LMOs	This delivery mechanism may be very useful post 2013 and the likely further reform of SFP and LFASS. Are they an entry level scheme, a small business measure, a route for innovative targeting of problems? All of these? This is an issue for the mid term evaluation and the design of the next programme.	Long Term
7. Investigate transfer of delivery of some or all community projects to LEADER	Community expertise is greater in the LEADER network than among RPACs/ case officers. The development of community projects may better suit the LEADER approach. This is an issue for the next RDP	Long Term
8. Tackle the duplication of measures and their inconsistencies between Rural Priorities and LEADER. At very least improve LAG/ RPAC communication.	Confusion among some applicants – roughly same measures in each delivery mechanism sometimes with different conditions. May be an advice/ guidance issue.	Immediate
9. Review the Rural Priorities delivery mechanism for forestry.	Competition is by far the best way to allocate scarce Government funds. However, in a sector like forestry	Long Term

Should all forestry be included?	which has been given such high priority due to Scottish climate change targets, it could be argued that resources have effectively already been allocated. The national policy imperative is to get the planting done. In this case could the national outcome be delivered more cost effectively by a non competitive, eligibility driven scheme?	
10. LFASS reform – urgent need for targeting on the most agriculturally disadvantaged and environmentally threatened areas.	The detail of the LFASS is outwith the remit of this review and is the subject of a separate consultation. However, this review is asked to consider the role and place of LFASS within the balance of the programme. I have recommended a targeted use of LMOs to address hill issues, as a trial and partially as a stop-gap to 2013. However, <u>LFASS should be the main long term tool to tackle natural disadvantage.</u> I believe a reshaping of LFASS to tackle the problems of the most disadvantaged and environmentally threatened areas, where agricultural activity is declining fastest, is required. The Mountain and Specific Handicap measures seem to make sense to me in this regard, but there is significant scope for better targeting of LFASS under the current regime. Everyone is waiting for the outcome of the ongoing EU review of the current regime, but within my remit of reviewing the balance of the SRDP my conclusion is that the LFASS is not achieving what it is meant to achieve as part of the Programme. Changing the status quo is unpopular, but I doubt if the current regime is serving the needs of either farming in our most disadvantaged areas, or the wider rural environment. A long term vision	Long Term

	and leadership is required here.	
Regionalisation		
11. Regionalisation - of prioritisation decisions - of the Rural Priorities budget	See Delivery Advice, items 13 and 14.	
The Economic Downturn		
12. Concentrate on maximum added value. Allow RPACs the freedom to vary intervention rates and the freedom to judge applications beyond the simple score.	More bangs for the taxpayers buck. Covered in Delivery Advice, items 15 to 18.	
13. Push up maximum intervention rates wherever possible e.g. Community Facilities and Services rate from 50% to the publicised 100%, redeploy measure 341 to LEADER, increase support rates for "new challenges" (e.g. climate change) as agreed under the "CAP Health Check" by the allowed extra 10%, allow use of standard costs where permitted by EU legislation rather than only actual costs. Tackle the forestry issue of grant being based on rate at time of application (ConFor recommendation 10). Also look at the other delivery mechanisms.	Stimulate more development over the next 2 years and counter the problem of tight bank and other match funding. Could limit rate increases to the next 2 years. Does have budgetary implications for Scottish Government.	Immediate
14. Make the list of allowable diversifications as broad as possible and welcome innovation.	Support broad diversification of income sources and innovation.	Immediate
15. Pull more of the	The February RPAC suggests there is	Medium

funding from future years into the next two years.	excess demand. Don't choke this off when the economy needs more activity. Very difficult decision for Scottish Government given likelihood of tight national funding situation.	Term
16. Publicise the decisions well and resource it.	No point in making the schemes more attractive if potential applicants don't know about it and if there isn't the capacity to deal with an increase in applications.	Medium Term
Climate Change		
17. Small scale renewables – reiterate that the home consumption requirement is 51% and not 80%	Tremendous interest in this option, and a winner for uplands, for climate change and for capital investment in an economic downturn. However, many interviewees still have impression that there must be a high level of home consumption.	Immediate
18. Small scale renewables – promote what is available including the Axis 3 "Diversification Outwith Agriculture" route.	Options are poorly understood.	Immediate
19. Support feasibility work for large scale, collaborative renewable energy schemes (subject to what is permissible under EU rules).	If potential returns are good, then businesses should fund feasibility work themselves. However, for collaborative ventures involving a large number of diverse farms and community interests the mechanics and sheer cost are major barriers. Funding routes may be available through LEADER or Measure 124?	Immediate
20. Entry level and collaborative farm woodland options	Farm woodlands must be a priority to mitigate greenhouse gas emissions and meet Scottish targets. Mechanisms are needed to; 1. Get farmers interested in woodland through multi-benefit woodland support (shelter, biomass, amenity) which is very flexible and allows very small scale blocks/ strips. 2. Help groups of farmers to collaborate in planting and to	Medium Term

	participate in the benefits of the carbon market, for example through carbon offsets.	
New Entrants		
21. Reduce the 50% FTE rule to 25%, scrutinise applicants to exclude those associated with high Net Worth businesses, RPID consider possibility of fast track access to RPs and LMOs for new entrants as recommended by TFF.	Well intentioned option, but interest rate subsidy has become ineffective due to rapid fall in interest rates. Hence low application rate. Need to redesign the measure and consider re-launch.	Immediate
22. Consider using the one-off payment option, linked to a good development plan	As above.	Immediate
23. If changes in 21 and 22 do not result in improved application rates and outcomes, then consider the future of this option and possibly redeploy funding where it will have more impact.	Value for money.	Long Term
24. Investigate the possibility of supporting an apprenticeship system or workforce development scheme.	Bigger issue than new entrants may be competing in the labour market and building up a career structure in the agricultural industry – this would help provide a progression route for real new entrants. A role for the Skills Development Scheme?	Medium Term
Management		
25. Role of the PMC	The PMC is a statutory body, incorporating all the stakeholders, which oversees the Programme. Its role is critical from this point onward. There needs to be a consensus on action following this review to tackle the problems and make the rest of the programme a real success.	Immediate
The Next RDP		
26. Review the process	Need to learn the lessons from	Long Term

for design, implementation and delivery of the next SRDP.	introduction of the current SRDP, including; - managing expectations - cost versus benefit of delivery mechanisms - user friendly design and overall simplicity - field testing - the capabilities of the SG IT platform - resources - service delivery targets - case officer support - timeline for all of the above These are issues for the upcoming mid term evaluation of the Programme.	
27. Review Scotland's approach to the SRDP	The objectives of the RDP are driven by the EU. However, before the next SRDP we need to ask some fundamental questions about what we want from the Programme. These were I am sure considered in the development of the current SRDP, but they have heightened importance given the lessons of the introduction of this Programme. 1. What can we achieve with the money available? This helps drive priorities and appropriate delivery mechanisms. 2. What is the balance between transformational investment aimed at the rural economy and the wider social and environmental goals? This drives the allocation of funds (within EU rules), but also the design of the scheme in terms of the scale of projects, ceilings, etc. 3. What is the role and structure of the delivery organisations? Are they to become advisers and facilitators helping deliver successful projects, in an approach akin to LEADER? 4. How does the wider SRDP fit with the revised LFASS and SFP into an integrated rural policy? This is a	Long Term

	critical issue.	

2. Review Background

2.1 Scope of the Review

This is a first stage review to learn from the first year or so of operation of the 2007 to 2013 SRDP. A formal mid term evaluation will follow in 2010. Much has changed since the programme was first designed. We have entered a sharp economic downturn, climate change evidence has become stronger and Scotland has set challenging targets for mitigating action. A further range of concerns have emerged, including the decline in hill farming and problems facing new entrants.

The terms of reference set three questions;

1. Are the priorities and objectives set out in the strategy document underlying the SRDP, and in the SRDP itself, still appropriate ones for rural Scotland? If not, how might they be changed?

2. How can the SRDP assist in meeting the challenges of the economic downturn?

3. In light of the responses to 1 and 2 above, what are the implications for the balance between the Axes within the programme, and should the Scottish Government consider changes to the Measures and/or delivery mechanisms?

I have summarised these questions into two areas; **Delivery** and **Balance**, and this report is structured around these two headings.

It is important for the reader to have a clear understanding of the scope of this review. The output of this review is advice to Ministers, rather than a detailed analysis of every aspect of the programme – that will be the task of the formal mid-term evaluation in 2010. My aim has been to identify the important strategic issues, give advice on what could feasibly be done to tackle the problems in the short term, identify bigger issues for the mid-term evaluation and highlight any lessons for the long term operation of Rural Development Programmes in Scotland.

This report concentrates on the strategic issues laid out in the terms of reference. However, in carrying out the review I have received a large number of individual representations, many of which include useful suggestions for improvement of the programme, and these will be listed in a separate annex.

It should be noted that a range of other initiatives, established by SGRPID/ FCS/ SNH, are addressing the Delivery issue. These include an IT group, a User group and the December 2008 ConFor report "Recommendations for changes to the systems and operations of SRDP – A Forestry Perspective" which has much wider relevance than the forestry sector alone. A number of organisations submitted proposals for improving the SRDP well before this review was announced.

2.2 Context of the Review

The SRDP needs to be seen in the context of the long term change in support to agriculture and rural areas within the EU. We have been on a fairly well defined road for the last 16 years, with support to agriculture shifting from price support to supporting numbers (headage and hectares) and then to supporting individual farm businesses through the decoupled Single Farm Payment. At the same time support has been shifting from this first "Pillar" of the CAP, to a second "Pillar" – the Rural Development Regulation. Pillar 1 supports agricultural businesses, but Pillar 2 pays for "public goods" i.e. things which benefit the Scottish public in general. It is important to note that many of the Pillar 2 measures do help sustain farm businesses (otherwise there would be no applications), but only if the activities supported under the scheme also deliver a public benefit. This principle has been established under a range of previous schemes, such as the Rural Stewardship Scheme, Farm Business Development Scheme and Scottish Forestry Grant Scheme, but it is still a major cultural change. Many would say, however, that money entering rural industries which can be shown to provide public benefits, is much easier to justify and much safer than traditional agricultural support, especially as we enter a period of very tight Government expenditure.

The 2007 to 2013 SRDP is the next step in delivering Pillar 2 in Scotland. It pushes the public goods principle further, by opening the programme to rural communities and groups, not just farmers and their families. It also brings together a wide range of previous schemes covering forestry, primary processing, environment, business development, diversification and rural communities all under one umbrella. It is ambitious.

There are 8 delivery mechanisms for the SRDP;

- Crofting Counties Agricultural Grants Scheme
- Food, Processing, Marketing and Co-operation Grant Scheme
- Forestry Challenge Funds
- LEADER
- Less Favoured Area Support Scheme
- Rural Development Contracts – Land Managers Options
- Rural Development Contracts – Rural Priorities
- Skills Development Scheme

The vast majority of the Programme is working well. The Skills Development Fund is making some very effective investments in the future of agriculture, for example through the Monitor Farm programme, the Land Managers Options have been taken up by more than 50% of farm businesses, the LFASS supports thousands of businesses in the uplands which are the core of the Scottish industry, LEADER continues to support rural initiatives through its innovative approach, the Food Processing scheme is supporting major investments by processors which will help underpin the future of Scottish farming for decades, and CCAGS is maintaining support to crofting development. These highly successful aspects of the SRDP are too easily taken for granted.

Much of the concern over the early stages of the SRDP has been directed at the "Rural Development Contracts – Rural Priorities" (RDC-RPs) scheme. This accounts for around £800M (50%, including around £300M of committed legacy support) of the £1.6 billion programme. Looking at the application statistics for RDC-RPs in isolation, there were 5,745 cases, ranging from Statements of Interest (SOIs) to successful proposals, including over 3,000 proposals as at 15 April 2009. Almost £124.5M had been approved in the first four Regional Proposal Assessment Committees (RPAC) rounds (August, October, December 2008 and February 2009) and the indication is that the number of applications is increasing at each round. SGRPID reported as at 15 April that for agri-environment priorities, 79% of the total money applied for had been approved in the first seven months of the full application process, equating to 1174 priorities with a total value of £66.13M. In comparison the Rural Stewardship Scheme received a total of 476 applications during its first year (2001), with just under 80% approved. At the time of writing, the February RPAC had been heavily over-subscribed, with enough applications to more than utilise the entire years RP budget. However, the general feedback from the industry is of a scheme which is disliked and is perceived by some to be failing. An important part of this review is to get to the bottom of this apparent contradiction and identify what needs to be done.

3. Delivery: The RDC-RPs Application Process

I have received representations on all of the delivery mechanisms, but the vast majority of the emphasis is on Rural Development Contracts – Rural Priorities, and below I have summarised what I feel are the pluses and minuses of this mechanism and its operation to date.

3.1 Pluses

Though the application process is complex, **consultants and a proportion of farmers and other eligible parties have mastered it.** The proportion of applications prepared by farmers is surprisingly high, though the evidence shows that they have suffered more red light SOIs (see Table 1). Under Rural Priorities the statistics show that 28% of applications (at all stages from SOI to full application) come from producers. This compares to only 6% under the old RSS scheme (??). The two schemes are clearly not directly comparable (RSS needed an environment audit), but it gives some indication that RPs are certainly not worse in this regard than other schemes. Most applicants and consultants interviewed are now comfortable with the system, and indeed are often frustrated by the negative press given to the scheme, given the opportunities it presents. They also fear a radical change in the application process, resulting in another steep learning curve. The scheme statistics show a steadily increasing number of applications at each RPAC. **At present, demand is greatly exceeding expectations. These are not the characteristics of a failing scheme.**

Table1. Agent and Producer Application Breakdown, February 2009

Case Status	Producers	Agents	Total:
SOI Assessment in Progress	76 (38%)	120 (62%)	196
SOI Assessment Complete (Red)	494 (41%)	701 (59%)	1195
SOI Assessment Complete (Amber)	223 (25%)	669 (75%)	892
Proposal Submitted	69 (38%)	112 (62%)	181
Proposal Incomplete	123 (41%)	177 (59%)	300
Proposal	2 (50%)	2 (50%)	4

Committed			
Data Transfer to Back Office Complete *	431 (18%)	1874 (82%)	2305
Cases Withdrawn	11 (40%)	16 (60%)	27
Total:	1429 (28%)	3671 (72%)	5100

* These are the cases that have been scored and considered by RPACs, or due to be considered at February assessment round.

While the scheme has had problems, which are discussed in detail in the next section, the **delivery organisations and administration need to be given credit for coping with and adjusting a difficult programme design**, resulting in a large number of applications being handled in a short period of time.

Views on the future role of the SOI are split, but most have found this a useful tool. Even in the light of the most recent RPAC round, most would say it has saved applicants time and cost (including agent's fees) on applications which would have failed. It has forced people to think through their ideas and given inexperienced applicants a chance to test ideas and understanding. It has reduced the workload on the delivery organisations. Compare this to the number of wasted applications under FBDS, where I believe around two thirds of applications were rejected due to lack of money and of the third approved only around 60% went ahead.

The breadth and range of options exceeds any previous scheme. Innovative applicants see lots of opportunities. A quick scan through the list of approved applications shows an unprecedented range of projects from new cattle buildings, to micro-hydro schemes, equine tourism, community shops and regeneration of native woodlands. It is difficult to find an initiative which would not fit.

The **potential level of funding for individual projects** greatly exceeds anything available under previous schemes (especially outwith the forestry sector), and has surprised many applicants. There are very few ceilings, and grant rates are set at what are historically high levels and are not variable. The outcome based approach is much criticised, but it allows large levels of support; if the contribution to national outcomes is big, the funding can be big. It could be argued that this favours bigger businesses, but previous schemes were capped at typically £30,000 of grant which, even for a smaller family farm, limits the scale of investment, and certainly limits what could be called "transformational" investments. There are examples of businesses receiving six figure sums in support for expansion or added value processes which will transform their role within their regional economy and help underpin the farming sector for years to come.

There is tremendous **potential efficiency in this integrated scheme**. For example an individual could make one application to cover environmental improvements, woodland improvement, business development investments, diversification and a small scale renewables venture. It is done on one application, using one set of scoring criteria and is delivered through a single portal. The bringing together of a range of delivery organisations is painful, and will have many teething problems, but it is responding to what the industry and community interests wanted, in terms of a streamlined structure and fewer ports of call.

The scheme is making a **very important point about the future** of Pillar 2 support. It is about providing multiple benefits for the Scottish public, as well as personal benefits. It is important that we all learn to live with this approach. It is worth noting that funding secured in this manner may be much more easily **justified** than other direct supports to agriculture in a period of tight Government budgets across Europe.

The on-line approach is heavily criticised for its inaccessibility for some potential applicants and for the inflexibility and limits of the system, but once mastered many users find **major benefits in the speed of a computerised approach**. Greater use of on-line approaches is inevitable in the future. Experience in Wales with their entry level Tir Cynnal scheme shows how well this can work and how much it can reduce delivery costs, to circa £100,000 per annum in 2006.

3.2 Minuses

The application methodology. The on-line application process is designed around the outcomes and priorities which are important for the evaluation of the programme, but which are abstract to the applicant. It is correct that in a scheme designed to deliver public goods, the applicant should have to relate their plan to national outcomes. But in my view it is wrong to put this at the start of the process. The vast majority of applicants are motivated not by meeting national outcomes, but by the shed, agri-environment payments, diversification or community facility which is going to help them earn an income, build a future in the countryside and improve their way of life. The SRDP is a deal; “we help you get a shed, if it helps meet national goals and if you do the extras which enhance its public benefits”. The success of this deal depends on a keen applicant, so the process should be designed around them.

Complexity. The application process introduces applicants to 7 aspects of justification which must be tied together: national outcomes; regional priorities; options to deliver regional priorities; packages of options which deliver specific outcomes; and within the package, options which definitely deliver the outcome and options which help achieve the outcome; and options listed by Axis. Applicants need to get over this barrier of understanding before starting the application process. The justification is then repeated through the SOI, application and Outcome Plan. Finally, the scoring schedule which decides whether the application is successful or otherwise has 14 criteria, the meanings of which are not immediately transparent. Faced with the level of risk of misinterpretation which all of the above present to the potential applicant, it seems inevitable that many revert to consultants, and some may avoid application. Several intellectually capable interviewees described trying to understand the process, submitting an SOI which received a red light, and then employing a consultant leading to a successful reworking of the SOI and a subsequently successful application. It is important to note that even many successful applicants who would have used a consultant anyway, resent the SRDP because they perceive that the RDC-RPs process has robbed them of the choice of doing the work themselves, and because the complexity seems pointless. This may relate to their original expectations of the scheme – see below.

On-line only. I understand why this route was taken, especially given the resources available, and the ambition is laudable, but in my assessment this was a mistake. Computer use by farmers and other rural businesses is increasing steadily, and in the future use of the internet will be universal. However, this is not the case at the moment. The need for broadband access is a critical issue. For example I believe an SNH study in 2008 showed that only around 50% of rural households had access to broadband (more could have access, but a proportion are too far from an exchange). Those without the skills and access or with small potential applications which may not justify the cost of a consultant, inevitably feel disenfranchised. The impact on the programme in terms of those excluded or funds disbursed are likely to be small, but the damage done by the inference that this is a scheme for the well connected (in terms of technology and use of consultants) is disproportionately large.

Expectations. That “this will not be an agent’s charter” has been quoted back to me many times. I do not know if this phrase was ever actually used alone, and the intention was to create a system where the use of a consultant was not obligatory in every case. However, the evidence of all previous schemes in Scotland and across the EU is that, if it is competitive, a large proportion of the applications will be done by consultants. Individuals employ consultants because they have invested the time and have built up the case knowledge which tells them what works and what doesn’t, and this increases the applicants chances of success. Many farmers even use consultants to do the non-competitive LMO application. Given the ambitious nature of the new Rural Priorities scheme, it is deeply regrettable that the expectation was built up that agents would not be required.

Cost. Complexity means a higher cost either in applicant's time or consultancy fees. Given the lack of ceilings on many investments, for large applications the incurred cost per unit of support received may actually be lower than under previous schemes. The problem lies with smaller applicants.

Time. The ConFor report tabulates the increase in timescale from first contact to start of work from 13 to 26 weeks. The situation for non forestry applicants may be less severe, but the SOI stage does make the process longer, as does the wait for the RPAC cycle, though there are three rounds per year rather than just one under some previous schemes. The involvement of three organisations (SNH, FCS, SGRPID), but the inevitable allocation of most cases to RPID, does create delays. The poor level of support and training for Case Officers also clearly led to delays in the early stages of the programme.

Scoring. The meaning of each of the 14 criteria is not sufficiently transparent, and both case officers and applicants/consultants have gone through a process of understanding what each means. There are specific concerns with some of the scoring criteria.

- The "meeting demand" scoring point seems to many to be critical for most business development applications, yet if scores are high enough on other criteria this can be ignored.
- To score High on the "leverage" criterion the applicant needs to fund an extra 10% or more of the capital items which could qualify for grant aid. This implies that an applicant who really needs the funding and cannot afford to put in the extra 10% gets a low score, which seems to go against the underlying principle of funding on the basis of real need. Case officers have discretion to use other definitions of leverage, but have been relying on the 10% rule, so this may be a training issue.
- The "multiple outcomes" criterion is not strong enough alone to stimulate diverse, integrated applications, and multiple outcomes can be achieved from single item applications, such as a cattle building. In terms of the programme this impacts negatively on the level of Community Added Value.
- A major issue with the scoring system is that the whole plan is not scored, but is broken down into individual priorities which are then scored separately. Water margins added to a cattle building and slurry storage investment are likely to be refused because alone they get a low score. This could lead to less beneficial integration and results in consultants advising separate applications for business development, agri-environment, etc, which adds to the admin load and makes the whole scheme less efficient. It also leads to calls for putting simple environmental measures under a different delivery mechanism, such as LMOs. The separate scoring of priorities was introduced to ensure that all

aspects of an application provided quality e.g. a few environmental measures with little impact could not be slipped in under a high scoring slurry store application. Also, the RPAC has the discretion to take a more holistic approach with individual applications, though it cannot possibly see all the applications.

- There is a bigger question over the use of a one-system-fits-all scoring system. Can you compare a slurry store and an SSSI under the same scoring criteria? In practice, when funds run short, Government has to decide the priorities and sets different cut off scores for different pots of money, as is inevitable in a competitive scheme. Some RPAC staff have said they do not feel confident in their decisions, because the detail of what is or is not a good application is obscured by the scoring system.

Introduction of the SRDP. The problems with the introduction of the RDC-RPs are well documented. EU approval was delayed and there were changes to be made to implementation very quickly. When launched the scheme was still under development, the IT was not fully in place and case officers had little training. Three RPAC meetings were squeezed into 5 months, especially to help applicants get environmental work in place for the start of the next year. This was good from the point of view of getting people into the scheme, but allowed little breathing space for training and sharing experience across regions and SGRPID/SNH/ FCS. Some feel that best practice from previous schemes such as the RSS was not copied across to the new guidelines and time was wasted creating new material.

Given the early rush, inconsistency was a major problem and a number of early applicants had bad experiences, which have disproportionately tainted the programme ever since. The delivery system combined the existing and very different cultures of three delivery organisations and sectors used to very different grant/ support schemes. Case officers had few mock-ups to work from and I believe that the on-line system was never trialled in the field in any systematic way, which is very surprising for such a major innovation. Time and cost constraints limited user friendly improvements to the on-line system; for example I believe there was the intention to allow applicants to enter the on-line application from the outcome end or from the individual options, but resources limited development to one route. I also believe that the age and limitations of the Scottish Government computer system is a major issue. Industry stakeholders report that they had heavy involvement in the implementation of previous major changes to support mechanisms, such as the introduction of the Single Farm Payment, but not in the introduction of the SRDP RDC-RPs. Throughout, it appears that a major problem has been that the resource required to implement such an ambitious and innovative scheme has been massively underestimated.

It would be easy to point fingers of blame here. However, the failings in the introduction of the Rural Priorities scheme were at least partly outwith the control of Scottish Government. The delay in EU approval was at least partly unexpected. If it had been expected, more work could have been done on preparation. <u>Once EU approval was given, a very difficult decision had to be made; delay even more to allow more preparation, or get the scheme launched, whatever its operational problems, to get the money moving and to meet the pent up demand. A decision to delay may have caused as many problems as the decision to go ahead with a scheme which was not fully complete.</u>

Case officer support. More than any previous delivery mechanism, the Rural Priorities scheme relies on the role of the case officer. In the design of the scheme the delivery organisations (and especially RPID) are really taking a step back into an extension role – taking people through a process, and advising throughout. Their aim should be to help people develop successful applications. This requires an extension structure i.e. a strong, practical interpretation team at the centre (combining policy and field staff who understand the applicants), gathering queries from the regions, doing the interpretation and pumping the answers out to the whole structure, providing the mock-ups and examples, and facilitating training and information sharing. My impression is that this structure, was not as strong as it should have been for a scheme of this scale and complexity. The resources required were underestimated. There are examples elsewhere of the scale of resources required; Tir Gofal in Wales used a specialist team of officers through 12 area offices, with central support and a coordinated training programme and now services 3,700 member farmers with 100 full time staff.

Concern over post-application stages. There is a growing concern that resource required to get over the application problems has badly delayed the issuing of contracts and the construction of the claims system. Indeed only the front end of the IT system exists at present, and computing staff will have to concentrate on building the "back-room" functions, rather than making further user friendly improvements to the front end. Successful early applicants are concerned at the lack of contracts, though these are starting to be issued. Field staff are concerned that there have been no pre-approval inspections for land based measures as there were in, say, previous forestry or agri-environment schemes. Previous periods with no pre-approval inspections, such as during FMD, resulted in problems with measures on the wrong land, fences in the wrong place, etc.

Coping with the breadth of the scheme. While most applications are in areas familiar to the delivery organisations (agricultural competitiveness, agri-environment, forestry, diversification), some are in areas where the case officers and RPACs lack expertise. One RPAC described their lack of confidence in assessing applications for a ferry, a grid connection and a community sports facility. Many case officers clearly could not, at the start of the scheme, have the appropriate skills for assessing many of the community and broader diversification applications.

3.3 Conclusions

3.3.1 Key points

- An ambitious scheme and an ambitious Rural Priorities application process
- Good objectives; few limits, large choice, public benefit, all sectors of rural community, efficiency (SOI, on-line), regionalisation, case officer support for applicants, integration of RPID, SNH, FCS
- Scheme is unlikely to fail; consultants have sussed it and funds will shift, but it will succeed despite the application process
- Under-resourced implementation (and raises questions of the cost of the system in comparison to the additional benefit of this approach?)
- Rushed introduction, largely outwith SG control
- Resulted in poorly supported case officers
- Complex methodology and on-line only = consultants, resentment from some and potentially disenfranchised groups
- Gap between Expectations and Reality
    - "not a charter for agents" versus need for consultants in all competitive schemes
    - Will deliver everyone's goals versus limited funds
    - Regionalisation versus central setting of cut-off scores when funds become limited
    - Efficiency versus cost of fixing problems

We have had a good track record in Scotland of designing and implementing new schemes. There are a number of important lessons for the future in the problems encountered in the delivery of Rural Priorities. Ambition is good, but a cost:benefit assessment is also required. A clear time-line for design and implementation is required, especially where a major change is planned, and the resources required at each stage must be quantified and clearly mapped out. The issue of the capability of the Scottish Government IT system needs to be addressed. Don't forget the delivery phase and support required by front end staff to service the process. Any scheme relies for its outcomes on delivery by its applicants, so design it to help them achieve this. Test it before you launch. Give policy and implementation staff equal weighting and help them to communicate with each other; an effective feedback loop is vital. This is all well understood and commonly practiced within Government.

3.3.2 So should we tear it up and start again?

Many would be in favour of major changes to the on-line system. However, this would take a lot of time, a lot of cost which could be better used elsewhere and would create another slow learning curve for all those who have successfully manoeuvred their way through the existing system. There isn't a shortage of applications – indeed demand is very strong in all sectors, excepting forestry.

We should concentrate on improving the existing system and tackling the issue of <u>access</u> for those who are potentially "disenfranchised". Given the reduction in the planned number of RPAC rounds this year, there is a great and positive opportunity for everyone to get behind the scheme and to get the required improvements made over the next few months.

3.4 Advice on the RDC-RPs Application Process

3.4.1 The Statement of Intent (SOI)

- Now that the system is well understood by agents, many of whom can make good decisions on whether an idea will get an amber light simply by discussing the proposal with a case officer, there should be the option to <u>bypass the SOI</u> and go direct to an application, at the applicant's risk. For some this will reduce the length of the application process, while others still have the option to test their idea in a SOI.
- Strong guidance should be provided on <u>simplifying the structure and role</u> of the SOI; It should essentially be the 5 Ws and Schedule of Works
- This simplification should be linked to an increase in <u>case officer training</u> before the next RPAC.

3.4.2 On-line

- Despite its negative aspects it would <u>not be wise to scrap it</u>, given that agents and some farmers have found their way through it and lots of applications are now coming forward.
- The <u>improvement programme</u> should continue. The delivery partners have already set up an IT group, a User group, a regional office SRDP representatives group, and a meeting of RPAC representatives has been held as part of this review. There are ample sensible suggestions for improvement. However, this has created an expectation of improvement, when the reality is that all IT resources will be tied up over the next 6 months in getting the contracts and payments system in place. The whole process of engagement with users will <u>lose credibility if the delivery</u>

partners do not make a clear statement, now, on what can and cannot be done, and in what timescale.

3.4.3 Non on-line options

- The key issue is how to create access for those without broadband and/or computer skills and/or a low monetary value application which does not justify a consultant fee.
- Four major options have been suggested:

1a. Full paper version of the entire application process. Even if the huge volume of guidance were to be left on-line (required sections could be printed at local offices, on request) it would still take a large amount of resource and time to provide paper versions for all types of application. We need a solution now.

1b. "Rural Priorities lite" paper version for smaller applications. There is a widespread demand across many sectors to put simple agri-environment, continuation organic maintenance, small woodland and ongoing woodland management on a simpler basis. The thought is that non-contentious, high priority, small and simple applications for specific items, such as those listed above, could be accommodated in a simpler paper based application form, and could also possibly be approved on an on-going basis without involvement of the RPAC. This would be seen as an "entry level" scheme within a "pyramid" approach.

2. Fund consultants to do it for tightly specified groups (those "disenfranchised" by the complex on-line system which could include those in areas with no broadband coverage, crofters, small farms). There is an EU euro limit on the level of grant which can be paid to consultants, but facilitation services, such as RuralDirect, operated by SCVO on behalf of Scottish Government, for community applicants, could be provided for target groups. It is unclear whether this can be funded from the SRDP technical assistance budget, but this route needs to be explored. Some organisations, such as the National Parks, are already trying to offer this type of service.

3. Give a number of specified RPID/ FCS/ SNH case officers a larger role as advisers. They would help complete the on-line application as well as giving advice. This could be within RPID regional offices, but on computers not linked to the SG network and with an appropriate liability disclaimer. Once again this service would only be provided to specified groups.

4. Shift some options to a totally different delivery mechanism, such as LMOs. The balance of delivery mechanisms is discussed later. However, the Rural Priorities problem is access, so the priority should surely be to look first at improvements to RP access rather than shifting funds and measures elsewhere.

My advice would be that options 2 and/or 3 are the correct routes. Access is what we want to improve, and we want a solution which is fast, cost – effective and which matches the scale of the problem. My advice is that this is implemented and publicised immediately.

3.4.4 Case Officer training and central support

- A major effort is needed in the substantial breathing space between now and the next RPAC to iron out inconsistency and to get a stronger central support team in place.
- The emphasis must be on developing the facilitation role of case officers – their aim should be to help people submit successful applications. The long established LEADER approach might actually provide some lessons.

3.4.5 RPAC

- Some see the RPAC as a barrier to the smooth operation of the programme. There is a mad rush coming up to each RPAC which demands a lot of case officer resources, lots of clarification queries, and inevitably leads to mistakes and a rushed assessment of some cases. And when it meets, the RPAC can only review a small proportion of the cases.
- It would be better to give RPACs the authority to delegate approval on an ongoing basis to case officers, for "non contentious" applications (on the basis of scale or priorities or options or simply score). The RPAC, still meeting 3 times per year, could then concentrate on contentious cases in terms of scale or complexity or strategic issues.
- However, given that there is a fixed amount of money available for the year, the RPAC meeting is the point where, if applications exceed funds, the decision is made on which proposals get in and which do not. To allow on-going approvals there would need to be a monthly or even weekly assessment of the Scotland wide level of funds available versus funds applied for. This would require each regional office to submit data in a standard form weekly or monthly so that there is a clear picture of what is in the pipeline. Central guidance would then follow on available funds once the data was consolidated for the country as a whole. There is a strong argument for this process to allow a much better "real-time" indication of funds available for those submitting SOIs. This might have avoided the submission of many of the failed applications at the recent heavily over-subscribed February round.
- The February round may have been a one-off, but I would strongly recommend that more regular financial monitoring is put in place immediately. This will help the whole system to work better. It might also

avoid expectations being dashed. However, applicants must remember that this is a competitive scheme with finite overall funding, and with a pretty well fixed allocation per annum.

- A major problem here may be the very flat profile of the expected spend. The SRDP funding tables show a build up in 2007 and 2008 and then a fairly constant annual expenditure thereafter. However, it was always likely that, in a competitive scheme, with a pent-up agri-environment demand, there would be a peak in the first couple of years of operation. Do these funding profiles need revisiting? At the very least the profile of available funds needs to be made very clear to the industry, to manage their expectations.
- In the longer term more thought is needed on the role of the RPAC. What is the point of this structure if the budget is not regionalised, and priorities are all on a national list? There is a strong argument for the RPAC having its own budget (perhaps based on historic spend, perhaps with a nationally controlled buffer, or national budgets for areas such as communities and designated sites) and the power to revise its priorities annually and to focus spending (by reducing the number of priorities or weighting the scoring system) as the budget is used up. Many RPACs would also like the ability to vary intervention rates and use ceilings/ diminishing scales, to get better value for money.
- The skills of case officers and the RPAC may not match the demands of some applications. I would recommend that RPACs are given the scope, in agreed circumstances, to delegate evaluation to more experienced organisations.
- As a development of the point above, consideration should be given to shifting all community projects to the LEADER system.

3.4.6 Scoring

- Now that we are into the second year of the Rural Priorities scheme some detailed thought is needed on the scoring system. Is it delivering what we want?
- A scoring system is an essential tool in a scheme with limited funds, to give a simple and transparent way of deciding which plan gets funding and which does not. However, it also becomes a game to be played by consultants with the correct wording or the addition of extra items (e.g. a small area of woodland) to boost the score.
- Issues which need to be considered are: the scoring of whole plans rather than individual priorities; the leverage, meeting demand and multiple outcomes criteria; whether all types of applications can be scored using the same criteria; whether Hi and Lo as the only possible outcomes for each criterion is sufficiently sensitive; the development of much more discretion by RPACs and case officers so that the scoring regime is a starting point rather than an end point in developing successful applications.

3.4.7 Ceilings and Grant Rates

- If we believe in an outcome led approach then it seems both logical and correct to have no ceilings, except where specified by legislation.
- However, this issue has been raised by a wide range of stakeholders, applicants and case officers/ RPACs. Their concern is the balance between big outcomes in one application versus breadth of distribution of outcomes (especially for some options). There is also the strong belief that some large projects could have been secured by a lower level of Government support. For example one regional office provided figures for the previous FBDS scheme which showed that £11.4M of investment had been secured from £2.4M of grant support – an effective average grant rate of 21% - much lower than the fixed RPs rate. For me the major issue is not whether a lot of small applications are better than a few big applications, but whether or not more benefits could be leveraged from the fixed pot of money. Value for money, maximum additionality and local appropriateness are important aims for the RDP across Europe.
- <u>I would strongly advise that ceilings are set for investment options (perhaps at the EU De Minimis level of 200,000 Euros or similar), but that case officers have the discretion to recommend to the RPAC a higher rate of support where this would generate more outcomes. Likewise with grant rates, the current levels become maxima, with discretion to vary dependent on need.</u>

4. Balance of the SRDP

4.1 Introduction

The SRDP balance, as considered in this review, relates to the objectives of the whole programme, the balance of funding between the four Axes, the balance between different delivery mechanisms, within these the range of options and allocation of funds between them, and even the balance of the Programme's funding profile over the individual years.

To this mix we need to add the other emerging issues raised in the terms of reference for this review, which include the economic downturn, climate change, hill farming and new entrants to agriculture.

Why should we review the balance of the programme at all, especially at this early stage? The drivers are described in note form below.

4.2 Issues driving potential changes

The perceived failure of the RDC-RP process

- Complexity, on-line and cost of the process potentially cuts out small and remote producers. Some of these could have high public benefit and growth potential, but are deterred from applying by access issues.
- Too costly for the applicant to make small proposals; simple agri-environment, small woodland, small capital investment
- Leads to calls for a shift in the type of delivery mechanisms, for example LMO expansion, or a fast track "RP lite".

Regional differences in uptake of RPs

- This is major – why? Is there something wrong with the suitability of options, or simply differences in ability to access RPs (e.g. broadband coverage), or is it the prevalence of a consultancy culture in some areas? Are some areas more au fait with competitive approaches? Are predominant business types a factor? Is it the availability of other sources of income to underpin new investments? Is the programme therefore not delivering national outcomes in some regions?

Economic downturn

- There is an argument that capital investment options have the greatest short term benefit (due to the construction phase), plus long term capacity benefits. However, the credit crunch threatens these options more than most as they attract only 40% or 50% grant (FBDS experience was that many investments went ahead with lower levels of grant, but also that many of the approved schemes never happened, perhaps due to a lack of matching finance).

- The environment lobby point to studies which show environment investments have as much long term economic benefit as others, and that this is often more sustainable. They can also provide an income stream to support other investments.

- Innovation/ restructuring/ new skills/ processing and marketing must be priorities. The key must be to give priority to "transformational" investments which have a major impact on competitiveness, adaptability and on job protection and creation.

Climate change

- We have very ambitious Scottish targets for woodland and renewables.

- We need to look again at barriers to farm woodland (as this is a major route for mitigating agricultural emissions). Block sizes, multiple benefits e.g. shelter belts, long term SFP/LFASS eligibility on woodland/ equality of comparison, all need to be considered.

- Small scale renewables. These are a major "win-win" as they provide capital investment to help tackle the economic situation, they address climate change, and they help diversify farm and forestry incomes. Are the SRDP options poorly understood and promoted? I have spoken to a range of consultants and attended meetings where there were widespread misconceptions over what was available.

Hill farming decline

This is a high profile issue and one which could justify a major review of its own. However, if we are to consider the role of the SRDP in tackling this decline, we first need to ask "what is the issue?" We also need to ask "which parts of this are within the scope of the SRDP?" The SRDP cannot directly support agricultural production.

Reasons for decline
There is a well documented decline in livestock numbers (mainly sheep) in North and West Scotland. This is the result of poor margins (no profit without subsidy) and then the freedom provided by decoupling post 2005. For example it became more profitable to cut hill sheep numbers, retain some on the in-bye land and still collect the full historic subsidy. But the reasons for the stock decline are more complex than this – it is also due to a decline in availability of community labour

for gathering, availability of jobs and alternative incomes in what was a strong non-farm economy, and the hassles of an increasing regulatory load. All these act as triggers to change.

Will the market sort it?
The reduction in sheep numbers (here and throughout Europe and indeed world) has allowed the lamb price to increase this year to unprecedented levels – this will likely slow any further reduction in Scottish sheep numbers. In this situation is it a good idea to contemplate using public funds to increase ewe numbers when we have seen such a marked benefit of reducing numbers? We don't yet know how the improvement in margins will affect future numbers. The situation in the cattle sector is very similar – there has been a smaller reduction in total breeding cow numbers, but store and finished prices are at historic highs.

Is there a food security argument?
There is a major fall in ewe numbers, but a far smaller fall in sheepmeat output at present. Though some of the lamb output gap is being filled by the cast ewes, the most unproductive sheep have gone and the remainder will do better. This has been the experience elsewhere in the world. The difficult reality of the food security issue is that if we wanted food security in Scottish sheepmeat and beef we would get a much better return on taxpayers money if we invested our increasingly limited public funds in improving productivity in the uplands and lowlands. For example it has been estimated that an increase in calving percentage from the current level of around 85% to the target of 95% would replace all the beef lost in the recent herd decline. To replace the lamb output lost from the NW of Scotland between 2004 and 2007 would need a lambing percentage increase across the remaining Scottish ewes of only 3.5%.

Is there a stratification argument?
The stratified structure of the Scottish sheep industry still exists to some extent, but it is reducing in importance – upland and lowland farms are shifting to closed flocks, to control their breeding goals and disease risk. The arguments for maintaining hill flocks as the pinnacle of a breeding pyramid are far less strong than they were even 10 years ago.

Is there a" public good" loss from the reduction in hill sheep and cows?
Those I have interviewed, including environmental organisations, believe there is a hill environment argument, though not in every location where a hill flock has been lost. SNH have done some work on linking fragile habitats with fragile farming. In some locations the removal of stock has led to woody heather and herbage changes which do not favour priority species of animals or plants. Deer grazing patterns also change leading to conflict in some locations. There is a game sector argument in some locations as less dipped sheep leads to more tick and less grouse. There are social arguments relating to the cohesion of crofting communities no longer involved in gathers and land management. For those remaining in the industry there is a critical mass argument as falling stock

numbers reduce the access to hauliers, other livestock services and skilled labour. There may also be landscape arguments which impact on tourism and the enjoyment of hill areas by the public.

Are there other policy tools better suited to dealing with the hills issue?
If the SFP were to shift to a flat rate payment system post 2013, even if regionalised, this would have some redistributive impact toward hill areas. That might be good for hill farm incomes, but it is not at all clear that it would have any impact on maintaining hill stock numbers or addressing the public good losses. It could do the opposite, as happened post decoupling in 2005.
The LFASS, which is part of the SRDP, is the actual tool designed for these areas, and its reform has also been deferred to the end of the programme period. A shift in LFASS definition toward the most disadvantaged areas would have a major impact on hill incomes, though its impact on stock numbers would again depend on some link to activity. Even then the incentive to maintain current stock numbers may be poor and the protection of public goods which are substantially dependent on hill farming activity, may not be realised. However, the LFASS needs to be looked at again as the tool for dealing with the problems of disadvantaged hill areas.
Article 68 (the mechanism which created the Beef Calf Scheme) has been broadened under the recent CAP Health Check. It could be used to further top-slice all SFP allocations to fund support for specific sectors. This would be popular with Government as it does not require eating into other committed funds as we enter a period of severe budget restraint, but unpopular with many farmers for obvious reasons. It is doubtful if the feasible size of payment would have much impact, without using allocations from the rest of the UK.

Conclusion
My view is that true hard hill farming (not upland farming), is not primarily about economics or food security or even links to the rest of the Scottish industry. If it is to have a future then it is mainly in the provision of public goods. For that reason I do think there is a role for the SRDP, including the non-LFASS parts, in the future of hill farming, because it is all about the delivery of public benefits. The question is whether or not, and how, within the rules, it can feasibly protect or enhance the public goods threatened by the sectors decline.

<u>It needs to be made very clear, however, that the non-LFASS SRDP cannot be a tool for supporting the Scottish suckler herd or ewe flock in general</u>. It would take the entire budget to have any impact and the SRDP is the wrong tool – it is about delivering wider public benefits. From a farming point of view we need the SRDP to fund investment in the future of the industry, not to prop up production.

<u>New Entrants/ Young Farmers</u>

As with hill farming, this is a high profile issue and one which could justify a major review of its own. Indeed the TFF did carry out a major piece of work on this topic in 2007/08. As with hill farming, if we are to consider the role of the SRDP in tackling the new entrants “problem”, we first need to ask “what is the issue?”

Is there a shortage of young people?
There are plenty young people interested in farming (especially for the number of farms there will be in the future). The average age of occupiers is very misleading – it represents the average age of the people completing the census form, many of whom will have a younger person heavily involved in the business, or working elsewhere who will eventually take over the farm.
A bigger problem may not be the shortage of young people, but the slow rate at which they are given business responsibility. If we are to have a vibrant, entrepreneurial industry the next generation needs to learn its business skills early and needs to be given the scope to innovate and make decisions.
A greater problem in some sectors is the supply of young, skilled employees.

So what is the problem?
The problem is the low availability of land (inevitable in a 70% owner occupied industry), property prices and low profits, hence making it more attractive to work elsewhere. We cannot expect the recreation of the traditional new entrant route into farming i.e. youngster building themselves up in a small farm, move to larger, etc – the new model is working off the farm to build capital to compete in the land market, or getting access to land through a range of contract and short term mechanisms. For those from a farming family there is the benefit of the collateral value of the home farm, and the option of part-time farming if expansion is limited. A large area of land is available under contracts and short lets, but not longer term tenancies as owners don’t want to tie up their assets in a volatile world and because they don’t like the current tenancy legislation. There is a big role for the TFF and further tenancy reform. They have just done a piece of work which researches and publicises phased entry routes into farming and are proposing fast track new entrants/ young farmers access to the SRDP and expanding eligibility to include incentivised employees.

Does the RPs “Setting Up Young Farmers” option help?
To date there have been very few applications, partly because the world has changed since its introduction. The representations I have received state that the definition of Young Farmer is too broad and the interest subsidy could be supporting an individual who, in the background, could be related to a high Net Worth business which could support the finance. Also the concept of an interest rate subsidy is far less relevant at the moment given our historically very low interest rates. The need to have started the business within the last 12 months has caught out a number of genuine new entrants, and indeed could be argued to favour those who can “create” a new business for the purposes of benefiting from the grant. The 50% FTE requirement seems too high for many new entrants working part-time.

The support under this option can be in the form of an interest rate subsidy (up to 40,000 euros), a one-off premium (up to 40,000 euros), or a mixture of both (up to 55,000 euros). The single premium was not adopted in Scotland because research elsewhere suggested it was very poor value for money. Originally the subsidised finance could not be used to purchase livestock, but this has already been successfully challenged by Scottish Government and is now being changed.

Conclusion
I believe the existing young farmers option was introduced with very good intentions, but has become ineffective as circumstances have changed since the SRDP was designed and introduced - interest rates have fallen sharply since the start of the Programme and are not a major problem at present. In addition the option is poorly targeted in as far as it does not exclude people who may be related to an existing high Net Worth business. Its existence has created expectations of help to young and new farmers which it cannot now fulfil.

If the option continues for the rest of the programme then I would favour looking at the use of the one-off premium, but it must be linked to a good business plan and clear expenditure plans. I would also favour a reduction in the 50% FTE rule to say 25%. Relaxation of the 12 month rule would be ideal, but cannot I believe be achieved within EU rules. Scrutiny of applicants to exclude those associated with high Net Worth businesses is recommended, though there may be no provision within the legislation to allow this and as a recommendation it is fairly academic given that there are very few applicants anyway.

If there is no evidence of increasing demand from new entrants as the Programme progresses then I would favour a review of the continuation of this option and of how the allocated funds could be used to best advantage.

Perhaps a bigger issue for rural industries is competing in the labour market and specifically the lack of a strong on-farm apprenticeship system to build up a feeling of value and growth in the workforce. This would also support the development of a career structure through which real new entrants may feel they have an opportunity for progression. This is not a role for the Young Farmers option, but may be for the Skills Development Scheme, which has been playing a very useful role in supporting specific skills initiatives to date.

<u>The Scope of the Programme</u>
This is an issue for long term review. The scope of the programme is one of its major strengths, but questions are raised over the sheer breadth of the programme in comparison to the money available, and over the operating cost of this approach over the benefit delivered.

Breadth versus Money

The programme tries to address a very large number of objectives and meet the needs of almost all stakeholders. This is a very laudable aim, but I am not convinced that the SRDP can meet all these expectations. The answer to this in the design of the regime is competition across all priorities, which effectively rations the funds on the basis of the best applications to optimise the outcomes achieved. Does this not risk disappointing many stakeholders and is this not a substitute for making decisions on the most important priorities from the outset? Those decisions will have to be made as the money runs out anyway. In any case competition is largely confined within individual measures, not across measures, as funds have to a great extent been allocated to individual "pots". There is also a deeper question over the role of the SRDP. EU policy really defines this, but in relation to the balance of the programme, how much is it to do with investment (and not just capital investment) to improve the environment and the rural economy, and how much is it about ongoing support for the activities of businesses and organisations which in turn leads to expectations of continuing support?

Operating cost of the programme versus benefit of this approach.
This has already been mentioned under the delivery section. However, there is a strategic issue here about the balance of the programme. If the public benefit objectives are clear, is the SRDP as currently constructed delivering those objectives in the most cost-effective manner? If not, is the scope of the Programme a contributory factor?
The aim of a competitive application system is to allocate scarce public funds to the best projects i.e. those which deliver the biggest outcomes for the nation. For activities like woodland creation which have been given such a high priority as part of the climate change agenda, the funds have effectively been allocated and many in that sector feel there is little point in a competitive application system which may only add administrative cost and delay delivery.

<u>Innovative versus Prescriptive</u>
Some applicants feel there is not much flexibility to make a case e.g. for a non SSSI designated area. Also some feel there is too much detailed prescription of exactly what must be done e.g. from size of waymarkers through to how to manage an area for a priority species. Prescription of activities aims to ensure value for money, but in general there is a feeling that the programme should put the onus on the applicant delivering the outcome (especially where it is demonstrable), not on a list of prescriptive actions which may or may not deliver the outcome.

<u>Management and the role of stakeholders</u>
There are stakeholder groups and consultations galore. In the early stages of design of the current SRDP there were large numbers of meetings around the country, and a full consultation process. In theory representatives of the rural community and industry have never been so close to the policy making process. Despite this the Rural Priorities problem was not spotted or influenced, and I do

not get the feeling that the industry and community stakeholders are now taking ownership of the programme and the problem. Both Scottish Government and these stakeholders need to think hard about the role of the existing groupings, such as the PMC (which has a statutory basis) and about the consultation process. They need to add value, otherwise they simply add cost and may contribute to false and unrealistic expectations.

4.3 Advice on the Balance of the Programme

4.3.1 Balance between Axes

There is little support for shifting funds between Axes. Nobody I spoke to felt this would have a marked effect on the economy or other areas of priority such as hill farming or climate change. This suggests that the overall objectives of the Programme are roughly correct, though several interviewees pointed out that it was really too early to say. The main plea was to ensure that whatever the Axis, the quality of applications is high, so that maximum benefit is gained from the funds disbursed.

4.3.2 LMO versus RDC-RPs

For the balance of the programme, this is perhaps the biggest issue raised in the review. Arguments range from a small, targeted expansion of LMOs (for example for crofters or hill farming) through to a general expansion across the whole country and with an increase in the allowance per business.

Arguments for expansion;

- Could tackle the problem of a “disenfranchised” group who find it difficult to access RDC-RPs. LMOs could provide a simpler route (via the SAF) for them to participate in the SRDP. This is a commonly used approach e.g. Tir Cynnal in Wales.
- RPs are too deep and narrow and with a limited budget the outcomes are not at all widespread. The spread of outcomes could be better using the LMO mechanism. Around 51% of IACS businesses are already LMCMS/LMO claimants
- Some options don’t justify the complex RP process. Many argue for some expansion; some organic measures, small environment measures, small scale capital investment e.g. livestock handling, small woodland measures (especially if the annual allowance could be rolled up over several years)
- From an administration point of view it is very simple and relatively low cost
- LMOs can be targeted very tightly because the application is linked to the Single Application Form.

- Some expansion of the list of LMOs may be possible without increasing individual allowances and eating into the Rural Priorities pot. Of the potential total allowance of £56M, £33M (60%) is currently being used (though this may increase as newly eligible land users such as forestry businesses take up options this May)
- Fundamentally LMOs are a way to get involvement from the type of business which might not typically apply to schemes of any nature, especially environmental schemes.

Arguments against;

- LMOs are by definition not well targeted. For example the environmental measures selected from the list by a farmer may not actually do much good because they are not based on an objective external assessment of what that unit needs. This is both a practical point on value for money, and an EU justification problem. All expenditure is assessed against targets.
- For an expansion of the number of LMOs to have any major impact there needs to be an increase in the individual farm allowances. This robs funding from well targeted, "transformational" long term benefit investments under RPs
- Indirectly it shifts funds away from communities to farmers/ foresters? Is that the shift in priority which is desired for the Programme?
- Poor administration and implementation history. The lack of pre-approval inspections, contracts and a process which forces applicants to think through what they are applying for, has led to mistakes on farms under LMCMS.
- Fundamentally the SRDP is about development and rewarding good ideas, not distribution

My advice is as follows.

<u>1. I would not advise a general expansion of LMOs</u>. It would be a disaster if lots of good development ideas, with big long term gains for Scotland, were not funded because the budget had been shifted to LMOs. We could dilute the impact of the Programme by spreading the funds too thinly.

However, the targeted use of LMOs to meet specific needs and to test out the future role of this delivery mechanism is worth consideration – see 3 and 4 below.

<u>2. What are LMOs for?</u> As we head toward 2013 and possibly fundamental changes to the SFP and LFASS we need to review the role of the LMO delivery mechanism. Is it an entry level scheme to get a wider base involved in SRDP measures? Is it a small business scheme? Is it a route for innovatively targeting problems, where a simple and fast approach is required? It may be all of these.

This is an issue for the mid-term evaluation and the design of the next programme.

3. "Action for the Hills" LMOs

As discussed earlier there may be a public good loss from the decline in true hill stock numbers. The SRDP is the tool for delivering public benefit, and given the lack of flexibility in the LFASS part of the SRDP, we should look at trialling the targeted use of LMOs to address this issue.

Key design issues;

- Geographically targeted. This could be at specific hill areas where the losses are most severe, or by using specific hill options which will only be taken up by target farms/ land users.
- Funds should go where they are needed and not make a major hole in the Rural Priorities budget. This might mean ring fencing non agricultural funds for example.
- Addresses public good losses; for example herbage management for threatened species, small scale infrastructure to help individuals and communities to remain involved in farming, cooperative ventures to tackle loss of critical mass
- Time limited. Operate as a three year trial to test effectiveness and review at the end of the programme alongside likely changes to the rest of the support regime.
- Build in other objectives such as enhancements for new entrants/ young farmers
- Some new options, but also some existing options from RPs – needs to link the two mechanisms
- If the individual farm allowance is increased it should be tightly targeted, regionally or through a trigger related to uptake of specific hill options.
- Simplicity for the applicant, to encourage uptake
- If regionalised, consider giving the RPAC an input to design and evaluation, to test further regionalisation in future.

Hill LMOs could include;

- Integrated hill grazing plan – payment for stock reintroduction for demonstrable multi benefits
- Conservation grazing – grazing plan to enhance environmental benefits from existing stock
- Collaboration in hi health breeding stock
- Introducing native hill cattle
- Small scale infrastructure investment (collection, handling, transport)
- Invasive species control
- Conservation shelter belts
- Renewables feasibility/ planning

This is not a definitive list and some of these may not meet EU regulations. However, it is presented to stimulate thinking.

4. An "Introductory Rural Stewardship Package"

Maximum benefit from environmental expenditure is an important principle – hence competition for funds under the Rural Priorities scheme. However, another important principle must be the involvement of as many land users as possible (including those who feel the RP process is too expensive) in environmental improvement, so that they become part of an ongoing improvement over successive programmes and get introduced to broader climate change and social goals. The aim here is more long term positive outcomes from getting more land users involved.

I do not believe that the existing environmental options under LMOs add as much value as they should, because they are not targeted at specific needs and because the farmer is not involved in the learning inherent in a planning process.

While I believe this is an important principle which should definitely be tackled under the Programme, there may be several ways to achieve this outcome. I am more interested in the principle than prescribing how it is achieved.

One suggestion is a package within LMOs which could involve selection from any of the environmental options in Rural Priorities, but with the requirement for a simple plan to audit and design the best mix of options for that unit. The package would have a fixed financial limit – one suggestion is £6,000, but this is open to debate and budgetary considerations.

If the applicant wants to submit a larger plan they can then follow the RPs route.

Many other sectors will feel that they should also have a fast track LMO route for small scale expenditure, for example small scale forestry and organic maintenance. The reason for singling out environmental options must be because, as a principle, we want as many land managers as possible to be involved in environmental improvement, and to a lesser extent because many priority species (e.g. skylark, kestrel) are everywhere.

5. As suggested in the ConFor report, the opportunity to roll-up LMO entitlements for capital investments should be investigated i.e. a one-off capital expenditure which can then be paid by several years of LMO income for that option. As with all options this must be subject to what is possible under EU rules.

6. LFASS

The detail of the LFASS is outwith the remit of this review and is the subject of a separate consultation. However, this review is asked to consider the role and place of LFASS within the balance of the programme.

I have recommended a targeted use of LMOs to address hill issues, as a trial to 2013. However, LFASS should be the main long term tool to tackle natural disadvantage. I believe a reshaping of LFASS to tackle the problems of the most disadvantaged and environmentally threatened areas, where agricultural activity is declining fastest, is required. The EU Mountain and Specific Handicap measures seem to make sense to me in this regard, though there may be ample scope for retargeting support under the existing regime. Everyone is waiting for the outcome of the ongoing EU review of the current regime, but within my remit of reviewing the balance of the SRDP my conclusion is that the LFASS is not achieving what it is meant to achieve as part of the programme. Changing the status quo is unpopular, but I doubt if the current regime is serving the needs of either farming in our most disadvantaged areas, or the wider rural environment. A long term vision and leadership is required here.

4.3.3 The Rural Priorities Delivery Mechanism and Forestry

Competition is by far the best way to allocate scarce Government funds. However, in a sector like forestry which has been given such high priority due to Scottish climate change targets, resources have effectively already been allocated. The national policy imperative is to get the planting done. In this case could the national outcome be delivered more cost effectively by a non competitive, eligibility driven scheme?

I cannot see that removing all forestry from the Rural Priorities mechanism would be feasible in the middle of the Programme, resulting as it would in more delays, costs and learning. However, I would recommend that the position of forestry is at least considered for the next Programme.

4.3.4 Regionalisation

I believe that one of the lessons of the programme to date is that where funds are limited, the decision on prioritisation should be pushed down to the regions. This should make decisions most appropriate to local areas, it builds up the capabilities of the local RPACs, and it develops local ownership of the programme. It is also consistent with EU policy. To make this work, RPACs need a lot of freedom to drop some priorities or to add weighting factors in the scoring system for particular priorities, and perhaps they should be allowed to decide which.

In the longer term I would also favour a regional allocation of the budget, perhaps, as discussed earlier, a large proportion allocated regionally and a central buffer allocated on the basis of demand. This clearly adds some administrative complexity, but LEADER has operated successfully in this way for years.

4.3.5 The Economic Downturn

The downturn does not justify large movements of funds from one Axis or option to another. What I feel it does justify is;

1. A concentration on maximum added value. This is a job for the RPACs and means they need to be given the flexibility to judge applications beyond the simple score, and vary intervention rates. It may seem perverse when we want maximum activity to allow RPACs to reduce capital grants below the typical 40%/50% level for some applications, but in the recent round if they had been allowed to reduce the intervention rate for some projects which they judge could go ahead with less grant, fewer of the remaining applications would have been rejected. The regions must be best placed to judge the balancing of local priorities, value for money and additionality.

2. Push up the maximum intervention rate wherever possible, perhaps time limited for the next 2 years. The aim is to stimulate more development over the next 2 years and to counter the problem of tight bank funding and other match funding. For example the Community Facilities and Services measure was publicised as up to 100%, but has become 50% maximum. It should return to the original rate, but with RPAC discretion to apply any rate between 50% and 100%. Where it is possible to redeploy a Measure to improve uptake, for example the proposed shift of measure 341 to LEADER, this should be approved. The opportunity to increase some support rates by 10% under the Health Check "new challenges" needs to be investigated. The use of standard versus actual costs needs to be looked at again (I believe this is underway). The ability to use standard costs may tip the balance in favour of an application for some businesses.

3. Make the list of allowable diversifications as broad as possible and welcome innovation. Make this clear in the scheme guidance.

4. Pull more of the funding from future years into the next two years. The February RPAC suggests there is excess demand. It does not seem sensible to choke off that demand precisely at the time that the economy needs more activity. Of course, this is very simply said, but as the bulk of the SRDP is Scottish Government funded, that means very difficult decisions in what is likely to be a very difficult national funding situation.

In summary, if we want the SRDP to have some positive impact on the economic downturn then shift the spending forward, boost the attraction of the scheme by maximising intervention rates, and get more "bangs for the taxpayers buck" by giving case officers/RPACs freedom to vary rates. Finally this would all need to be well publicised – applicants need to be made aware that there is more money now, but less later. It also needs to be resourced in terms of staff capacity.

4.3.6 Climate change

This is already a key outcome of the SRDP. However, two relevant aspects have been expressed to me during the review.

Small scale renewables.
Under Axis 1 the Renewable Energy options are tied to cost reduction, hence the requirement for 51% or more of the output to be used on the unit. The 80% home consumption requirement which was communicated at the start of the programme was an error, and was corrected, but a number of interviewees including consultants still had the impression that high rates of home consumption were required.

For schemes selling more than 49% of output and for larger scale schemes (up to 250kW) farmers can try the Axis 3 “Diversification Outwith Agriculture” route. During this review I have found that this is not well understood and is not clearly sign-posted from the Axis 1 option.

This whole area of renewables investment needs to be better promoted and explained to potential applicants as few areas give wider benefits; the rural economy, climate change, upland and hill farming incomes all potentially benefit. Upland farms with the best renewable energy possibilities (micro-hydro, small scale wind, biomass) typically have very low energy usage, so the requirement to use no less than 51% of the energy produced severely limits the size of the scheme under the Axis 1 option, so understanding of other funding routes and options is critical.

A major barrier to collaborative renewable energy schemes is the sheer cost of feasibility and planning preparation. It could be argued that if the returns are very good then the collaborators should take the funding risk for the planning process. However, the sums of money are very large for typical farm businesses. While a direct funding route through SRDP might be difficult, I would make a plea for pump priming support for this feasibility work. LEADER could do feasibility under a number of themes, and I believe Measure 124 covers this and is a component of Rural Development Contracts.

Farm woodlands.
To mitigate Greenhouse Gas (GHG) emissions the establishment of farm woodlands must be a priority. However, the options available to farmers are not well understood and they are not sold on the basis of the multi-benefits they can

provide or achieve e.g. shelter, biomass. Mechanisms which would allow several farmers to collaborate in woodland planting on one farm and how to benefit from the carbon market are also not well understood or incentivised.

4.3.7 New Entrants

As discussed earlier, I believe the existing young farmers option was introduced with very good intentions, but has become ineffective as circumstances have changed since the SRDP was designed and introduced - interest rates are not a major problem at present. The existence of the option has created expectations which it cannot now fulfil.

If the option continues for the rest of the programme then I would favour looking at the use of the one-off premium, but it must be linked to a good business plan and clear expenditure plans. I would also favour a reduction in the 50% FTE rule to say 25%. Relaxation of the 12 month rule would be beneficial in attracting more applicants, but is unlikely to be possible under EU rules. The scrutiny of applicants to exclude those associated with high Net Worth businesses is recommended, though this is fairly academic given the small number of applicants.

If there is no evidence of increasing demand as the Programme progresses then I would favour a review of the continuation of this option and of how the allocated funds could be used to best advantage.

The Tenant Farming Forum has made recommendations on fast track access to the SRDP Rural Priorities and LMOs for new entrants and I would ask RPID to consider how this could be achieved.

Perhaps a bigger issue for rural industries is competing in the labour market and specifically the lack of a strong on-farm apprenticeship system to build up a feeling of value and growth in the workforce. This would also support the development of a career structure through which real new entrants may feel they have an opportunity for progression. This is not a role for the Young Farmers option, but may be for the Skills Development Scheme, which has been playing a very useful role in supporting specific skills initiatives to date.

4.3.8 Management

There should be a standard protocol for the development and introduction of the SRDP and any other scheme. The role of stakeholders should be clear, the links between policy and implementation and field staff should be strong and the checks and balances of the system, such as testing on end users should be specified. Resource implications should be worked through and cost:benefit should be central to the process. I am sure all of this exists, but it needs to be done.

Likewise service delivery targets need to be clear from the outset and built into the policy and scheme design thinking.

The role of stakeholders and consultation in the policy making and implementation process needs to be thought through. How and where do they add value? Are the expectations generated by stakeholder liaison managed correctly? When problems do occur, what is the mechanism for stakeholders taking an active part in building solutions?

The PMC is the key forum in this respect. I would like to explore with the PMC how it operates when there are criticisms of aspects of the SRDP. The PMC needs to take a leading role in building a consensus on the future of the Programme, making changes and making it a success.

4.3.9 The objectives of the SRDP

I am not a policy maker, but for the long term I feel there are some fundamental questions to be asked before the design of the next RDP, and indeed before the end of this one.

1. What can we achieve with the money available?
It is critical to set out Scotland's objectives (within the EU framework), but we must also then ask how much of that ideal we can achieve with the funds available. I would then recommend some prioritisation, which means tough decisions. The alternative of spreading funds across a very large number of objectives is a legitimate choice, but expectations of what can be achieved then need to be managed. These decisions then drive the selection of appropriate delivery mechanisms.

2. What is the fundamental role of the SRDP?
The RDP sits within the Gothenburg and Lisbon Council policy agendas. This is then enshrined in the Strategic Guidelines for Rural Development, the RDR, its objectives, Axes and Measures, the enabling EU legislation and the rules on allocation of funds per Axis. Within this what is the correct balance for Scotland between "transformational" investment and more traditional, but less risky, investment and protection?
Similarly, should the SRDP be about delivering businesses and organisations core objectives and funding requirements, which leads to expectations of ongoing support, or should it be about one-off investment (and not just capital investment) for broader economic development and environmental improvement?

3. What is the role of the delivery organisations?
Is it to put a process in place and then police it, or is it to be at the heart of delivering successful projects? In many ways the role is clear – it is delivering the SRDP strategy through successful projects which deliver desired outcomes. Does this mean moving to a LEADER type approach?

4. How does the wider SRDP fit with the revised LFASS and SFP into an integrated rural policy? Specifically how do they all fit into an integrated land use policy? For example if we want new woodlands how does that fit with conservation and agricultural policy?