

## IMPACT ASSESSMENT

### The Rural Development Programme for England

1. The Rural Development Programme for England (RDPE) is a seven year funding programme which will implement, in England, the European Union (EU) Rural Development Regulation (Council Regulation 1698/2005). This Regulation sets out a menu of measures which, in combination with other EU legislation, is designed to meet EU priorities for rural development through support for economic, social and environmental objectives within a common framework across all Member States. The RDPE has been developed in line with this framework and objectives. Other relevant documents include:

- Community Strategic Guidelines for Rural Development (Council decision 2006/144/EC)
- Rural Development Implementing Regulation (Commission Regulation (EC) No 1974/2006)
- The Common Monitoring and Evaluation Framework Handbook <sup>1</sup>

2. The Programme, which is jointly funded by the EU and the UK Government covers the period from 1 January 2007 to 31 December 2013<sup>2</sup>. As its name suggests, the Programme applies only to England, but Scotland, Wales and Northern Ireland have each developed their own rural development programmes within the same EU framework.

3. As well as meeting EU priorities for rural development, the RDPE will help to deliver a number of existing UK and England policy initiatives. These include:

- Securing the future: the UK Sustainable Development Strategy.
- The UK Climate Change Programme.
- The UK National Reform Programme, setting out the Government's priorities in delivering the Lisbon agenda.
- Delivering the Essentials of Life: Defra's five year strategy which sets out how Defra will provide environmental leadership and put sustainable development into practice.
- The Sustainable Farming and Food Strategy and the forward look for the strategy.
- The Rural Strategy 2004.
- The England Forestry Strategy.
- The England Biodiversity Strategy.
- The Animal Health and Welfare Strategy.
- A Woodfuel Strategy for England
- The UK Biomass Strategy

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<sup>1</sup> [http://www.defra.gov.uk/erdp/rdp07\\_13/commeval.htm](http://www.defra.gov.uk/erdp/rdp07_13/commeval.htm)

<sup>2</sup> Submission of the Programme to the European Commission for approval, in accordance with the Regulation, was delayed beyond January 2007 whilst negotiations were concluded on the associated EU regulations allowing the Programme to be part-funded through voluntary modulation. These negotiations were concluded in March 2007.

4. Because the RDPE is primarily a funding instrument for existing EU and national policies, this impact assessment does not look in any detail at the policy options that underlie the range of support available to rural businesses and communities through the Programme<sup>3</sup>. Instead it examines the impact the Programme will have on businesses. In particular, it assesses and, where practicable, quantifies the costs and benefits to businesses of making use of the funding available through the RDPE. In this context, the definition of 'businesses' includes social enterprises and charities as well as commercial enterprises.

## **Objectives**

5. The Rural Development Regulation sets out three core objectives for rural development programming, arranged as "axes" or groups of measures intended to meet those objectives:

Axis 1 - Improving the competitiveness of the agricultural and forestry sector.

Axis 2 - Improving the environment and the countryside.

Axis 3 - The quality of life in rural areas and diversification of the rural economy.

6. Rural Development Programmes (RDPs) must be designed around these axes, though Member States have considerable discretion over the types of measures they choose to implement in order to meet the objectives. Annex 1 provides a summary of how the measures expected to be used under the RDPE relate to the national and EU strategic priorities for rural development. It can be seen from this that the RDPE affects a wide range of sectors and groups in rural areas, though with an emphasis on agriculture, forestry and the food sector.

7. The Rural Development Regulation also sets out minimum levels of expenditure for each of the axes. Axes 1 and 3 must each account for at least 10% of total EU funding per programme, whilst axis 2 must employ at least 25% of the EU funding.

8. As well as the three thematic axes, programmes must also include a fourth axis for delivery of the Programme through the Leader approach. This is a community-led approach involving Local Action Groups (LAGs) who put together a local development strategy and receive a budget to deliver it. A minimum of 5% of EU-funded programme expenditure must be delivered through the Leader approach, which is intended to ensure that, as well as meeting EU, national and regional objectives, the Programme is also tailored to local needs and strengthens capacity at the local level. This 5% can be spread across any of the three thematic axes,

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<sup>3</sup> The background, aims and priorities of the Programme are discussed in a number of documents, including two consultation papers, a UK strategy for rural development programming, and a strategic environmental assessment. The Programme Document itself contains an evidence base and strategy for achieving the objectives of the Programme, as well as delivery, monitoring and enforcement arrangements. All these documents can be found on the RDPE website at: [http://www.defra.gov.uk/erdp/rdp07\\_13/index.htm](http://www.defra.gov.uk/erdp/rdp07_13/index.htm)

though in the case of the RDPE it is expected that Leader will be used to deliver axes 1 and 3.

### **Rationale for intervention**

9. The RDPE has been developed in line with the overall framework of EU and national priorities and objectives, but with an emphasis on tackling market failures and targeting funding towards the largest challenges or those where alternative sources of funding are limited.

10. Market failures form the rationale for intervention under all three axes of the RDPE, and are also a key rationale for other government intervention. Market failures occur when the market does not allocate resources efficiently. Where market failures occur, the rationale for intervention depends on the cost of intervention being less than the cost of the market failure.

11. Annex 2 provides a summary of market failures as they affect each of the axes under the RDPE. Under axes 1 and 3, the scale of market failures is small and there are other, more substantial domestic funding streams which perform similar objectives to the RDPE in rural areas. For axis 2, however, there are limited alternative domestic funding streams, and the scale of the market failure is much larger and often EU-wide.

12. Given the scale of market failure for axis 2 measures, and the relative unavailability of other funding sources, the maximum proportion of the available RDPE budget will be allocated to this axis. The following table shows the compulsory minimum, and the planned RDPE percentages of the total budget under each axis.

**Table 1: allocation of total budget by axes**

<b>Objective</b>	<b>Compulsory minimum percentage of EU funds<sup>4</sup></b>	<b>RDPE percentage of EU funds</b>
Axis 1	10%	10%
Axis 2	25%	80%
Axis 3	10%	10%

### **Consultation**

13. Since the Rural Development Regulation came into force in 2005, there has been extensive consultation on how it should be implemented in England through the RDPE. Defra has met with key stakeholders and partners (both national and regional) at regular intervals to discuss progress and inform RDPE development. In addition, a 12 week public consultation<sup>5</sup> on the Programme's priorities closed on 22 May 2006 and received 286 written responses. A preliminary summary of these

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<sup>4</sup> Derived from Council Regulation (EC) 1698/2005

<sup>5</sup> A copy of the public consultation document is available at:  
<http://www.defra.gov.uk/corporate/consult/rdp2007-13/rdpconsultdoc.pdf>

responses was published in 2006, with a more considered Government response being made available with the first published draft of the Programme in April 2007<sup>6</sup>.

14. In 2007, and following engagement with statutory consultees, an environmental report on the Programme's likely overall impact was prepared in accordance with the EU Strategic Environmental Assessment Directive. Both the environmental report and a draft of the Programme were subject to a 12 week public consultation which closed on 5<sup>th</sup> July 2007. The results of this consultation and the Government's response to the issues raised are being published at the same time as this final RIA.

## **Delivery**

15. Some of the responses to consultation on the priorities for the Programme, held in 2006, highlighted a concern for reduced and streamlined bureaucracy in the application and delivery process. This concern is being addressed through the delivery arrangements for the Programme.

16. In Rural Strategy 2004, the Government made a commitment to improve rural delivery and devolve decision-making by:

- creating Natural England through the merger of English Nature and large parts of the Countryside Agency and the Rural Development Service.
- delivering social and economic regeneration through Regional Development Agencies which will work in close partnership with local authorities and others.

17. These reforms, which came into effect in October 2006, mean that for the RDPE:

- funding under axis 2 will be routed through Natural England, the Forestry Commission and (for Hill Farm Allowance, which provides specific support for upland farming) the Rural Payments Agency.
- funding under axes 1 and 3 will mostly be delivered through Regional Development Agencies which will also oversee delivery of the Leader approach. The exception is miscanthus establishment grants under the Energy Crops Scheme, which Natural England will deliver under axis 1.

18. In March 2007 the Government published "Simplifying Business Support – An Introductory Document", which outlines the steps being taken to design and deliver a simpler system of business support through the Business Support Simplification Programme (BSSP).

19. The aim of the BSSP is to ensure that, wherever it is carried out, publicly funded business support is simple for business to access, has a real impact on economic or public policy goals and represents value for taxpayers.

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<sup>6</sup> A copy of the consultation response is at [http://www.defra.gov.uk/erdp/pdfs/rdp07\\_13/finconsresp.pdf](http://www.defra.gov.uk/erdp/pdfs/rdp07_13/finconsresp.pdf)

20. BSSP will achieve this through:

- high quality joined up service for the customer;
- a portfolio of one hundred or fewer schemes that can be deployed at the local, regional or national level to meet business needs, achieve public policy aims and make a measurable impact;
- efficient delivery that puts the customer first and is value for money.

21. The RDPE will be delivered in accordance with these aims. In particular, delivery partners will be encouraged to cooperate with each other at the national, regional and local level to ensure that the RDPE is fully integrated with other publicly funded activities so that each funding stream complements the others, with transparent means of access. The BSSP continues to be developed but is due to be implemented in 2008.

## Options

22. Rural people and businesses decide whether they want to apply for Rural Development Programme funding: none of the measures available for support is compulsory. Nevertheless, it remains important to keep the administrative costs and burdens of applying for such support as low as possible. For some of the measures available under the Programme this is a key consideration in the design of the relevant support. For example, Hill Farm Allowance is available to all livestock farmers in the Less Favoured Areas and is applied for through the Single Farm Payment. Consequently, the administrative burden is insignificant. Similarly, a large proportion of expenditure under the RDPE is devoted to the Entry Level strand of Environmental Stewardship, which is open to all farmers and has been designed to encourage wide take-up through a streamlined administrative process.

23. Other measures, however, apply a more targeted, selective approach. For example, measures under axis 1 are generally targeted towards increasing the competitiveness of the farming, food and forestry sectors through the encouragement of skills and innovation. Where this is the case, the administrative need to identify priority applications has to be balanced against the possibility that the application process itself might prove to be a disincentive, failing to attract the right applicants.

24. Firstly, it may be assumed that a business will only apply for funding when the benefits of doing so are expected to be at least as great as the costs of doing so. However, if businesses are operating within a range of different profitability levels, it might be expected that those running at the lower end of the range would find even fairly low costs of application to be prohibitive. In addition, some RDPE measures are aimed at agricultural businesses or microbusinesses (fewer than 10 full time equivalent employees), which might find it more difficult than other firms to reallocate resources towards grant application processes. Other RDPE measures are aimed at training and information sharing and, again, it could be expected that firms with relatively low efficiency and therefore most in need of intervention under these

measures could be the same firms with the fewest resources to allocate to application and further project processes.

25. Secondly, not all businesses will be successful in their applications. Businesses are likely to consider the likelihood of being successful as well as the costs of application in deciding whether to apply. Even with a higher cost of application, if there is greater certainty that funding would be received, then smaller and less efficient firms could still find it worthwhile to apply.

26. A key aim of delivery arrangements for the 2007-2013 Programme will be to encourage a more targeted approach to investment, drawing in those businesses which can most contribute towards Programme objectives, rather than those with the most experience of applying for grant support. Better targeting may well contribute to reducing the number of unsuccessful applications by positive encouragement of priority applicants and judicious use of facilitation.

27. In considering the impact on businesses, costs and benefits have been calculated on the basis of the target number of participants or holdings. These targets are taken from Chapter 12 of the draft Programme Document. Whilst it is unlikely that the targets would be met with no under- or over-achievement, costs estimated on this basis can be indicative of the cost-benefit ratio.

### **Option 1: “do nothing” option**

28. The baseline option (“do nothing”) would be for England to have zero funding for the RDPE. This is not a feasible option so long as the UK is an EU Member State and the EU budget is allocated according to the current methodologies. It would of course be illegal for the UK or England to divert EU funding under the Rural Development Regulation to other uses, and extremely unlikely that the allocation for the UK as a whole would not include a proportion earmarked for England.

29. Even though Option 1 is not a realistic option, the costs and benefits to business of implementing the RDPE need to be consistently assessed against an alternative scenario. The costs and benefits of option 1 serve as the baseline against which the costs and benefits of implementation are measured.

30. It should be noted that under the baseline option, there would continue to be significant amounts of public funding in rural areas. For example, Regional Development Agencies (RDAs) are tasked with contributing to delivery on priorities such as regional economic performance, sustainable development and productivity. RDAs received £2.2 billion in government funding in 2006/07 to take these objectives forward, and it is a statutory obligation for them to deliver in rural as well as urban areas. Other examples of mainstream delivery in rural areas, which would continue in the absence of the RDPE, are given in the draft Programme document.

### *Costs and benefits: assumptions*

31. Under this option, there is a range of business costs. For all businesses, there would be zero cost of applying to RDPE schemes. However, some businesses, particularly enterprises where investment is expected to lead to

commercial return, would go ahead with proposed projects in the absence of RDPE, although this may involve funding a scaled-back project or looking for grant money from alternative sources. A scaled-back project could be of a smaller scale or lower quality.

32. Where scaled-back projects would be undertaken in the absence of RDPE funding, then it can be assumed that the benefits would be correspondingly smaller. It would also be expected that the benefits would be more likely to accrue to the business only, rather than to address externalities and bring wider public benefits.

33. The possibility of using money from alternative sources depends on the measure and project proposed. RDAs are required to look for additionality in agreeing to provide funding. Therefore, it can be assumed that the proportion of projects which would be completed, either fully or as a scaled-back version, in the absence of RDPE would be small.

34. One consequence of the “do nothing” option is that without RDPE funding there would be no need for England to use voluntary modulation<sup>7</sup>. The impact of voluntary modulation in England and the rest of the UK is considered in detail in a report submitted to the European Commission on 12 June 2007<sup>8</sup>, which examines in particular the impact on the economic situation of the farmers concerned, taking into account the need to avoid unjustified unequal treatment between farmers. For the purposes of the current impact assessment, the effect of voluntary modulation is assumed to be broadly neutral, for the following reasons:

- The report found that the availability of national co-financing for voluntary modulation will result in a net increase in CAP spending in England, thus helping to enhance the economic situation of farmers in England;
- When viewed in context, the magnitude of voluntary modulation reduction on income is small in comparison with recent variations in Total Income from Farming (TIFF).

35. Whilst voluntary modulation will have a limited effect on agricultural incomes in the short term, farmers as well as the broader rural economy will benefit in the longer term from the economic impacts of rural development support measures funded from voluntary modulation receipts. Overall, therefore, the assumption is that voluntary modulation will not have a major impact on the “do nothing” or baseline option.

Costs

36. It can be assumed for the “do nothing” option (Option 1) that for measures under RDPE where no private contributions are expected (for example, agri-

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<sup>7</sup> Modulation is the facility to transfer a proportion of its budget for payments under Pillar 1 of the Common Agricultural Policy to spending on rural development measures under the Rural Development Regulation. Voluntary modulation allows England and the rest of the UK to transfer a higher proportion of the CAP Pillar 1 budget than the rate set down for all EU Member States under compulsory modulation.

<sup>8</sup> [http://www.defra.gov.uk/erdp/pdfs/rdp07\\_13/vmia.pdf](http://www.defra.gov.uk/erdp/pdfs/rdp07_13/vmia.pdf)

environment agreements or projects where no commercial return is expected) no projects would take place. For these measures, the costs and benefits to businesses would be zero. For other measures where private contributions would be expected under RDPE, it can be assumed that 10% of these projects would take place, at the cost of the expected private contribution under RDPE. This assumption implies that 10% of the projects funded under RDPE would not be fully additional. The total cost of the project would be the expected private contribution, as there is no scheme to apply to for funding, or any subsequent monitoring costs.

37. Table 2 presents the total costs by axis for Option 1:

**Table 2: Total costs per axis (Option 1)**

	<b>Total Cost (£)</b>	<b>Cost per business (£)</b>
<b>Axis 1</b>	15,993,000	152,000
<b>Axis 2</b>	15,820,000	33,600
<b>Axis 3</b>	9,899,000	108,000
<b>Total</b>	41,712,000	

38. Under the “do nothing” option, the highest costs are under axis 1, and the lowest total costs are under axis 3. The cost per business is highest for axes 1 and 3, whereas axis 2 has, by comparison, low costs per business.

39. There is a notable contrast between these results and the figures in Table 1 above, which shows the distribution of public funding between the axes. This can be explained by the fact that axis 2 is primarily aimed at providing environmental goods, for which the farmer will not necessarily receive any benefit. Reflecting the lack of direct benefit to the farmer, most such projects would, under the RDPE, be completely funded using public expenditure. In the absence of RDPE, it is likely that much of this activity would not take place, with a consequent drop in expenditure<sup>9</sup>. Under Axes 1 and 3, by contrast, more of the total benefits are likely to accrue directly to the participant. We can expect, therefore, that there would be some expenditure under these axes even in the absence of the RDPE.

### *Benefits*

40. Under the assumptions for the “do nothing” option, only scaled back projects which would result in commercial return to the business would be undertaken. In the absence of public funding, it can be assumed that such businesses would expect to benefit from the cost of the project. There could also be benefits through local multiplier effects where projects improve local business productivity, although the scale of projects is likely to limit this effect.

41. Scaled back projects which take place under the “do nothing” option would make a negligible contribution to environmental or public goods, so that these

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<sup>9</sup> For axis 2 the costs per business are largely accounted for by non-productive capital investment, a proportion of which might be expected to take place, in some form, even in the absence of RDPE funding.

benefits can be assumed to be zero. This is particularly the case as most projects under axis 2, which have the greatest public benefits, would not take place in the absence of RDPE funding.

42. Total benefits under Option 1 cannot be quantified as it is unknown what return individual businesses would require in order to make the decision to fund a project themselves in the absence of public funding. However, it can be assumed that businesses undertaking projects in the absence of RDPE would expect some return to their business, so that the total benefits of this option are not zero. As businesses making spending decisions themselves will relate costs to expected benefits, it can be assumed that the scale and division of benefits between the axes will follow the same pattern as for costs; that is, with greatest total benefits under axis 1, and the lowest total benefits to individual businesses under axis 2.

## **Option 2: Implementing RDPE**

43. The costs and benefits of Option 2 (the Implementing Option) are the costs and benefits of RDPE in comparison to those of the baseline option. For example, as some businesses might incur costs to undertake projects themselves in the absence of RDPE, the costs of RDPE are those which are additional to those baseline costs. The same applies to assessment of benefits.

### *Costs*

44. The total cost to businesses of implementing most of the RDPE measures includes the following costs:

- The cost of applying for funding: this will include costs to businesses of both successful and unsuccessful applicants. As noted in paragraph 26 above, delivery arrangements for the Programme are designed to minimise the number of unsuccessful applications through targeting and facilitation.
- The private costs of the project to the business: private contributions arise most notably under those measures which are expected to generate some commercial return for the business, in which case RDPE would fund between 40% and 60% of the costs
- The costs of inspection: projects under different axes will experience different levels of inspection.

45. The total costs to business will vary by size and profitability of the business and according to the size of the project. Therefore a range of costs is presented. Calculations have followed the Standard Cost Model for administrative burdens, including 30% overheads.

46. For the training measures under axes 1 and 3, the costs will be slightly different. There will be costs to the main training providers in the region; costs to their subcontractors; and costs to participants on courses. Costs to participants will be made up of the costs of applying, costs of the course itself and any follow up costs, such as participating in the sort of survey envisaged for gathering impact indicator data. There may also be costs relating to loss of earnings arising from attendance at the course. Costs to the training providers have not been included in

these calculations as these will generally be running as an existing business and RDPE is like any other contract which they can chose to compete for and deliver.

47. The cost to a business of applying for funding for a project from a Local Action Group set up under the Leader approach will be much the same as for other delivery mechanisms under axes 1 and 3, and are therefore included in the total costs for those axes. The costs of applying to become a LAG are not included in this assessment.

48. Table 3 shows that total costs to businesses of the RDPE are in the range of £393 million to £414 million. Due to the split in funding between the axes, the corresponding public expenditure for each axis gives context to the total costs to businesses. This range of total cost to businesses is around 10% of public expenditure through RDPE.

**Table 3: Total cost to businesses**

Option 2	Total Cost to Businesses		Public expenditure per axis (£)	Estimated expected beneficiaries
	min	max		
<b>Axis 1</b>				
training	£16,938,000	£17,192,000		116,000
non training	£148,061,000	£151,965,000		8,000
total	£164,999,000	£169,157,000	297,516,960	124,000
<b>Axis 2</b>				
LFA	£172,000	£286,000		6,500
Agri env	£118,261,000	£125,391,000		50,000
Forestry	£817,000	£1,744,000		10,000
Total	£119,251,000	£127,421,000	3,280,346,894	66,000
<b>Axis 3</b>				
training	£1,741,000	£1,775,000		17,000
non training	£107,152,000	£115,419,000		16,000
total	£108,893,000	£117,194,000	312,404,844	33,000
<b>Total</b>	<b>£393,143,000</b>	<b>£413,772,000</b>	<b>3,890,268,698</b> <sup>1</sup>	<b>222,745</b>

*Note 1: excludes technical assistance*

49. Given that total cost is the cost per business, multiplied by the expected number of businesses, the total cost will be lowest where there are fewest beneficiaries. The table of total costs shows that this is the case for axis 3, where there is the lowest range of total costs to businesses, but also the fewest beneficiaries. It is therefore useful to see the costs per business, as presented in table 4 below.

**Table 4: costs to businesses**

Option 2	Total cost per business		
	Application	Project funding	Inspection/ Monitoring
<b>Axis 1</b>			
training			
min	£7	£200	£7
max	£10	£500	£10
non training			
min	£600	£25,000	£100
max	£3,000	£58,000	£200
<b>Axis 2</b>			
LFA			
min	£50	£0	£70
max	£100	£0	£100
Agri env			
min	£200	£4,000	£100
max	£2,000	£5,000	£200
Forestry			
min	£70	£0 <sup>1</sup>	£35
max	£400	£0	£35
<b>Axis 3</b>			
training			
min	£7	£200	£7
max	£10	£400	£10
non training			
min	£600	£8,000	£100
max	£3,000	£19,000	£200

*Note 1: no targets have yet been set for the number of businesses expected to be supported under forestry (axis 2) so that it is not possible to calculate the cost per business of the private contribution to total project funding. However, on average private contributions will amount to about 30% of project costs..*

50. The above table shows that private contributions to projects under RDPE form the largest proportion of costs to businesses. Private contributions will be made commensurate with the expected commercial return, and therefore cannot be thought of as part of the administrative burden. In terms of administrative burden from application and inspection and monitoring of RDPE projects, axis 1 and 3 non-training measures have the highest range of total costs. This is partly because the costs for more complex application procedures for axis 2 projects are met by public funding. In addition, applications for projects under the axes 1 and 3 non-training measures are anticipated to take longer (in the range of 44 to 144 hours), compared to projects under axis 2 which (using as an example the Higher Level Stewardship scheme) are estimated to take between 32 and 96 hours. This is due to the range of activities required for applying for funding under axes 1 and 3 non training measures, including (at the higher end of the time required) getting three competitive quotes for the project and preparing background evidence and a business plan, as

well as grant form completion. Training and LFA measures have the lowest administrative burdens to businesses.

### *Benefits*

51. The benefits of Option 2 accrue to:

- individual businesses (particularly for axes 1 and 3 where projects are anticipated to result in greater commercial return);
- to rural areas, through a local multiplier effect; and
- to the public, through provision of environmental and public goods, mainly through axis 2.

52. The benefits to individual businesses under Option 2 will be greater than those under Option 1. More projects are feasible with the support of expenditure under the RDPE, and, particularly where these contain a commercial element, they will carry a direct benefit to the business. In addition, Option 2 is likely to result in larger and higher quality projects, with commensurately higher benefits to both businesses and the local area and potentially to the environment. For example, under Option 1 (with no RDPE) a farmer may very cheaply replace an old wall with a fence, using wire and wooden posts. Under Option 2 (with RDPE funding) the wall may be replaced with traditional dry stone walling, providing local employment for traditional crafts, contributing to conserving rural heritage, and making the area more attractive for tourists. In both cases, the business gains direct returns, although the total benefits are clearly higher under Option 2.

53. Benefits to rural areas through local multiplier effects are difficult to measure and not possible to quantify at this stage due to the range of measures and projects which could be funded. However, local multiplier effects will be greater under Option 2 than Option 1 as more projects of a larger scale and higher quality will take place. Option 2 funding will buy a range of environmental and public goods, with agri-environment measures in particular enabling farming to limit negative environmental impacts. Whilst it is not possible to quantify these benefits ex ante, it is possible to say that they will be much larger than under Option 1 and are targeted at areas of market failure which would otherwise not be addressed.

### **Small Firms Impact Test**

54. For the purpose of RIAs, all businesses having fewer than 250 full time equivalent employees are considered small businesses. Most, if not all, businesses receiving support from the RDPE will be small businesses. For example, all but 0.2% of farms in England are small firms.

55. There is a specific axis 3 measure aimed at micro-businesses (those with fewer than 10 full time equivalent employees). When both small and large businesses apply for RDPE the application process is not expected to disproportionately disadvantage the small businesses. As noted in paragraph 26 the programme adopts a targeted approach to investment, drawing in those businesses which can most contribute to RDPE objectives. Positive encouragement of priority

projects will help ensure that small businesses have equal access to Programme funds even if they have relatively little experience of applying for grant support.

56. The 2006 consultation on the Programme, which included small business trade bodies, revealed no concerns about the impact it would have on small businesses. The overriding concern for most respondents was the need for close integration across all three axes in the delivery of the Programme. There was also a call for regional flexibility, but within the context of a nationally structured Programme.

### **Competition assessment**

57. An assessment of the implications on competition of the RDPE will be informed by the Programme strategy and objectives and by guidance on possible competition-distorting impacts of policies. HM Treasury and the Office of Fair Trading publish guidance which applies to subsidies that carry the highest risk of distorting competition. It is important to assess implications for competition where the total public funding in a policy, programme or project will benefit an individual recipient by more than £500,000 in a period of three fiscal years; or where there are subsidies of more than £500,000 to an individual firm which has a market share exceeding 5% to 10% of the affected market. Guidance also applies when the subsidy is awarded to one or more firms, but is not made available to its competitors or potential competitors who could also address the market failure in question.

58. Under Option 1, there would be no public funding available for meeting the objectives of the Rural Development Regulation. However, this does not represent a free-market option compared to Option 2, because other policies such as CAP Pillar 1 and domestic public funding to the agriculture sector and to rural areas would continue. The absence of Rural Development Regulation funding would not in itself have implications for competition.

59. Under Option 2, public funding is available for firms to meet the objectives of the Programme. Subsidies of this sort can potentially distort competition between firms undertaking similar activities, particularly when subsidies are large and only available to a selection of the firms that compete with each other. However, RDPE is a voluntary scheme, and meeting requirements to qualify for funding depend upon the ability to meet the objectives, which is to address market failure and therefore to benefit the public. Applications are required to meet certain criteria, so as to avoid displacement of activity that would have taken place anyway. The Programme also has to operate in a way which is consistent with state aid rules.

60. Any impacts of Option 2 on competition are likely to be small compared to the scale of public benefits, so that a net negative result for the consumer would not result. For these reasons, there are no competition distorting effects anticipated as a result of implementing the RDPE.

### **Monitoring and evaluation**

61. The monitoring and evaluation arrangements for the RDPE are described in chapter 12 of the programme document, with indicators and targets set out in full in

an annex to the chapter. These arrangements are based on a common set of indicators devised by the European Commission in consultation with Member States and specified in annex VIII of the Rural Development Implementing Regulation (Commission Regulation 1974/2006). As well as the common indicators applying to all Member States, the Government has introduced a number of programme-specific indicators and targets to measure success against programme objectives. Both common and additional indicators will be further developed during the lifetime of the programme through ongoing evaluation, culminating in two independent evaluation exercises – a Mid Term Evaluation, to be published by 31 December 2010, and an ex post evaluation, to be published by 31 December 2015.

62. As noted previously, it is difficult to quantify at this early stage the benefits to farmers of either option 1 or the implementing RDPE option (option 2). However, the evaluations will look specifically at the benefits of the Programme as assessed against a set of indicators designed to measure its impact net of other factors. These impact indicators (together with the relevant targets where these have already been set) are listed in annex 3. They include indicators of, for example, the profitability and labour productivity of businesses receiving RDPE support compared to the average for other similar businesses.

### **Post implementation review**

63. The mid term and ex post evaluations described in the previous paragraph will form the basis of review for the programme as a whole. However, certain aspects of the programme will also be subject to separate review. Most notably, the agri-environment measure Environmental Stewardship is subject to a review of progress in 2007.

### **Enforcement and sanctions**

64. Provisions for the control of expenditure under the programme and compliance with EU requirements are laid down in chapter 11 of the draft RDPE programme document and are based on the provisions of the Rural Development Regulation (Council Regulation 1698/2005), the implementing regulation (Commission Regulation 1974/2006) and the Controls Regulation (Commission Regulation 1975/2006).

65. The powers of the Secretary of State and delivery bodies to enforce the Rural Development Regulation and apply sanctions for non-compliance are provided in The Rural Development (Enforcement) (England) Regulations 2007 (SI 2007, No 75).<sup>10</sup>

### **Summary and recommendations**

66. A summary of costs and benefits across the two options shows the cost of RDPE to businesses compared with Option 1, where there is no RDPE funding.

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<sup>10</sup> A copy of this Statutory Instrument is at [http://www.defra.gov.uk/erdp/pdfs/rdp07\\_13/enfregs.pdf](http://www.defra.gov.uk/erdp/pdfs/rdp07_13/enfregs.pdf)

**Table 5: Summary of costs and benefits**

<b>Comparison of RDPE total costs and benefits compared to Option 1</b>		
	<b>Costs</b>	<b>Benefits</b>
<b>Axis 1</b>		
min	£149,006,000	higher
max	£153,164,000	
<b>Axis 2</b>		
min	103,431,000	higher
max	111,601,000	
<b>Axis 3</b>		
min	£98,995,000	higher
max	107,295,000	
<b>Total</b>		
min	£351,431,000	higher
max	£372,060,000	

67. As would be expected from the analysis in this impact assessment, the costs to business of implementing the RDPE are higher than the “do nothing” option, but no more than about 10% of the total public expenditure available under the Programme.

68. Although the benefits of implementing the RDPE cannot currently be quantified, they are likely to be considerably higher than for option 1. These benefits include the ability to:

- fund a greater number of projects, to the advantage of both individual businesses and the wider public interest;
- improve the quality and impact of projects;
- target support to RDPE and wider Government / EU objectives;
- address market failures, in particular through facilitated rather than demand-led interventions.

69. Overall, therefore, the analysis in this impact assessment fully justifies the costs to business in terms of the benefits accruing both to those who apply for RDPE funding and to the wider community.

**Declaration and Publication**

I have read the Regulatory Impact Assessment and I am satisfied that the benefits justify the costs.

Signed:

Parliamentary Under Secretary of State  
Department for Environment, Food and Rural Affairs

Date:

**Contact:**

Brian Symes  
Rural Development Programme for England Division

### A summary of Community Strategic Guidelines, national priorities and measures to be used under RDPE

<b>COMMUNITY STRATEGIC GUIDELINES</b>	<b>ENGLAND PRIORITIES FOR THE NEXT RURAL DEVELOPMENT PROGRAMME</b>	<b>RURAL DEVELOPMENT REGULATION MEASURES</b>
<p>Improving the competitiveness of the agricultural and forestry sectors</p> <p>Focus on priorities of knowledge transfer and innovation in the food chain and priority sectors for investment in physical and human capital....</p> <p>Focus on key actions such as facilitating innovation and access to R&amp;D, improving integration in the agri-food chain, encouraging the take-up and diffusion of ICT, fostering dynamic entrepreneurship, development of new outlets for agricultural and forestry products (non-food production, renewable energy), improving the environmental performance of farms and forestry, restructuring the agricultural sector.</p>	<p>To build profitable, innovative and competitive farming, food and forestry sectors, that meet the needs of consumers and make a net positive contribution to the environment by</p> <ul style="list-style-type: none"> <li>• developing a greater awareness of market opportunities, and a greater ability to exploit these opportunities, particularly in relation to renewable energy and added-value products</li> <li>• promoting and encouraging greater collaboration and co-operation between producers, and between producers and the rest of the supply chain</li> <li>• improving agricultural and forestry industry uptake of technology and entrepreneurial skills</li> </ul> <p>through</p> <ul style="list-style-type: none"> <li>• increasing opportunities for knowledge transfer and skills enhancement, by <ul style="list-style-type: none"> <li>• enabling better access to mainstream business training;</li> <li>• filling gaps in existing training and advice provision, where this does not meet the needs of farming, food and forestry sectors.</li> <li>• promoting the adoption and dissemination of innovative business processes and practices</li> </ul> </li> </ul>	<p>The measures we expect to make greatest use of under this axis are:</p> <p>20 (a) (i) promoting knowledge and improving human potential through vocational training and information actions.</p> <p>20 (b) (i) modernisation of agricultural holdings</p> <p>20 (b) (ii) improving the economic value of forests</p> <p>20 (b) (iii) adding value to agricultural and forestry products</p> <p>20 (b) (iv) cooperation for development of new products, processes and technologies</p>
<p>Improving the environment and countryside</p> <p>Should contribute to three EU level priority areas: biodiversity and preservation of high nature value farming and forestry systems, water and climate change.</p> <p>Key actions such as promoting environmental</p>	<p>To improve the environment and countryside by :</p> <ul style="list-style-type: none"> <li>• Conserving biodiversity</li> <li>• Maintaining and enhancing landscape quality and character</li> <li>• Protecting the historic environment</li> <li>• Promoting public access and understanding of the</li> </ul>	<p>The measure we expect to make greatest use of under this axis is:</p> <p>36 (a) (iv) agri-environment payments</p> <p>We will also make use of:</p> <p>36 (a) (ii) payments to farmers in areas with handicaps</p> <p>36 (a) vi non-productive investments</p>

<b>COMMUNITY STRATEGIC GUIDELINES</b>	<b>ENGLAND PRIORITIES FOR THE NEXT RURAL DEVELOPMENT PROGRAMME</b>	<b>RURAL DEVELOPMENT REGULATION MEASURES</b>
<p>services and animal friendly farming practices, preserving the farmed landscape, combating climate change, consolidating the contribution of organic farming, encouraging environmental/economic win-win initiatives, promoting territorial balance.</p>	<p>countryside</p> <ul style="list-style-type: none"> <li>• Protect natural resources:</li> <li>• Promote sustainable forest management</li> </ul>	<p>36 (b) (i) and (iii) first afforestation of agricultural land and non-agricultural land  36 (b) (v) forest environment payments  36 (b) (vi) Restoring forestry potential  36 (b) (vii) Non-productive investments</p>
<p>Improving the quality of life in rural areas and encouraging diversification.</p> <p>Should contribute to the overarching priority of the creation of employment opportunities.</p> <p>Should focus on key actions such as raising economic activity and employment rates in the wider rural economy, encouraging the entry of women into the labour market, developing micro-business, training young people in traditional rural skills, encouraging the take up and diffusion of ICT, developing the provision and innovative use of renewable energy sources, encouraging the development of tourism, upgrading of local infrastructure, particularly in new Member States.</p>	<p>To enhance opportunity in rural areas, particularly in relation to developing quality employment opportunities, in a way that harnesses and builds upon environmental quality, by</p> <ul style="list-style-type: none"> <li>• supporting innovative rurally based business development and enterprise, including diversification out of agriculture and encouraging sustainable tourism</li> <li>• improving skills in the rural workforce through providing learning opportunities that are not offered by other programmes and mainstream services and facilitating access to mainstream learning and development opportunities</li> <li>• tackling social disadvantage through steps to support fair access to services where this will ensure the continued viability of rural communities and provide access to employment opportunities</li> <li>• supporting areas of economic under-performance and individuals experiencing disadvantage.</li> </ul>	<p>The measures we expect to make greatest use of under this axis are:</p> <p>52 (a) (i) diversification into non-agricultural activities  52 (a) (ii) support for the creation and development of micro-enterprises  52 (a) (iii) encouragement of tourism activities</p>

### Description of market failures in England under each axis of the RDPE.

#### **Axis 1 - Improving the competitiveness of the agricultural and forestry sector.**

1. Market failures affecting commercial agriculture include externalities associated with education and training (where the social benefits exceed the private ones); the 'public good' nature of information (where there might be a role for government to provide market information and data for benchmarking to promote efficiency) and ensuring that competition is fair across the supply chain and internationally.
2. There are also rigidities in agriculture stemming from land ownership, tenancy legislation and planning and tax rules which can work to impede or slow down adjustment processes and inhibit diversification. There may also be difficulties in handling risk which is expected to increase with global warming and reduced levels of protection.

#### **Axis 2 - Improving the environment and the countryside.**

3. There are a number of externalities associated with agriculture and rural areas, which provide a very strong rationale for public spending for the provision of agri-environment benefits. Non-agricultural forms of land management in the rural environment are also important in achieving our objectives, for example forestry, woodlands and wetlands.
4. Positive environmental externalities from agriculture include the provision of landscape and biodiversity that have evolved from traditional farming methods. There is evidence from a range of studies that the public wishes to protect and enhance the farmland environment and are willing to pay for policy intervention<sup>11</sup>.
5. Sustainability arguments focus on the maintenance of critical natural capital to deliver the ecosystem services we depend on. Ecosystem resilience is an important objective, especially where ecological damage may be costly and irreversible. The implications of climate change are a key example of how agri-environment policy may need to move towards enhancing ecosystem resilience (e.g. by shifting from a site based approach to one which creates a network of semi-natural habitats through which species might be able to move).
6. Agriculture also gives rise to negative environmental externalities including pollution to water, air and soil. The "polluter pays principle" implies that

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<sup>11</sup> Environmental accounts for agriculture [eftec, 2004] provided very indicative estimates of the positive externalities from agriculture for landscape amenity of £488m per year for the UK (£124m England & Wales) and for habitats and species of approx £500m per year.

the polluter should bear the costs of pollution prevention. This principle has not always been applied to agriculture in the past and subsidies may not offer the best solution to such a problem.

7. EU spending can most strongly be justified where there are not only public benefits from tackling market failures but where the market failures are of an EU-wide or global scale. This is the case for axis 2 priorities. There is a clear EU wide scope in relation to biodiversity where the species are migratory, or where the habitats and species in the UK are important at either an EU or global level. Moreover, because of the indirect and non-use values associated with biodiversity, habitats, species, and ecosystems, the UK population benefits from actions taken in other member states and vice versa.

### **Axis 3 - The quality of life in rural areas and diversification of the rural economy.**

8. Some special features of rural economies give rise to pressures for government action even though not all are necessarily 'market failure' in the technical sense. Rural areas are characterised by lower population density and greater distances between centres of population. Businesses face thinner markets for their goods, and thinner labour markets when they try to recruit. Rural businesses less frequently benefit from economies of scale, hence the high proportion of micro-businesses.
9. There are some rural areas facing a number of challenges. However, the severity of such issues is small in England, in particular when compared to challenges facing many other EU Member States. Rural areas in England have, in fact, already met many of the EU objectives for rural areas. As a result, in England and some other Member States, rural policy has already moved away from a sectoral (agricultural) approach to a place-based approach, supporting the economic performance, social inclusion and environmental assets of rural localities.

Table 1: Impact indicators for Axis 1

Type	Indicator	Targets 2007 to 2013
<b>Economic growth</b>	Net additional value added expressed in PPS	Businesses supported under the Rural Development Programme for England show a rate of growth in profitability, net of other factors, that is greater than the average for other similar businesses in England.
<b>Employment creation</b>	Net additional Full Time Equivalent jobs created	No specific target set
<b>Labour productivity</b>	Change in Gross Value Added per Full Time Equivalent (GVA / FTE)	Businesses supported under the Rural Development Programme for England show a rate of GVA/FTE, net of other factors, that is greater than the average for other similar businesses in England.
<b>Contributing to combating climate change</b>	Increase in production of renewable energy through establishment of miscanthus	213,000 tonnes of oil equivalent per year of additional renewable energy through RDPE support.

**Table 2: Impact indicators for Axis 2**

<b>Type</b>	<b>Indicator</b>	<b>Targets 2007 to 2013</b>
Reversing biodiversity decline	Change in trend in biodiversity decline as measured by farmland bird species population	Decline in farmland bird populations reversed by 2020.
Maintenance of high nature value farming and forestry areas	Maintenance of high nature value farmland	95% in favourable condition by 2010
	Maintenance of high nature value forestry: Area of new native woodland created	2,000 hectares per year
	Change in ecological condition of: Natura 2000 sites Woodland SSSIs Native woodland	95% of Natura 2000 and other SSSI sites in favourable conservation status by 2010. Target for native woodland to be confirmed later.
Improvement in water quality	Changes in gross nutrient balance	Target can not yet be set
	Contribution of new woodland to improving water quality: area of new woodland in priority catchments	Target to be set once priority catchments agreed
Contribution to combating climate change	Increase in production of renewable energy from short rotation coppice	41,000 tonnes of oil equivalent per year of additional renewable energy under the RDPE
	Estimate of annual sequestration of carbon in woodland established since 1990.	
	Proportion of new woodland contributing to habitat networks and adaptation to climate change	Target to be set once indicator finalised
	Total area of woodland open for public access, and the area in priority locations	Target and priority locations to be finalised

**Table 3: Additional proposed impact indicators for environmental objectives**

<b>Type</b>	<b>Indicator</b>	<b>Targets 2007 to 2013</b>
Contribution to combating climate change	Net increase in carbon sequestration as a result of the area of woodland created under the programme	To be confirmed
Contribution to combating climate change and reversing biodiversity decline	Proportion of new woodland contributing to habitat networks and adaptation to climate change	Target to be set once indicator finalised
	Total area of woodland open for public access, and the area in priority locations	Target and priority locations to be finalised

**Table 4: Impact indicators for Axis 3**

<b>Type</b>	<b>Indicator</b>	<b>Targets 2007 to 2013</b>
Economic growth	Net additional value added expressed in PPS	Businesses supported under the Rural Development Programme for England show a rate of growth in profitability, net of other factors, that is greater than the average for other similar businesses in England.
Employment creation	Net additional Full Time Equivalent jobs created	No specific target set
Labour productivity	Change in Gross Value Added per Full Time Equivalent (GVA / FTE)	Businesses supported under the Rural Development Programme for England show a rate of GVA/FTE, net of other factors, that is greater than the average for other similar businesses in England.