

Report on proposals for a Sustainable Farming Scheme

July 2024

1. Introduction

1. Having left the European Union, the UK ceased participation in the EU Common Agricultural Policy (CAP). Since then, the Welsh Government has broadly maintained the CAP system of support to provide time to develop a new agricultural policy for Wales.

2. Following three consultations and two phases of ‘co-design’, the Welsh Government published its **proposals for a Sustainable Farming Scheme** (December 2023). The Climate Change, Environment and Infrastructure Committee (the Committee) agreed to undertake a short piece of work to consider the proposals insofar as they relate to the environment and climate change.

Our approach

3. On 13 March 2024, the Committee held a stakeholder event attended by representatives from the agriculture, food, and environmental sectors. Luke Fletcher MS and Sam Kurtz MS participated in the event as members of the Economy, Trade, and Rural Affairs (ETRA) Committee.

4. On 21 March 2024, the Committee held oral evidence sessions with representatives from the farming industry, environmental organisations, and



academics¹. Further details of the sessions along with written submissions and a summary of evidence can be found on the [Committee's webpage](#).

Recent developments

5. Since the Committee completed evidence gathering to inform its work, circumstances have moved on rapidly, with the newly appointed Cabinet Secretary for Climate Change and Rural Affairs making several key announcements, including a 12 month delay to the Scheme, the establishment of a Ministerial Roundtable to help find a way forward for the most contentious aspects of the proposals, and a new '2025 Preparatory Phase'.
6. Prior to the publication of this report, the Welsh Government published its [response to the consultation](#) on the proposals.

Our report

7. Our report sets out the Committee's key asks for the Scheme, informed by the evidence we received, having regard to recent developments. We expect the Welsh Government to take account of our report when progressing the Scheme.
8. The ETRA Committee has undertaken an inquiry into the proposals for the Scheme and will be publishing its report imminently. The ETRA Committee's report considers the impact of the proposals on farm businesses and the wider rural economy, the particular needs of tenant farmers, commoners and new entrants, and barriers to participation. To avoid duplication, our report does not address these matters. In addition, given the ETRA Committee's recent report on [Farming.Connect](#), our report does not address the provision of advice services to support the Scheme's delivery.

2. Overview

9. The introduction of the Sustainable Farming Scheme marks the beginning of a new chapter for the Welsh farming industry. It will mean significant changes to the way in which farmers receive financial support, moving away from the Basic Payment Scheme to rewarding actions designed to deliver the [Sustainable Land Management Objectives](#) as set out in the [Agriculture \(Wales\) Act 2023](#). The Scheme has the potential to put the industry on a truly sustainable footing, with

¹ The UK Climate Change Committee was invited to attend the 21 March meeting to give evidence but there was no representative available. It gave evidence to the Economy, Trade and Rural Affairs Committee on the Sustainable Farming Scheme on 9 May 2024.

farmers taking a leading role in the fight against climate change and nature decline. But, the Welsh Government has a lot more work to do to get the Scheme right.

10. The proposals have been the subject of intense public and political debate. They sparked considerable unrest across the industry, with farmers fearing for their livelihoods and for the future of rural communities. Industry representatives told us the Welsh Government had largely ignored farmers' views, calling for an overhaul of the proposals and a halt to the Scheme. Clearly, the 'co-design' process was not as effective as intended, and industry trust in the Welsh Government reached an all-time low.

11. The environment sector's reaction to the proposals was markedly different. Representatives of the sector welcomed the retained focus on the environment, highlighting the urgency of the climate and nature emergencies. But, there were calls to go further and faster on some aspects to maximise the delivery of environmental outcomes.

12. Despite these different positions, representatives of the farming industry and the environmental sector agreed the Scheme will only deliver the intended environmental outcomes if there is sufficient take-up. This means it must be attractive and workable for farmers. It is clear from the evidence we received there is still some way to go to achieve this.

13. The appointment of the new Cabinet Secretary was timely, providing an opportunity for a fresh perspective. Since his appointment, he has sought to rebuild industry trust, committing to work in partnership by establishing a Ministerial Roundtable to progress the Scheme. We welcome this approach. Nevertheless, finding a way forward on the most contentious aspects of the proposals that balances the priorities of different partners will not be without challenge. We are keen to ensure that, in seeking to address the concerns raised to date, the Welsh Government does not compromise the Scheme's environmental ambitions.

14. The Scheme will shape the future of farming for generations to come and will likely be in place for the next few decades. During this time, Wales needs to become a net zero nation and turn the tide on biodiversity loss. The final Scheme should enable the agriculture sector to play its part in achieving these.

3. The delay to the Scheme's introduction

15. At the time of taking evidence, the Welsh Government's proposal was for the Scheme to be introduced from 2025. Since then, the Cabinet Secretary has announced a 12 month delay. Having taken seven years to develop the proposals, it is disappointing the Welsh Government has been unable to deliver a workable Scheme to time.

16. The Scheme will be a central delivery mechanism for policy to support decarbonisation and nature recovery, including new woodland creation, peatland restoration, and habitat protection and enhancement. With time rapidly running out to achieve the 2030 climate change target² and Global Biodiversity Framework targets, the Scheme's delay is disappointing. Nevertheless, we acknowledge the decision to delay is well-intended, motivated by the desire to ensure the Scheme works for farmers and can deliver the Sustainable Land Management Objectives. Getting the Scheme right is critical.

17. The Cabinet Secretary has already provided assurance to the Senedd that he will work at pace to ensure the Scheme is ready for introduction from 2026. He told us, "we have milestones we are working to" and "pretty clear timescales", but would not be drawn on specifics.³ The Senedd, the farming industry and wider stakeholders need to be confident that progress is being made and work remains on track. To improve transparency and support scrutiny, the Cabinet Secretary should clarify the timetable he is working towards for the remaining stages of the Scheme's development and provide regular updates on progress.

Recommendations

Recommendation 1. The Cabinet Secretary should:

- provide an indicative timetable for the remaining stages of the Scheme's development, including publication of the outputs of the various work streams being taken forward by the Ministerial Roundtable, and
- commit to provide termly updates to the Senedd on progress towards the development of the final Scheme.

² By 2030, Wales must reduce carbon emissions by 63% against the 1990 baseline on the way to achieving net zero by 2050.

³ RoP, paragraph 202, 26 June 2024

4. Scheme rules

18. Much of the debate around the proposals has arisen due to concern from farmers that the Scheme rules will necessitate 20% of farmland being taken out of food production. While we acknowledge this concern, we note that the 10% tree cover requirement will not be calculated on the whole farm area, rather on the remaining area once unplanted areas have been removed from the calculation. Existing tree cover will be included in the calculation. Furthermore, the proposals provide for the integration of additional trees into a productive farm system rather than expecting farmers to set aside land to meet the requirements.

19. We expect the Welsh Government to increase efforts over the coming months to address any misunderstandings about the Scheme rules, and to promote the benefits of integrating trees and habitats on farmland.

10% tree cover requirement

20. Increasing tree planting is essential if Wales is to meet its climate change targets. As well as afforestation being an effective means of increasing carbon sequestration, it also has the potential to deliver wider benefits, including livestock welfare, pollution reduction, flooding and soil erosion prevention, and protecting and enhancing biodiversity.

21. The Welsh Government has agreed a highly ambitious target to plant 43,000 hectares of new woodland by 2030 to help reach net zero and deliver wider environmental benefits. The tree cover requirement aims to support the delivery of the target, but it has been met with fierce opposition from farmers.

22. Representatives of the farming industry told us the requirement would be an “insurmountable barrier”⁴ to Scheme entry for “a vast number of farmers”⁵, would reduce productive capacity and threaten the economic viability of farm businesses. However, they were keen to emphasise, “we are not anti tree; we are anti 10 per cent mandatory trees across every farm in Wales”.⁶ They asserted any measures to increase tree planting on farm should be targeted, sustainable, provide fair reward and support productive capacity.

23. Other contributors welcomed the continued focus on tree planting, explaining successful integration of trees into farming systems could boost

⁴ Written evidence, NFU Cymru

⁵ Written evidence, FUW

⁶ RoP, para 70, 21 March 2024

productivity, help de-risk farming in a changing climate, and support nature recovery.

24. WEL noted “average tree cover on farmland is already at 6-7%”.⁷ It told us:

“going from 7 per cent to 10 per cent isn't actually that big of a change overall, but in some areas, it's much harder than others, and there is some scope to probably reflect that further.”⁸

25. We also heard that a more flexible approach to increasing tree planting on farm was needed, with specific suggestions put forward about how this could be achieved.

26. Representatives of the farming industry highlighted a range of farming activities that support carbon sequestration, including hedgerow and soil management. They called for the Welsh Government to **establish an independent panel** to review the requirement and explore opportunities beyond tree planting to increase carbon sequestration on farm. The Cabinet Secretary has responded positively to this call, tasking the Ministerial Roundtable to establish a subgroup to take forward this work.⁹

27. The Welsh Government’s tree-planting target cannot be met without farmers, given that agricultural land makes up over 80% of the Welsh landscape. It stands to reason that increasing tree cover must, therefore, be a priority for the Scheme. However, the 10% requirement is clearly a red line for the farming industry.

28. We note the steps the Cabinet Secretary has taken to date to find a way forward on tree planting. As a Committee, our primary concern is the Scheme's outcomes. We are open to alternative measures that can deliver similar, or better, outcomes than tree planting. However, we are clear that, any reduction in the tree cover requirement in the Scheme must be offset by the inclusion of other carbon sequestration options. We encourage the subgroup to seek the advice of the UK Climate Change Committee (UK CCC) to inform the development of proposals.

29. We would welcome an update as options emerge. We expect the Welsh Government to seek the UK CCC’s advice on any alternative to the tree-planting

⁷ Written evidence – Wales Environment Link

⁸ RoP, para 255, 21 March 2024

⁹ The Ministerial Roundtable has established a carbon sequestration subgroup to consider opportunities to increase carbon sequestration through the Scheme. Membership of the subgroup has been agreed and the next step is for it to identify expert witnesses to inform its work.

requirement proposed by the Ministerial Roundtable subgroup, to ensure it is a credible option for increasing carbon sequestration, in line with the balanced pathway to net zero.

10% habitat management

30. Nature is continuing to decline at an alarming rate in Wales, which is already one of the most nature-depleted countries in the world. A major driver of this decline is the degradation, fragmentation and loss of habitats that species depend on. Increasing the area of good quality habitat for wildlife is a must if the Welsh Government is to deliver on its biodiversity commitments, in particular to reverse the decline in biodiversity by 2030. The habitat management requirement aims to support farmers in creating and managing habitats on farmland for the benefit of nature alongside food production.

31. The requirement has been met with mixed reaction. Representatives of the environmental sector told us they “strongly support” the requirement, with Wales Environment Link (WEL) asserting, “We are facing a global biodiversity crisis and we know that 1 in 6 species are at risk of extinction from Wales. Farmland covers over 80% of Wales, so if nature cannot be restored on farmland, we will be unable to meet our targets to protect and restore biodiversity in 30% of our land and sea”.¹⁰

32. In contrast, FUW said it is “completely opposed” to the requirement, calling instead for “an overarching scheme aim of increasing areas of habitat by a proportion that is manageable and realistic, and does not compromise production or the economic viability of farming businesses”.

33. Several contributors refuted the assertion the requirement would impact on productive capacity. Nature Friendly Farming Network Cymru (NFFN Cymru) said creating or managing land for habitat does not mean “sacrificing food production”, rather it “forms an essential component of it”. It added, “integrating a diverse range of habitats and features on farmland can maintain and even increase yields”.¹¹

34. Notwithstanding WEL’s strong support for the requirement, it highlighted the requirement would not guarantee each farm is managing a diverse range of habitats. It also questioned whether all of the options for new temporary habitat

¹⁰ Written evidence, Wales Environment link

¹¹ Written evidence, Nature Friendly Farming Network Cymru

creation would deliver biodiversity benefits. We expect the Cabinet Secretary to reflect on this in finalising the Scheme.

35. To halt the decline of biodiversity, habitat creation and management must remain a priority within the Scheme. If the Cabinet Secretary determines that the level of the habitat requirement in the Scheme should be reduced, for example, by staggering the requirement across layers of actions, he must explain the rationale for that decision. In finalising the Scheme, he must ensure that any alternative proposal to the requirement supports the delivery of the Welsh Government's biodiversity commitments, specifically the goal to reverse the decline in biodiversity by 2030. Furthermore, he must outline the actions he will take to mitigate the impact of this decision.

Recommendations

Recommendation 2. The Cabinet Secretary should increase efforts over the coming months to address any misunderstandings about the Scheme rules, and to promote the benefits of integrating trees and temporary habitats into a productive system.

Recommendation 3. The Cabinet Secretary should report back to the Committee on potential alternatives to the tree cover requirement as they emerge.

Recommendation 4. The Cabinet Secretary should ensure any alternative to the tree cover requirement can support the delivery of the desired outcomes of the Welsh Government's tree planting target.

Recommendation 5. The Cabinet Secretary should seek the UK CCC's advice on any alternative to the tree-planting requirement proposed by the Ministerial Roundtable subgroup, to ensure it is a credible option for increasing carbon sequestration, in line with the balanced pathway to net zero.

Recommendation 6. The Cabinet Secretary should ensure any alternative to the habitat management requirement will support the delivery of the Welsh Government's biodiversity commitments, in particular the 2030 target.

Recommendation 7. The Cabinet Secretary should consider how best to ensure the habitat management requirement, or any alternative to the requirement, support the creation of the diverse range of habitats needed to restore nature.

Recommendation 8. The Cabinet Secretary should ensure all options for temporary habitat creation deliver value for money and the intended biodiversity outcomes.

5. Universal Actions

36. When developing the proposals, the Welsh Government set out its intention to ensure the Universal Actions could be carried out (where appropriate) on every farm, making the Scheme accessible to all farmers. We heard from representatives of the farming industry that the proposals failed to deliver on this intention. According to industry representatives, the Universal Actions would be a barrier to Scheme entry for many farmers, and were overly burdensome and bureaucratic, among other things. They called for increased flexibility and for certain Universal Actions to be moved to the Optional layer.

37. Representatives of the environmental sector told us while the Universal Actions would likely provide a foundation for the delivery of environmental outcomes, they would not be sufficient to start restoring nature. We heard that for ‘nature friendly’ farmers, the Universal Actions could be considered unambitious, given they are already delivering environmental outcomes.

38. WEL said the Welsh Government had “rein[ed] in some of its ambition for the Universal Actions” following “heavy resistance to the Scheme’s requirements”. It urged the Welsh Government to ensure any further changes “make the Scheme more effective, both for the environment and for farmers, rather than simply weakening environmental requirements”.

39. The evidence we received suggests changes to the Universal Action may be necessary for the Welsh Government to meet its intention of making the Scheme accessible to all farmers. We seek assurance that any changes to address barriers to access, or to simplify Actions, do not compromise the Scheme’s environmental ambitions. While the Universal Actions should be realistic and achievable for farmers, they must also be sufficiently ambitious to drive change and provide a firm foundation for the delivery of environmental outcomes. In finalising the Scheme, the Cabinet Secretary must ensure the Universal Actions meet these criteria.

Sites of Special Scientific Interest

40. We heard Sites of Special Scientific Interest (SSSIs), which are mainly managed by farmers, are key to the delivery of the ‘30 by 30 target’. If Wales is to

make progress towards this target, the Scheme must ensure farmers are supported to appropriately manage SSSI land. We heard the proposals fall short of this.

41. Under the proposals, SSSI land is excluded from the habitat maintenance component of the Universal Baseline Payment. According to the Welsh Government, this is because it is “unable to pay farmers to meet existing legal obligations regarding SSSI land”.¹² However, contributors challenged this assertion.

42. Soil Association Cymru pointed out the Universal Actions requirements “may go beyond the SSSI duty to ensure that designated features are not damaged”.¹³ WEL explained that maintaining the condition of a SSSI is a regulatory requirement for public bodies rather than for farmers. NFU Cymru referred to the exclusion as “perverse” and “without legal basis”, adding “[it] sends entirely the wrong message to farmers at a time when Welsh Government has increasing ambitions around targets for biodiversity”.¹⁴ There was consensus that the Welsh Government should reconsider its position.

43. Since we took evidence, the Cabinet Secretary has provided assurance that SSSIs are one of the priorities for the Scheme. His official told us, “at a policy level, we are fairly close” to identifying a way forward to address the concerns raised by contributors.¹⁵ We are encouraged by this.

Recommendations

Recommendation 9. The Cabinet Secretary should ensure any changes to the Universal Actions to address barriers to access, or to simplify Actions, do not compromise the Scheme’s environmental ambition.

Recommendation 10. The Cabinet Secretary should ensure the Scheme fairly rewards farmers for maintaining SSSI land under the Universal Actions. He should commit to include SSSI land in the habitat maintenance component of the Universal Baseline Payment.

¹² [Sustainable Farming Scheme: Keeping farmers farming, December 2023](#)

¹³ Written evidence, Soil Association Cymru

¹⁴ Written evidence, NFU Cymru

¹⁵ RoP, para 227, 26 June 2024

6. Optional and Collaborative layers

44. The proposals set out the Welsh Government’s intention to introduce the Universal layer first with the Optional and Collaborative layers introduced later during the Transition Period (2025 to 2029).

45. We heard concerns that limited progress had been made towards the development of Optional and Collaborative Actions since the **outline scheme proposals** (July 2022). Representatives of the farming industry told us the lack of clarity around timeframes for introduction of the Optional and Collaborative layers, budget allocation and payment methodology could lead to farmers “delaying the transition to the SFS for as long as possible”.¹⁶

46. Representatives of the environmental sector highlighted the Optional and Collaborative layers would deliver the greatest environmental benefits. They raised concern that delaying introduction would limit the Scheme’s environmental ambition, at least in the early years, and would disadvantage ‘nature friendly’ farmers who are already delivering above and beyond the Universal Actions, or have ambitions to do so. They called for the Optional and Collaborative layers to be introduced by 2026 at the latest.

47. Since announcing the delay to the Scheme, the Cabinet Secretary has said he is aiming to introduce as many of the Optional and Collaborative Actions as possible from 2026. We welcome this and hope it goes some way in addressing the concerns raised in evidence to us. Nevertheless, there is clearly considerable work to do before then, with the Optional Actions under-developed and proposals for Collaborative Actions yet to be made available. The Welsh Government must ramp up efforts over the coming months to ensure a comprehensive suite of Optional and Collaborative Actions is available to farmers from the start of the Scheme.

48. The Cabinet Secretary said the Ministerial Roundtable would be considering which of the Optional and Collaborative Actions should be prioritised for introduction. We expect sufficient priority to be afforded to Actions that will deliver environmental outcomes.

¹⁶ Written evidence, NFU cymru

Biomass crops

49. In its latest **Progress report: reducing emissions in Wales** (June 2023), the UK CCC recommended, “Where appropriate, the Sustainable Farming Scheme should consider rewarding the environmental benefits that the planting of perennial energy crops can deliver on arable land in the same way that England’s Sustainable Farming Incentive has confirmed it will”. In response, the Welsh Government committed to explore biomass crops as a potential Optional Action. However, the proposals do not include an Optional Action relating to biomass crops. We expect the Cabinet Secretary to address this issue.

Recommendations

Recommendation 11. The Cabinet Secretary should provide an outline timetable for the remaining stages in the development of Optional and Collaborative Actions.

Recommendation 12. The Cabinet Secretary should set out the criteria he will use to determine which Optional and Collaborative Actions to prioritise for introduction at the start of the Scheme.

Recommendation 13. The Cabinet Secretary should ensure sufficient priority is afforded to Optional and Collaborative Actions that will deliver environmental outcomes. This includes Actions aimed at enhancing SSSI condition, recognising SSSIs are key to the delivery of the 30 by 30 target.

Recommendation 14. The Cabinet Secretary should:

- report back to the Committee on the findings of work undertaken to explore the potential for biomass crops to be included as an Optional Action, and
- clarify whether biomass crops have been ruled out as an Optional Action, and if so, explain the reasons for this decision.

7. Budget allocation

50. Representatives of the environmental sector raised concern that the inclusion of a Stability Payment and the continuation of the Basic Payment Scheme during the Transition Period would limit funding available for the Optional and Collaborative layers. Soil Association Cymru suggested at least 50%

of the Scheme budget should be allocated to these layers by the end of the Transition Period. Concern was also raised that the Universal layer would take up a disproportionate amount of the Scheme's budget, restricting take-up of Optional and Collaborative Actions.

51. There is a lack of clarity about how the Scheme budget will be allocated across the Universal, Optional and Collaborative layers. The Welsh Government has asserted that implementation of Optional and Collaborative Actions "will be subject...to budget availability",¹⁷ which is of concern to us. If the Scheme is to deliver its environmental ambitions, the Optional and Collaborative layers must be allocated an appropriate share of the Scheme budget.

Recommendation 15. The Cabinet Secretary should explain how he will ensure the Scheme budget is allocated appropriately across the Universal, Optional and Collaborative layers to maximise the delivery of environmental outcomes.

8. Payment methodology

Cost incurred income forgone

52. The evidence we received suggested a perception among contributors that the payment methodology would not go beyond cost incurred/income forgone. According to contributors, this would not incentivise take-up or provide a meaningful income for farmers.

53. Since we took evidence, the Cabinet Secretary's official has clarified the Welsh Government's position stating, "We always intended to have social value as part of the payment methodology. The consultation sets out those three things: costs incurred, income forgone, and social value". He added, "It talks a lot more about costs incurred and income forgone than it does about social value...[because] costs incurred and income forgone is relatively straightforward to come up with a methodology, but social value is much harder".¹⁸

54. It is regrettable the Welsh Government failed to make clear its intention from the outset. This served only to exacerbate the farming industry's concerns. The Welsh Government must learn lessons from this before publishing the final Scheme.

¹⁷ [Sustainable Farming Scheme: Keeping farmers farming, December 2023](#)

¹⁸ RoP, para 394, 13 June 2024

55. While we acknowledge the complexities involved in developing a ‘social value’ payment, we are disappointed that limited progress has been made to date. We note the Cabinet Secretary has tasked the Ministerial Roundtable with taking forward this work. We seek a commitment from the Cabinet Secretary that ‘social value’ will be incorporated into the payment methodology at the start of the Scheme to incentivise take-up and provide fair reward to farmers for the delivery of environmental outcomes.

‘Payments for Results’ approach

56. The Welsh Government has previously indicated its intention to consider a ‘Payment for Results’ approach in the Scheme. However, this is not included in the proposals.

57. The evidence we received suggests there is support for moving to/incorporating ‘Payment for Results’ over time and as the Scheme evolves. NFFN Cymru and representatives of the environmental sector suggested the Welsh Government undertake further trials, similar to the [Llyn Payment for Outcomes Trial](#), and learn lessons from other nations where similar approaches are operating successfully. Representatives of farming industry explained that where results-based schemes are already operating, payments for results are additional to direct payments.

Recommendation 16. The Cabinet Secretary should commit to ensuring that ‘social value’ is incorporated in the payment methodology at the start of the Scheme.

Recommendation 17. The Welsh Government should:

- set out its current thinking on a ‘Payment for Results’ approach, and
- commit to considering the incorporation of ‘Payments for Results’ as part of a future review of the Scheme.

9. Natural Resources Wales’ role in supporting delivery

58. It is unclear from the proposals and the accompanying [Integrated Impact Assessment](#) the extent of Natural Resources Wales’ (NRW) role in supporting the delivery of the Scheme and the associated cost. However, we heard evidence from WEL that NRW’s role would be significant, including working with farmers to

complete SSSI Management Plans and providing guidance on woodland creation. We also heard concerns that budgetary constraints within NRW could impact on the delivery of certain actions.

59. Our concerns about capacity and financial constraints faced by NRW are well-documented. We expect the Welsh Government to ensure NRW is adequately resourced to effectively support the delivery of the Scheme.

Recommendations

Recommendation 18. The Cabinet Secretary should clarify the extent of NRW's role in supporting the delivery of the Scheme and provide details of any associated cost assessment. If a cost assessment has yet to be undertaken, the Cabinet Secretary should commit to a timeframe for completion of this work and report back to the Committee on the outcome.

Recommendation 19. The Cabinet Secretary should commit to ensuring NRW is adequately resourced to undertake any additional activities and/or meet any increase in service demand arising from the Scheme.