

Summary: Intervention & Options

Department /Agency: Defra	Title: Impact Assessment of implementation of the CAP Health Check reforms relating to the Single Payment Scheme and other direct payments	
Stage: Consultation	Version: 1.0	Date: 29 April 2009
Related Publications:		

Available to view or download at:

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

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

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

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

What are the policy objectives and the intended effects?

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

What policy options have been considered? Please justify any preferred option. As the three issues on which we are consulting arose from the CAP Health Check, they have all been included in the same Impact Assessment. The options for the four questions are listed in the consultation document.

Q1 (Minimum Claim)– No preferred option. We have shown indicative data for a range of minimum claim sizes.

Q 2 (Objective Farmer Test) – Recommend maintaining the status quo (Option 2A) as we believe an objective farmer test will be difficult to administer and could disadvantage farmers who have diversified.

Q3-4 (Decoupling of nuts & protein support) – The options for incorporating the nuts and protein funding into the SPS (Options 3A, 3B and 3C) have been identified and analysed to help consultees express a view. If the funds are to be allocated on a historic basis, we recommend using a reference year of 2008 (Option 4A). This is the simplest to implement and ensures funding goes to recent nut/protein growers.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

The Single Payment Scheme will be subject to the wider review of the CAP at the end of 2012.

Ministerial Sign-off For SELECT STAGE Impact Assessments:

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister:

..... Date:

Summary: Analysis & Evidence

Policy Option: 1A

Description: Minimum claimed area of 1ha

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

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

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

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

Impact on Admin Burdens Baseline (2005 Prices)		(Increase - Decrease)	
Increase of	£ 0	Decrease of	£ 1.2M
		Net Impact	£ -1.2M

Summary: Analysis & Evidence

Policy Option: 1B

Description: Minimum claimed area of 3ha

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' The one-off costs shown are RPA costs resulting from the need to change IT systems (£100,000) and administrative costs to process claim rejections and deal with customer enquiries (£400,000). There are no annual costs. There are no costs for farmers for simply being excluded from the scheme.
	One-off (Transition)	Yrs	
	£ 500,000		
	Average Annual Cost (excluding one-off)		
	£ 0	3	Total Cost (PV) £ 500,000
<p>Other key non-monetised costs by 'main affected groups'</p> <p>An estimated 10,000 farmers will be ineligible to apply for SPS payment. The value of SPS payments to other applicants will be unaffected.</p>			

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' The annual benefits are reduced RPA administration costs resulting from fewer claims to inspect and process to payment (£350,000) and reduced admin costs for the farming industry as less annual SPS application forms will be submitted (£8.2M).
	One-off	Yrs	
	£ 0		
	Average Annual Benefit (excluding one-off)		
	£ 8.55M	3	Total Benefit (PV) £24.79M
<p>Other key non-monetised benefits by 'main affected groups' RPA will have a reduced number of claims to process, which should free up a small amount of resource annually to be utilised on processing of other SPS claims. This could have a small knock-on benefit for overall scheme processing.</p>			

Key Assumptions/Sensitivities/Risks Assume 10,000 claims will fall below the minimum claim size. It is assumed that the vast majority of these claimants will be excluded in the first year (2010) and will not re-apply to the scheme in later years. Farmers can benefit if they sell/transfer their entitlements to other farmers.

Price Base Year	Time Period Years 3	Net Benefit Range (NPV) £	NET BENEFIT (NPV Best estimate) £ 24.29M
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What is the geographic coverage of the policy/option?	England			
On what date will the policy be implemented?	2010			
Which organisation(s) will enforce the policy?	RPA			
What is the total annual cost of enforcement for these organisations?	£ 0			
Does enforcement comply with Hampton principles?	Yes			
Will implementation go beyond minimum EU requirements?	No			
What is the value of the proposed offsetting measure per year?	£ 0			
What is the value of changes in greenhouse gas emissions?	£ 0			
Will the proposal have a significant impact on competition?	No			
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)		(Increase - Decrease)	
Increase of	£ 0	Decrease of	£ 8.2M
		Net Impact	£ -8.2M

Summary: Analysis & Evidence

Policy Option: 1C	Description: Minimum claimed area of 5ha
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COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' The one-off costs shown are RPA costs resulting from the need to change IT systems (£100,000) and administrative costs to process claim rejections and deal with customer enquiries (£800,000). There are no annual costs. There are no costs for farmers for simply being excluded from the scheme.
	One-off (Transition)	Yrs	
	£ 900,000		
	Average Annual Cost (excluding one-off)		
£ 0	3	Total Cost (PV)	£ 900,000
<p>Other key non-monetised costs by 'main affected groups'</p> <p>An estimated 17,000 farmers will be ineligible to apply for SPS payment. The value of SPS payments to other applicants will be unaffected.</p>			

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' The annual benefits are reduced RPA administration costs resulting from fewer claims to inspect and process to payment (£700,000) and reduced admin costs for the farming industry as less annual SPS application forms are submitted (£14M) .
	One-off	Yrs	
	£ 0		
	Average Annual Benefit (excluding one-off)		
£ 14.7M	3	Total Benefit (PV)	£42.63M
<p>Other key non-monetised benefits by 'main affected groups' RPA will have a reduced number of claims to process, which should free up resource annually to be utilised on processing of other SPS claims. This could have a small knock-on benefit for overall scheme processing.</p>			

Key Assumptions/Sensitivities/Risks Assume 17,000 claims will fall below the minimum claim size. It is assumed that the vast majority of these claimants will be excluded in the first year (2010) and will not re-apply to the scheme in later years. Farmers can benefit if they sell/transfer their entitlements to other farmers.

Price Base Year	Time Period Years 3	Net Benefit Range (NPV) £	NET BENEFIT (NPV Best estimate) £ 41.73M
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What is the geographic coverage of the policy/option?	England			
On what date will the policy be implemented?	2010			
Which organisation(s) will enforce the policy?	RPA			
What is the total annual cost of enforcement for these organisations?	£ 0			
Does enforcement comply with Hampton principles?	Yes			
Will implementation go beyond minimum EU requirements?	No			
What is the value of the proposed offsetting measure per year?	£ 0			
What is the value of changes in greenhouse gas emissions?	£ 0			
Will the proposal have a significant impact on competition?	No			
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)		(Increase - Decrease)	
Increase of £ 0	Decrease of £ 14	Net Impact	£ -14M

Summary: Analysis & Evidence

Policy Option: 2A	Description: Objective farmer test – maintain the status quo
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COSTS	ANNUAL COSTS	Description and scale of key monetised costs by 'main affected groups' This option maintains the status quo so there are no changes to the costs.
	One-off (Transition) Yrs	
	£ 0	
	Average Annual Cost (excluding one-off)	
	£ 0	Total Cost (PV) £
Other key non-monetised costs by 'main affected groups'		

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

Key Assumptions/Sensitivities/Risks

Price Base Year	Time Period Years	Net Benefit Range (NPV) £	NET BENEFIT (NPV Best estimate) £
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What is the geographic coverage of the policy/option?	England				
On what date will the policy be implemented?	2010				
Which organisation(s) will enforce the policy?	RPA				
What is the total annual cost of enforcement for these organisations?	£ TBC				
Does enforcement comply with Hampton principles?	Yes				
Will implementation go beyond minimum EU requirements?	Yes				
What is the value of the proposed offsetting measure per year?	£ 0				
What is the value of changes in greenhouse gas emissions?	£ 0				
Will the proposal have a significant impact on competition?	No				
Annual cost (£-£) per organisation (excluding one-off)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 25%; text-align: center;">Micro</td> <td style="width: 25%; text-align: center;">Small</td> <td style="width: 25%; text-align: center;">Medium</td> <td style="width: 25%; text-align: center;">Large</td> </tr> </table>	Micro	Small	Medium	Large
Micro	Small	Medium	Large		
Are any of these organisations exempt?	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 25%; text-align: center;">No</td> <td style="width: 25%; text-align: center;">No</td> <td style="width: 25%; text-align: center;">N/A</td> <td style="width: 25%; text-align: center;">N/A</td> </tr> </table>	No	No	N/A	N/A
No	No	N/A	N/A		

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

Summary: Analysis & Evidence

Policy Option: 2B

Description: Objective farmer test – introduce a test

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' The costs shown are the annual costs for farmers for providing RPA with additional information as part of the annual SPS application. There would also be one-off RPA IT costs and annual RPA administration costs but these can't yet be quantified as the criteria for the farmer test, and therefore the RPA checks, cannot be defined until the consultation process is complete.
	One-off (Transition)	Yrs	
	£ TBC		
	Average Annual Cost (excluding one-off)		
	£ 3.5m	3	Total Cost (PV) £ N/A
<p>Other key non-monetised costs by 'main affected groups'</p> <p>An unquantified number of farmers will be ineligible to apply for SPS payment. The value of SPS payments to other applicants will be unaffected.</p>			

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' There would be annual RPA benefits from a reduced number of claims to process, but this can't yet be quantified as the criteria for the farmer test, and therefore the number of farmers likely to be excluded as a result, cannot be defined until the consultation process is complete.
	One-off	Yrs	
	£ 0		
	Average Annual Benefit (excluding one-off)		
	£ TBC	3	Total Benefit (PV) £ N/A
<p>Other key non-monetised benefits by 'main affected groups' RPA will have a reduced number of claims to process, which could free up resource annually to be utilised on processing of other SPS claims. However, this could be outweighed by the resource needed to carry out the new test. The scale of the benefit (if any) won't be known until the criteria for the farmer test are set.</p>			

Key Assumptions/Sensitivities/Risks Assume that the objective farmer test requires all SPS applicants (106,000 farmers) to submit additional information each year and that this would be submitted as part of the annual SPS application process. A fuller analysis of the annual farmer costs (as well as the RPA costs) would be needed post-consultation once the criteria for any farmer test are agreed.

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

Impact on Admin Burdens Baseline (2005 Prices)		(Increase - Decrease)	
Increase of	£ 3.5m	Decrease of	£ 0
		Net Impact	£ 3.5m

Summary: Analysis & Evidence

Policy Option: 3A

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

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' The key monetised cost includes a one-off update to the RPA IT system (in the range £1.9M-£2.1M) and limited one-off RPA administration costs associated with dealing with customer enquiries (£15,000).
	One-off (Transition)	Yrs	
	£ 1.915M - £2.115M		
	Average Annual Cost (excluding one-off)		
	£ 0	3	Total Cost (PV) £2.015M
Other key non-monetised costs by 'main affected groups' Area Payment for Nuts and Protein Crop Premium funds (€10m) will be distributed across entitlements held by all SPS applicants. So, nuts and protein growers will see a decrease in funding, whilst other SPS applicants will see an increase. This is not shown separately above as it is only redistribution of funds.			

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' There may be some annual benefit to nuts and protein growers from reduced administration costs from having to apply to less schemes. This has not yet been quantified.
	One-off	Yrs	
	£ 0		
	Average Annual Benefit (excluding one-off)		
	£ 0	3	Total Benefit (PV) £ 0
Other key non-monetised benefits by 'main affected groups' Funds of approx. €10m will be distributed across payment entitlements held by all SPS applicants. This is not shown separately above as it is only redistribution of funds.			

Key Assumptions/Sensitivities/Risks

Price Base Year	Time Period Years 3	Net Benefit Range (NPV) £ -1.92 to -2.12 M	NET BENEFIT (NPV Best estimate) £ -2.015M
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What is the geographic coverage of the policy/option?	England			
On what date will the policy be implemented?	2012			
Which organisation(s) will enforce the policy?	RPA			
What is the total annual cost of enforcement for these organisations?	£ 0			
Does enforcement comply with Hampton principles?	Yes			
Will implementation go beyond minimum EU requirements?	No			
What is the value of the proposed offsetting measure per year?	£ 0			
What is the value of changes in greenhouse gas emissions?	£ 0			
Will the proposal have a significant impact on competition?	No			
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	No	No	N/A	N/A

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

Summary: Analysis & Evidence

Policy Option: 3B

Description: Decoupling of nuts and proteins – Allocate funding on a historic basis in 2010

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' The key monetised cost includes a one-off update to the RPA IT system (in the range £4.7M - £5.9M) and one-off RPA administration costs associated with allocating the additional funds to entitlements held by nuts and protein growers (£60,000). It also includes one-off farmer costs (£150,000) for reading information about their revised entitlement values.
	One-off (Transition)	Yrs	
	£ 4.91M - £6.11M		
	Average Annual Cost (excluding one-off)		
	£ 0	3	Total Cost (PV) £ 5.51M
Other key non-monetised costs by 'main affected groups' In 2010 protein and nuts growers will receive same funding as before decoupling (€10m). After 2010 they will receive less (and other SPS applicants will receive more) as a progressively smaller proportion of SPS entitlement values are based on the historic element (in line with current SPS). This is only a redistribution of funds.			

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' There may be some annual benefit to nuts and protein growers from reduced administration costs from having to apply to less schemes. This has not yet been quantified.
	One-off	Yrs	
	£ 0		
	Average Annual Benefit (excluding one-off)		
	£ 0	3	Total Benefit (PV) £ 0
Other key non-monetised benefits by 'main affected groups' In 2011, €9m (90% of the approx €10m fund to be transferred to SPS) will be distributed across entitlements held by all SPS applicants. In 2012, all of it will. This is not shown separately above as it is only redistribution of funds.			

Key Assumptions/Sensitivities/Risks Costs are based on the assumption that there will be a single reference year (see Policy Option 4A).

Price Base Year	Time Period Years 3	Net Benefit Range (NPV) £	NET BENEFIT (NPV Best estimate) £ -5.51 M
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What is the geographic coverage of the policy/option?	England			
On what date will the policy be implemented?	2010			
Which organisation(s) will enforce the policy?	RPA			
What is the total annual cost of enforcement for these organisations?	£ 0			
Does enforcement comply with Hampton principles?	Yes			
Will implementation go beyond minimum EU requirements?	No			
What is the value of the proposed offsetting measure per year?	£ 0			
What is the value of changes in greenhouse gas emissions?	£ 0			
Will the proposal have a significant impact on competition?	No			
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)		(Increase - Decrease)	
Increase of	£ 150,000	Decrease of	£ 0
		Net Impact	£ 150,000

Summary: Analysis & Evidence

Policy Option: 3C	Description: Decoupling of nuts and proteins – Other allocation method
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COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' Costs not known as basis of allocation method not defined until consultation process complete.		
	One-off (Transition)	Yrs			
	£ TBC				
	Average Annual Cost (excluding one-off)				
	£ TBC	3		Total Cost (PV)	£ N/A
Other key non-monetised costs by 'main affected groups' Whether, and to what extent, there is a redistribution of funds from nuts and protein growers to other SPS applicants will depend on the allocation method proposed.					

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' Benefits not known as basis of allocation method not defined until consultation process complete.		
	One-off	Yrs			
	£ TBC				
	Average Annual Benefit (excluding one-off)				
	£ TBC	3		Total Benefit (PV)	£ N/A
Other key non-monetised benefits by 'main affected groups'					

Key Assumptions/Sensitivities/Risks

Price Base Year	Time Period Years	Net Benefit Range (NPV) £	NET BENEFIT (NPV Best estimate) £ N/A
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What is the geographic coverage of the policy/option?	England				
On what date will the policy be implemented?	2010, 2011 or 2012				
Which organisation(s) will enforce the policy?	RPA				
What is the total annual cost of enforcement for these organisations?	£ 0				
Does enforcement comply with Hampton principles?	Yes				
Will implementation go beyond minimum EU requirements?	No				
What is the value of the proposed offsetting measure per year?	£ 0				
What is the value of changes in greenhouse gas emissions?	£ 0				
Will the proposal have a significant impact on competition?	No				
Annual cost (£-£) per organisation (excluding one-off)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 25%; text-align: center;">Micro</td> <td style="width: 25%; text-align: center;">Small</td> <td style="width: 25%; text-align: center;">Medium</td> <td style="width: 25%; text-align: center;">Large</td> </tr> </table>	Micro	Small	Medium	Large
Micro	Small	Medium	Large		
Are any of these organisations exempt?	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 25%; text-align: center;">No</td> <td style="width: 25%; text-align: center;">No</td> <td style="width: 25%; text-align: center;">N/A</td> <td style="width: 25%; text-align: center;">N/A</td> </tr> </table>	No	No	N/A	N/A
No	No	N/A	N/A		

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

Summary: Analysis & Evidence

Policy Option: 4A

Description: : Decoupling of nuts and proteins - single reference year of 2008

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' The one-off monetised costs for decoupling on a historic basis are shown in Option 3B. The one-off cost shown here is the RPA administration cost of processing the reference year data (£60,000) and one-off farmer costs (£150,000) for reading information about their revised entitlement values.
	One-off (Transition)	Yrs	
	£ 210,000		
	Average Annual Cost (excluding one-off)		
	£ 0	3	Total Cost (PV) £ 210,000
Other key non-monetised costs by 'main affected groups'			

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups'
	One-off	Yrs	
	£ 0		
	Average Annual Benefit (excluding one-off)		
	£ 0	3	Total Benefit (PV) £ 0
Other key non-monetised benefits by 'main affected groups' Whichever reference year option is chosen (Option 4A or 4B) the total funding to be distributed to nuts and protein growers will be the same. However, the funding will be distributed across fewer farmers (5,495) in Option 4A than in Option 4B. Some farmers will benefit more from Option 4A, others from 4B.			

Key Assumptions/Sensitivities/Risks

Price Base Year	Time Period Years 3	Net Benefit Range (NPV) £	NET BENEFIT (NPV Best estimate) £ -0.21M
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What is the geographic coverage of the policy/option?	England			
On what date will the policy be implemented?	2010			
Which organisation(s) will enforce the policy?	RPA			
What is the total annual cost of enforcement for these organisations?	£ 0			
Does enforcement comply with Hampton principles?	Yes			
Will implementation go beyond minimum EU requirements?	No			
What is the value of the proposed offsetting measure per year?	£ 0			
What is the value of changes in greenhouse gas emissions?	£ 0			
Will the proposal have a significant impact on competition?	No			
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)		(Increase - Decrease)	
Increase of £ 150,000	Decrease of £ 0	Net Impact	£ 150,000

Summary: Analysis & Evidence

Policy Option: 4B

Description: Decoupling of nuts and proteins – average of reference years 2005-2008

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' The one-off monetised costs for decoupling on a historic basis are shown in Option 3B. The one-off cost shown here is the RPA administration cost of processing the reference year data (£150,000) and one-off farmer costs (£375,000) for reading information about their revised entitlement values.
	One-off (Transition)	Yrs	
	£ 525,000		
	Average Annual Cost (excluding one-off)		
	£ 0	3	Total Cost (PV) £ 525,000
Other key non-monetised costs by 'main affected groups'			

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups'
	One-off	Yrs	
	£ 0		
	Average Annual Benefit (excluding one-off)		
	£ 0	3	Total Benefit (PV) £ 0
Other key non-monetised benefits by 'main affected groups' Whichever reference year option is chosen (Option 4A or 4B) the total funding to be distributed to nuts and protein growers will be the same. However, the funding will be distributed across more farmers (13,360) in Option 4B than in Option 4A. However, some farmers will benefit more from Option 4A, others from 4B.			

Key Assumptions/Sensitivities/Risks

Price Base Year	Time Period Years 3	Net Benefit Range (NPV) £	NET BENEFIT (NPV Best estimate) £ -0.53M
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What is the geographic coverage of the policy/option?	England			
On what date will the policy be implemented?	2010			
Which organisation(s) will enforce the policy?	RPA			
What is the total annual cost of enforcement for these organisations?	£ 0			
Does enforcement comply with Hampton principles?	Yes			
Will implementation go beyond minimum EU requirements?	No			
What is the value of the proposed offsetting measure per year?	£ 0			
What is the value of changes in greenhouse gas emissions?	£ 0			
Will the proposal have a significant impact on competition?	No			
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)		(Increase - Decrease)	
Increase of	£ 150,000	Decrease of	£ 0
		Net Impact	£ 150,000

Background

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

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

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

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

Options

Minimum claim size:

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

- Option 1A: 1ha
- Option 1B: 3ha
- Option 1C: 5ha

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

Based on RPA's 2008 SPS claim data, we estimate that around 17,000 farmers will be excluded if the minimum claim size is set at the maximum allowable level of 5ha.

Farmers who fall below the minimum claim size will retain their entitlements. However, if they are not activated for payment for two years they will revert to the National Reserve (and the scheme is then due to be reviewed in 2012). Alternatively, farmers are able to sell or lease their entitlements to another farmer.

Costs and benefits

Costs

The introduction of the minimum claim size will necessitate changes to RPA's IT system, leading to a one-off IT cost (of £100,000, which is the same under all three options). There are also likely to be one-off admin costs to RPA as they process claims, and deal with queries, from farmers who fall below the minimum. These RPA admin costs increase as the minimum claim size increases and more farmers are therefore excluded (costs of £60,000 for option 1A, £400,000 for option 1B and £800,000 for option 1C). The number of farmers expected to be excluded under each option is shown in the table below.

There will be no admin costs for farmers for simply being excluded from the scheme. However, for the affected farmers the minimum claim size would remove their eligibility to remain in a scheme they once had access to.

There are also environmental costs (which have not been monetised) of excluding farmers from the scheme as this reduces the number of farmers subject to cross compliance requirements. The environmental costs are difficult to quantify as some farmers will choose to continue to comply with cross compliance standards even though they are no longer claiming SPS. Therefore, not all the environmental benefits of cross compliance will be lost.

Benefits

There are annual cost savings to RPA as the introduction of the minimum claim size will result in fewer claims to fully process (see table below), thus saving on annual administration and inspection costs. Some processing of the claims will be required in order to determine whether they are below the minimum claim size, but there is still a net reduction in annual administration costs. The cost savings will increase the higher the minimum is set as more farmers are excluded. These RPA cost savings are £70,000 for option 1A, £350,000 for option 1B and £700,000 for option 1C.

The main benefits to individual farmers will be the removal of the administration costs of applying to the scheme. The total reduction in administrative burdens for farmers has been calculated for each option using the number of excluded farmers as listed in the table below and a standard rate of £824.50 per application (this standard rate is taken from the 2005 PWC study, which fed into Defra's Simplification Plan). This gives reductions in industry admin burdens of £1.2M for option 1A, £8.2M for option 1B and £14M for option 1C.

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

Farmers can receive a benefit if they choose to sell or lease their entitlements to another farmer on the open market. This has not been monetised as in practice many of the affected farmers will not consider it worthwhile to carry out this transaction. For this reason we have not monetised the administration costs of farmers carrying out this transaction.

The cost-benefit ratio is higher under Option 1A than for Options 1B or 1C.

Minimum claimed area	No. of farmers excluded (and % of the current total of 106,000 SPS applicants)*
1 ha	1,500 (1.4%)
3 ha	10,000 (9.4%)
5 ha	17,000 (16%)

* Based on RPA data for SPS 2008

Objective farmer test:

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

Option 2A: Maintain the status quo (i.e. don't introduce an objective farmer test)

Option 2B: Introduce an objective farmer test

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

The number of farmers to be excluded if an objective farmer test were to be introduced would be dependent on the objective criteria chosen. In the consultation paper we are seeking views on what, if any, objective criteria should be set.

In some cases a farmer who fails the objective farmer test may also be excluded from the scheme as a result of the minimum claim size (Options 1A, 1B and 1C). However, it is likely that many farmers who have more than 5ha (and so who would not be excluded as a result of the minimum claim size) would still fail the objective farmer test, for example if they have diversified in non-farm based enterprises.

Farmers who fail the objective farmer test will retain their entitlements (assuming that they did meet the existing EU definition of a farmer). However, if the entitlements are not activated for payment for two years they will revert to the National Reserve (and the scheme is then due to be reviewed in 2012). Alternatively, farmers are able to sell or lease their entitlements to another farmer.

Costs and benefits

Costs

Introduction of an objective farmer test would lead to a one-off IT cost for RPA to update their system to validate claimants against the chosen objective criteria. There may also be one-off costs associated with introducing new/changed administrative procedures and forms. There will also be an increased annual administration cost for RPA to apply the criteria. The RPA costs have not yet been quantified as they are heavily dependent on the objective criteria (which cannot be determined until after the consultation).

There are likely to be annual costs for farmers as they are likely to have to provide RPA with additional information to be used to validate the objective farmer test. These costs are also dependent on the criteria chosen. However, we have estimated the total industry costs using an hourly rate of £16.55 (this standard rate is taken from the 2005 PWC study, which fed into Defra's Simplification Plan) and assuming that it would take the 106,000 SPS applicants an

average of two hours to provide the necessary information to RPA. This gives an industry admin burden of £3.5M.

For the affected farmers the minimum claim size would remove their eligibility to remain in a scheme they once had access to.

There are also environmental costs (which have not been monetised) of excluding farmers from the scheme as this reduces the number of farmers subject to cross compliance requirements. As noted for the minimum claim size, the environmental costs are difficult to quantify as some farmers will choose to continue to comply with cross compliance standards even though they are no longer claiming SPS. Therefore, not all the environmental benefits of cross compliance will be lost.

Benefits

Although there could be some annual administration savings for RPA, resulting from a reduced number of claims to process, this is likely to be negligible given the possible complexities of carrying out the objective farmer test.

The main benefits to individual farmers will be the removal of the administration costs of applying to the scheme. The total benefit to the industry cannot be calculated until the criteria have been set (following the consultation) and therefore the number of farmers to be excluded from the scheme is known.

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

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

Decoupling of nuts and proteins:

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

Option 3A: Add funding to flat rate value of existing entitlements in 2012

Option 3B: Allocate funding on a historic basis in 2010

Option 3C: Other allocation methods

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

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

Decoupling of nuts and proteins will lead to a transfer of €10.5 million into the SPS budget in the UK, with about €10 million of this falling to England. The distribution of the funds between farmers will depend on the allocation method chosen. The main policy options identified are to either distribute the available support between all SPS applicants (by adding the funds to the flat rate element of the value of all SPS entitlements) or to direct the support to those who

previously claimed Area Payment for Nuts and Protein Crop Premium (by increasing the historic element of the value of entitlements held by the farmers concerned or by allocating them new entitlements in the very few cases where they don't already hold any). Alternatively, consultees are invited to suggest alternative methods. This could include variations on the timing (such as allocating the funding to the flat rate in 2010, rather than in 2012) or allocating some of the funds on a historic basis and some to the flat rate. The way in which sugar funding was incorporated into the SPS from 2006 (which had a transitional period during which a declining proportion of the funding was directed to historic sugar growers) shows the kind of alternatives which can theoretically be considered.

Costs and benefits

Costs

Option 3A (flat rate in 2012) is the simplest for RPA to administer and consequently has lower one-off IT costs (in the range £1.9M – £2.1M) and administration costs for dealing with customer enquiries (£15,000) than Options 3B. Once the funds have been incorporated into the SPS, there are no significant annual costs for RPA. There are no farmer costs as RPA will automatically increase the value of all entitlements to incorporate the new funding.

For Option 3B (historic basis in 2010), the one-off RPA IT costs are in the range £4.7M - £5.9M and one-off admin costs are £60,000. There are also one-off farmer costs of £150,000 associated with reading the information sent by RPA explaining how their revised entitlement values have been calculated. (It is assumed that the vast majority of eligible nuts and protein growers will already hold SPS entitlements and so won't need to apply for new ones.) These farmer costs have been calculated on the basis of a cost of £28.08 per farmer (for the 5,465 farmers who claimed Area Payment for Nuts and/or Protein Crop Premium in 2008) to read the RPA information about their entitlements (which is in line with the cost in the 2005 PWC study, which fed into Defra's Simplification Plan, for transferring entitlements to another farmer and it is assumed that this is a comparable activity). Option 3A does not have equivalent costs as the increase to flat rate values will form part of the normal annual recalculation of the flat rates.

For Option 3C (other allocation method), the RPA and farmer costs have not yet been quantified as they are heavily dependent on the objective criteria (which cannot be determined until after the consultation). If the option chosen involved allocating some of the funding on a historic basis there will be one-off farmer costs associated with reading the information sent by RPA explaining how their revised entitlement values have been calculated (similar to Option 3B).

Benefits

There are no significant benefits to RPA under any of the three options.

As the €10M of funding is simply being transferred from the Area Payment for Nuts and Protein Crop Premium to the SPS, the overall funding for the farming community will be the same after decoupling as before, whatever option is chosen. What will vary is the distribution of the funding between farmers. Under Option 3B, funding will transfer more quickly from historic nuts and protein growers to other SPS applicants, than would be the case under Option 3A. Consultees may suggest different allocation methods under Option 3C which could have different results. For example, if the funds were to be added to the flat rate in 2010, the funding would transfer from historic nuts and protein growers to the wider SPS population at the earliest opportunity (and earlier than under either option 3A or 3B). Other possible allocation methods may introduce a more gradual shift.

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

Option 4A: Single reference year 2008

Option 4B: Average of reference years 2005-2008

If it is decided to allocate some or all of the protein and nuts funding into the SPS on a historic basis (as would be the case under Option 3B and could be the case under Option 3C), we need to decide which reference year to use to calculate the amount of funding to be allocated to each farmer. The EU regulations allow Member States to choose one or more of the years in the period 2005 to 2008. We have presented two options: to use a reference year of 2008 or to use an average of the years 2005-2008. We have discounted the possibility of just using a year of 2005, 2006 or 2007 as this will not reflect the current nuts/proteins industry as well as the two options we have presented.

Costs and benefits

Costs

The one-off RPA costs, which are admin costs, will be slightly higher if Option 4B (the average of years 2005-2008) is chosen over Option 4A (2008) as there will be more farmers involved and it is more complex to administer multiple years rather than a single year. This admin cost will be £60,000 for Option 4A as opposed to £150,000 for Option 4B.

Farmer costs have been calculated using a standard cost of £28.08 per farmer (as in Option 3B). The farmer costs are expected to be higher under Option 4B (£375,000) compared with Option 4A (£150,000). This is due to the fact that more farmers claimed Area Payment for Nuts and Protein Crop Premium in the years 2005-2008 (13,360) than in 2008 (5,465).

Benefits

Some nuts and protein growers will benefit most from Option 4A, others from Option 4B, depending on their cropping patterns. The overall benefit for the farming community will be the same under either option as there is a fixed amount of funding (€10M) to be integrated into the SPS; what will vary is the distribution of the funding between individual nuts and protein growers.

Monitoring and review

It will be seen from this Impact Assessment that the detailed format of some of the options has yet to be determined. One of the main objectives of the forthcoming consultation will be to elicit suggestions from interested parties about which specifications of such options would be appropriate and practical. In addition the responses received should provide information that will assist with estimating the scale of the associated costs.

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

Summary of Costs and Benefits									
	Minimum Claim Size			Objective Farmer Test	Decoupling Nuts and Proteins				
	1A (1ha)	1B (3ha)	1C (5ha)		Decoupling Method			Reference Year	
	1A (1ha)	1B (3ha)	1C (5ha)	2B * (Introduce a test)	3A (Flat rate, 2012)	3B (Historic basis, 2010)	3C* (Other)	4A (2008)	4B (2005-08)
Costs: One off Totals	£160,000	£500,000	£900,000		£1,915,000 - £2,115,000	£4,910,000 - £6,110,000		£210,000	£525,000
RPA IT	£100,000	£100,000	£100,000		£1.9m - £2.1m	£4.7m- £5.9m			
RPA Admin	£60,000	£400,000	£800,000		£15,000	£60,000		£60,000	£150,000
Farmer						£150,000		£150,000	£375,000
Costs: Annual Totals				£3,500,000					
RPA IT									
RPA Admin									
Farmer				£3,500,000					
Benefits: One off Totals									
RPA IT									
RPA Admin									
Farmer									
Benefits: Annual Totals	£1,270,000	£8,550,000	£14,900,000						
RPA IT									
RPA Admin	£70,000	£350,000	£700,000						
Farmer	£1,200,000	£8,200,000	£14,200,000						

* 2A (maintain the status quo) has zero costs,
2B - RPA costs not yet known.

** 3C costs to be confirmed post consultation

Specific Impact Tests: Checklist

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

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

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

Annex 1 Specific Impact Tests

1 Competition Assessment

The options included in this Impact Assessment are not expected to have a significant impact on competition as they will affect a relatively small proportion of farmers. We estimate that approximately 16% of SPS applicants (17,000 farmers) will be excluded from the SPS if the minimum claim size is set at its highest possible level of 5ha (Option 1C). However, the numbers of farmers to be excluded if an objective farmer test were to be introduced (Option 2B) cannot be properly assessed until after the consultation, once the criteria have been defined.

Decoupling of nuts and protein support (Options 3A, 3B, 3C, 4A and 4B) will have no impact on the overall budget for SPS and other direct payments. It will result in a redistribution of approx €10m between farmers, but this is a relatively modest sum in comparison to the total annual SPS budget of around €2bn. It is nuts and protein growers who will be affected most by decoupling (as support moves from them to the wider SPS population), but the Area Payment for Nuts and Protein Crop Premium is currently claimed by only 5% of SPS applicants (5,400 farmers).

2 Small Firms Impact Test

For the purpose of Impact Assessments small firms are classified as those with fewer than 20 employees. Therefore the overwhelming majority of farm business can be classified as small firms; however the proposals for introducing an objective farmer test (Option 2B) and decoupling of nuts and proteins (Options 3A, 3B, 3C, 4A and 4B) apply equally to all and will not disadvantage smaller farms in relation to large ones. The minimum claim size will affect the smallest of farm businesses.

3 Legal Aid

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

4 Sustainable Development

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

5 Carbon Assessment

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

6 Other Environment

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

7 Health Impact Assessment

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

8 Race/Disability/Gender Equality

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

9 Human Rights

The proposals are consistent with the Human Rights Act 1998.

10 Rural Proofing

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