

**Department for the Environment, Food and Rural Affairs (DEFRA) consultation: The future for food, farming and the environment**

Report by the Head of Service: Economy, Enterprise and Skills

***Please note that the following recommendation is subject to consideration and determination by the Cabinet (and confirmation under the provisions of the Council's Constitution) before taking effect.***

**Recommendation: That Cabinet approves the draft Devon County Council response (Appendix I) to the DEFRA consultation.**

**1. Summary**

DEFRA's consultation marks one of the most important developments in UK agricultural policy for a generation. Once the UK leaves the European Union it will withdraw from the Common Agricultural Policy (CAP). The Secretary of State says that the government wants to take this opportunity to introduce "a more rational, and sensitive agriculture policy which promotes environmental enhancement, supports profitable food production and contributes to a healthier society." The consultation is very broad and encompasses issues such as farming subsidies, trade, skills, public health, innovation and rural productivity, amongst others.

A holding response has already been submitted to DEFRA in order to meet the consultation deadline of 8 May 2018. Cabinet is now asked to approve the County Council's response so that confirmation can be provided to DEFRA.

**2. Background/Introduction**

Agriculture is one of Devon's most important economic sectors. Although small in absolute terms, it is the foundation for the broader rural economy and is the anchor for Devon's rural communities. It accounts for around 5.5% of jobs, which is around twice the UK average. Many more are supported in the supply chain and in the ancillary services provided to farmers.

Farming in Devon is based on livestock with the dairy, beef and sheep sectors being particularly prominent. There is high proportion of small and family-run farms which have provided the social fabric of the countryside and the bedrock of farming in Devon for centuries. There is also a higher number of owner-occupier farms in Devon than there are nationally, though there are also some large agricultural estates with tenanted farms including Devon County Council's own farms estate, which offers starter farm tenancies ranging from 37 to 301 acres, and the Duchy of Cornwall Estate.

Devon's environment is unique. The county is home to two National Parks, five Areas of Outstanding Natural Beauty, two World Heritage Sites and many protected species, natural areas and sites and buildings of historical importance. This world class environment is a main attraction for tourists and plays a key part in attracting our work force, students and inward investment. Tourism spend in the county is over £2 billion annually, more than any other county in the South West. 72.4% of land in Devon is farmed, which means that farmers

are uniquely placed to make a significant contribution to the maintenance and enhancement of the countryside.

Low produce prices and higher input costs have created challenging conditions for many forms of farming in Devon in recent years. Since 2009, the number of farm businesses in Devon has fallen by around 15%.<sup>1</sup> Some farmers in Devon are struggling with several issues including family relationships, mental ill health (which has seen a significant increase) and succession planning. There has been a particularly harsh impact on small dairy farms. It has been estimated that 75% of dairy farms not operating on an aligned dairy contract are operating at a loss because it is costing them more to produce their milk than they are able to sell it for.

DCC's proposed response draws on the January 2017 report from the Place Scrutiny Committee Agriculture Task Group, which considered the issues facing Devon's agricultural sector in some detail.

### **3. Key issues**

#### "Public Money for Public Goods" and farm resilience

One of the most significant proposals is the phased abolition of fixed payments to farmers based on how much land they farm (known as Direct Payments) and to affect a shift towards what the government calls "public money for public goods". In particular, the government wants a greater focus on agri-environmental schemes that reward farmers for managing and enhancing the natural environment.

The principle of public money for public goods is difficult to argue with, particularly if a broad view is taken of the public good that farming can contribute to e.g. skills, innovation, etc as well as environmental enhancement. DEFRA presents analysis to show that Direct Payments under CAP do not provide value for money and that they have led to a number of distortions, including inflated land values & rents and unintended environmental consequences. This would therefore appear to be a positive opportunity for reform.

That said, DEFRA's analysis also shows that some of the agricultural sectors that predominate in Devon are likely to be those most impacted by the withdrawal of Direct Payments, particularly livestock grazing which accounts for 51% of farmed area in Devon. According to DEFRA, 94% of average farm income for lowland livestock grazing comes from Direct Payments. Dairy, which accounts for 20% of farmed area in Devon, is somewhat less exposed at 38% of average farm income – but the amount is still significant.

DEFRA's analysis shows that in the absence of Direct Payments the proportion of loss-making farms would exceed 50% for livestock grazing farms and 25% for dairy farms respectively, other things equal. This is clearly quite concerning.

DEFRA argues that farms will need to become more productive and diversify to offset this impact. On average, farms will need to reduce their costs by 11%<sup>2</sup>. But for the worst-performing lowland grazing farms this will be as high as 45%. DEFRA believes that rents should fall which will help tenant farmers at least to achieve some of this cost saving. Farmers will also be able to access the government's new subsidy schemes, which will be more focussed on rewarding public goods. However, there is little detail on the new schemes and how much money will be available, which makes it impossible to judge the net financial impact at this point in time. Anecdotally, the National Farmers Union reports that

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<sup>1</sup> DEFRA, Structure of the agricultural industry in England and the UK

<sup>2</sup> Median cost reduction required for lowland grazing = ~11%, dairy = ~5%, uplands grazing = ~16%

Devon farmers struggle to access some of the current agri-environmental schemes which could be a concern if that continued in future.

It therefore seems very important to stress to government that it needs to pay close attention to the financial position and future sustainability of farm businesses when devising its new schemes to ensure that farming remains viable in places like Devon. Any significant loss of employment or farming activity in Devon would have huge economic and social consequences for the broader rural economy.

Farmers also need to be given enough time to plan for any changes in subsidies and, in the absence of Direct Payments, will require ongoing support to manage volatility in prices and output.

### Balancing public goods and food production

While being supportive of the concept of public money for public goods, DCC's draft response says that the new system should also recognise the significant public value that is derived from domestic food production. Food production is at the core of what it means to farm. Moreover, high-quality primary production provides the foundation for Devon's thriving Food & Drink sector, which is seen as a major growth sector for the future.

### Uplands farming

Uplands farming faces particular challenges which justify special government support. It is reassuring that this appears to be recognised in the consultation, with a chapter devoted to uplands farming, but nevertheless the draft DCC response emphasises the importance of finding solutions to this issue. It also reiterates support for the proposals from Exmoor and Dartmoor National Parks to host pilots of some of the new subsidy schemes.

### Trade and market fairness

The consultation sets out the government's ambition for free and frictionless trade with as many countries as possible, but contains few specifics. DCC's draft response highlights the importance of trade to farmers, including exports which are particularly important in sectors such as sheep and dairy. Consumers also benefit from choice and the availability of goods. That said, the government should ensure that UK farmers are operating on a level playing field. The government should ensure that agricultural imports are subject to the same high regulatory standards that are applied to British farmers.

The DCC response also encourages the government to take steps to ensure that the domestic market is operating fairly, particularly in terms of the buying practices of the supermarkets.

### Regulation and inspections

The consultation signals a relaxation and streamlining of some aspects of regulation, including inspections.

DCC's proposed response indicates support for a pragmatic approach to regulation. There is much good practice already in place which should be considered. In any push to remove perceived burdens on farmers, the response suggests that government should ensure that standards of animal health & welfare, food production and environmental protection are nevertheless protected. The consequences of regulatory failures can be devastating for rural communities (e.g. Foot & Mouth disease, BSE, etc).

## Rural economic development

There is recognition in the consultation of the importance of issues such as skills, innovation and connectivity to driving improvements in agricultural productivity. DCC's response states that the government should take this opportunity to bring a renewed focus to rural economic development more generally, and highlights the recent work of the South West Rural Productivity Commission. Rural areas face numerous economic and social challenges and risk being left behind their urban counterparts.

### **4. Stakeholder input**

DCC's holding response has been informed by input from Services across the Council, as well as key external stakeholders including the National Farmers Union, the Devon Wildlife Trust, the Local Nature Partnership, Somerset County Council and the Heart of the South West Local Enterprise Partnership.

### **5. Financial Considerations**

The current consultation does not involve any direct financial commitments for the Authority.

The government expects its reforms to lead to a fall in agricultural rents over the longer term, which will reduce the income of the County Farm estate. Policies enacted by the government following this consultation could also lead to changing service requirements, for example around farm inspections. Those impacts are not quantifiable at this stage.

### **6. Equality Considerations**

An Impact Assessment has not been considered to be required at this stage.

### **7. Legal Considerations**

The lawful implications/consequences of the proposals/recommendations/proposed course of action have been considered and taken into account in the preparation of this report/formulation of the recommendations set out above.

### **8. Risk Management Considerations**

This proposal has been assessed and all necessary safeguards or actions have been taken/included to safeguard the Council's position.

No risks have been identified.

### **9. Options/Alternatives**

#### No Consultation Response Provided

Devon County Council could opt to provide no consultation response and to withdraw the holding response that has been submitted. However, this would mean that Devon priorities are not represented in the policy making process.

#### Alternative Consultation Response Provided

The current consultation response provided could be amended to reflect feedback from Cabinet should any significant issues be highlighted.

## 10. Reason for Recommendation/Conclusion

The agriculture sector is a critical part of the Devon economy. This consultation is the key opportunity to ensure that Devon's priorities are reflected in the most significant development in agricultural policy for a generation.

Keri Denton  
Head of Economy, Enterprise and Skills

### Electoral Divisions: All

Cabinet Member for Policy and Corporate: Councillor John Hart  
Cabinet Member for Economy, and Skills: Councillor Stuart Barker

*Chief Officer for Communities, Public Health, Environment and Prosperity: Dr Virginia Pearson*

Local Government Act 1972: List of Background Papers

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Background Paper	Date	File Reference
1. Defra Consultation: the future for food, farming and the environment	27 February 2018	<a href="https://www.gov.uk/government/consultations/the-future-for-food-farming-and-the-environment">https://www.gov.uk/government/consultations/the-future-for-food-farming-and-the-environment</a>

td240418cqb Defra consultation - The future for food, farming and the environment  
hk 03 070518

## **Draft Devon County Council consultation response**

### Executive summary

Devon County Council is a passionate supporter of the agricultural sector and the many economic and social benefits it provides. It also believes in the enhancement of the environment and the importance of natural capital as an economic asset. Brexit offers a once-in-a-generation opportunity to ensure that agricultural policy supports a vision of UK farming that leads the world in quality food production and which enables the enhancement of the countryside and of our rural communities.

The Council supports the government's proposed focus on "public money for public goods". Any subsidy should be earned. Within this, there is scope for the government to support a wide range of activities, including environmental but also incorporating issues such as skills, innovation, animal health and public access to the countryside. It is equally important that the new system continues to support farmers to farm and recognises the considerable public value of domestic food production.

In implementing these reforms, it is critical that the government pays due regard to the financial resilience of farm businesses. It is of concern to the Council that DEFRA's own analysis shows that the sectors that predominate in Devon, particularly grazing livestock (51% of farmed area), are likely to be those most affected by the withdrawal of Direct Payments. For example, the proportion of loss-making livestock grazing farms would exceed 50% in the absence of Direct Payments, other things equal. It is unrealistic to expect that productivity gains and further diversification will be sufficient to fully offset this impact. It is therefore critical that the government takes a holistic view of the distributional impact of its reforms when designing replacement schemes and considers the steps necessary to support farmers through the transition to ensure that farming remains viable in all parts of the UK. Farmers will also require assistance with managing volatility on an ongoing basis. Furthermore, the new system should reflect the specific challenges faced by farmers in uplands areas and steps should be taken to address broader long-term issues such as market fairness.

The Council encourages the government to ensure that new approaches are trialled rigorously before they are introduced. It supports the proposals from Exmoor and Dartmoor National Parks to host such pilots, and would be keen to host similar pilots in Devon's lowland areas.

The government should take this opportunity to bring a renewed focus to rural economic development more generally. Rural areas face numerous economic and social challenges and risk being left behind their urban counterparts.

### Introduction

Agriculture is one of Devon's key economic sectors, accounting for around 5.5% of jobs in the county which is roughly twice the UK average. Agriculture also provides the bedrock for the broader rural economy, underpinning Devon's world-leading food and drink sector for example, and supports many more jobs in various ancillary services. It also underpins the health and vitality of our rural communities.

Devon's environment is unique. The county is home to two National Parks, five Areas of Outstanding Natural Beauty, two World Heritage Sites and many protected species, natural areas and sites and buildings of historical importance. This world class environment is a

main attraction for tourists. Tourism spend in the county is over £2 billion annually, more than any other county in the South West. 72.4% of land in Devon is farmed, which means that farmers make a unique contribution to the maintenance and enhancement of the countryside.

Farming in Devon is based on livestock with the dairy, beef and sheep sectors being particularly prominent. There is high proportion of small and family farms which have provided the social fabric of the countryside and the bedrock of farming in Devon for centuries. There is also a higher number of owner-occupier farms in Devon than there are nationally, though there are also some large agricultural estates with tenanted farms including Devon County Council's own Farms Estate, which offers starter farm tenancies ranging from 40 to 300 acres, and the Duchy of Cornwall Estate.

Low produce prices and higher input costs have created challenging conditions for many forms of farming in Devon in recent years. Since 2009, the number of farm businesses in Devon has fallen by around 15%.<sup>3</sup> Some farmers in Devon are struggling with a number of issues including succession planning, family relationships, mental ill health and – most concerning – high suicide rates. There has been a particularly harsh impact on small dairy farms. It has been estimated that 75% of dairy farms not operating on an aligned dairy contract are operating at a loss because it is costing them more to produce their milk than they are able to sell it for.<sup>4</sup>

Key points of response:

- **The Council supports the concept of public money for public goods:** Farming and farmers already generate significant benefits for the economy and their local communities, including in their role as stewards of the countryside. Farmers should be rewarded for this activity and incentivised to do more. We note the government's analysis that Basic Payments do not provide value for money to the taxpayer and have led to unintended consequences, including artificially inflated land values and farm rents. Oversight and regulation of any new subsidies needs to be clear and cost-effective and any support should be prioritised for those actively engaged in farming rather than simply landowners.
- **It is right that a broad range of public goods are encouraged:** Enhancement of the environment and biodiversity are very important, both intrinsically and for the economic benefits they unlock. For example, Devon's landscape, historic and natural environment are the key draws for tourists from outside the region, and rights of access to the countryside yield significant public health and wellbeing benefits. We would also encourage the government to support farmers to undertake activities that help to generate significant benefits for the wider rural economy, such as training, innovation and enabling public access to the countryside.
- **But there is a need to balance this with support for food production:** Food production remains at the core of what it means to farm. There are significant benefits to the nation from encouraging food production, including for UK consumers and for other sectors of the economy. For example, food and drink is a key growth sector in Devon and has a national and international reputation for quality and innovation. Much of this value-add activity is underpinned by local primary

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<sup>3</sup> DEFRA, Structure of the agricultural industry in England and the UK

<sup>4</sup> Agriculture and Horticulture Development Board, 2016

production. It is important that a renewed focus on public goods also recognises the significant public value of domestic food production.

- **Farm resilience:** DEFRA's analysis shows that Basic Payments do not provide value for money and have created market distortions. Nevertheless, it is important to note that many farm businesses currently rely heavily on Basic Payments and that this reliance tends to be higher in Devon than in other parts of the country. DEFRA's analysis shows that sectors that predominate Devon are likely to be those most affected by the withdrawal of Direct Payments.

For example, grazing livestock and dairy account for 51% and 20% of farmed area in Devon respectively. DEFRA's analysis shows that Direct Payments currently account for 91-94% of farm profits for grazing livestock farms. 19% of such farms currently make a loss, but this would rise to over 50% without Direct Payments. Moreover, profits for the remaining profitable farms would be substantially reduced. Similarly, the percentage of loss making dairy farms would rise from 12% to 26%. It seems unrealistic to expect that the withdrawal of this funding could be offset by productivity gains and diversification alone.

It is difficult to anticipate what the net impact will be on farm businesses as the consultation is not specific about the system of subsidies that will replace the current arrangements. However, it is absolutely critical that the replacement system ensures that farming remains viable across the UK. In Devon 5.5% of jobs are in agriculture and many more are sustained in the wider rural economy as a result. Any loss of employment would have a critical impact on a rural economy that is already lagging behind other parts of the country. It could also have significant social consequences. Furthermore, any loss of agricultural activity could have a significant impact on Devon's unique natural landscape.

- **Transition period:** Farm businesses operate on long investment cycles. They therefore need sufficient time to plan for a new system, particularly if these reforms coincide with changes to terms of trade and the availability of labour. The Council is not well placed to judge which of the specific options outlined in the consultation will best deliver this. However, it is also important that sufficient time is allowed for to rigorously pilot new programmes in different sectoral and geographical contexts so that their impacts can be judged before final decisions are made. Devon would be keen to host such trials. The Council is supportive of the proposals that have been submitted by Exmoor and Dartmoor National Parks, and would be keen to host similar pilots in lowland areas.
- **Local control:** Brexit presents a unique opportunity for government to devolve aspects of the system so that schemes can be tailored to the particular needs of different parts of the country. The current system is top down and rigid and a one-size-fits-all policy leads to perverse outcomes in some areas.
- **Farmers need help to manage volatility in prices:** Volatility in agricultural commodity prices has increased in recent years.<sup>5</sup> Basic Payments provide some insurance against volatility, but with these being withdrawn it is imperative that the

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<sup>5</sup> Responding to price volatility: creating a more resilient agricultural sector, House of Lords European Union Committee, May 2016



government finds an alternative way to support farmers either through stimulating effective and affordable market solutions (e.g. futures markets, commercial insurance) or by providing other forms of direct financial support. Without support this volatility will jeopardise the viability of some farms and deter long-term investment across the sector.

- **Environmental protection schemes:** New schemes need to reward existing farming practices that deliver a high-quality environment, not just new activity that is a direct consequence of a particular grant. For example, Devon has a high proportion of grazing livestock and dairy farming which inherently encourages features which support biodiversity, such as hedgerows and permanent pasture. This contributes to a very high level of natural capital and a landscape that is a great draw to visitors from outside the region. However, farmers in Devon are reporting that they are finding it harder to access the latest agri-environmental schemes (e.g. the Countryside Stewardship Scheme) because those schemes don't fully recognise the environmental work that they already do. This seems perverse.
- **Uplands farming faces special challenges:** We strongly welcome the government's recognition that uplands farming faces particular challenges. It is very important that this is reflected in the new subsidy system. This support should also extend to those areas which are currently classified as Less Favoured Areas (LFAs), of which Devon has a particularly high concentration.
- **Distributional analysis:** Before final decisions are made, the government should publish a distributional analysis of the financial impact of its proposed reforms by geographical area and by agricultural sector.
- **Support for new entrants to farming:** The government should seek to provide enhanced support for new farmers, including young people. New farmers can be significant drivers of innovation and productivity improvements but they face significant barriers to entry. Devon County Council has a very successful County Farms Estate which has provided 27 new entrant opportunities on starter farms since 2010. A thriving County Farms Estate enables committed, entrepreneurial and enthusiastic new entrants to get a step on the farming career ladder. The government should look at how it can best support such initiatives.
- **Trade:** Trade is of critical importance to farmers. Agricultural exports are a key market, particularly in sectors such as sheep and dairy where the UK is a net exporter, and many farmers import machinery and other input products, which influences their production costs. Consumers also benefit from choice and the availability of goods. Free and frictionless trade with as many markets as possible is therefore desirable. That said, the government should ensure that UK farmers are operating on a level playing field. In particular, the government should ensure that agricultural imports are subject to the same high regulatory standards that are applied to British farmers.
- **Market fairness issues:** Market fairness continues to be an issue that is particularly pronounced in certain sectors. The government should ensure that the supermarkets do not abuse their market position, take steps to improve the availability of transparent market prices and encourage the shortening and localisation of supply chains.

- **Regulation, animal health and inspections:** The Council supports a pragmatic approach to regulation. There is much good practice already in place which should be considered and, if appropriate, adopted and carried forward when considering any new structure and systems. In any push to remove perceived burdens on farmers, the government should ensure that standards of animal health & welfare, food production and environmental protection are nevertheless protected. The consequences of regulatory failures can be devastating for rural communities (e.g. Foot & Mouth disease, BSE, etc).

Rather than being a burden to business, on an annual basis Devon, Somerset and Torbay Trading Standards Service currently inspect only approximately 1% of farms in the area for a mixture of animal feed, food and animal welfare/disease purposes. These visits are targeted using a risk based approach.

It is also important to note that the 'use of regulation to ensure action is taken' should not always mean prosecution through the courts. Alternative enforcement action and other methods of support (regulatory and social) are more beneficial in certain instances. We need to have a range of options available along with the resources to implement them effectively; focussing those resources on those who need it most.

- **Rural economic development:** As highlighted by the South West Rural Productivity Commission, rural areas in the South West account for 54% of output and 58% of enterprises. Yet productivity is 8% lower than urban areas in the region and 10% lower than the average for rural areas in England. Closing that gap would secure an additional 5% increase in GVA.

Under CAP, the UK received significantly less rural development funding than countries such as France and Germany. The government should take this opportunity to increase the resources that are provided for rural economic development. The proposed focus on R&D and skills in the agricultural sector is welcome. But this focus should also support other businesses operating in rural areas, including in food and drink production, tourism and in the emerging industries such as digital and creative. The government should consider how it can support and empower local areas to help to deliver these objectives.

At a minimum, the government should continue to support rural business growth and diversification through locally-managed programmes (e.g. the highly successful LEADER programme). The rural economy is reliant on a high number of micro businesses and SMEs. Smaller, more locally targeted, grants combined with locally based advice and assistance are more effective at supporting this type of business.

- **Broadband and mobile connectivity:** As recommended by the South West Rural Productivity Commission, the government should implement the Universal Service Obligation for broadband as soon as possible and at an increased speed of at least 30mbps (upload & download). It should also take steps to improve mobile coverage, including by placing tougher obligations on the mobile network operators.