Agriculture Reform Programme Regionalisation Options: Synthesis Report

An output of RESAS commissioned project Supporting Scotland's Land Use Transformations

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Contents

Acronyms

Acronym	Full Text	Acronym	Full Text
AECS	Agri-Environment Climate Scheme	NECG	New Entrant Capital Grants
BB	Broadband	NESUG	New Entrant Start Up Grant
BES	Beef Efficiency Scheme	P1	Pillar 1
BPS	Basic Payment Scheme	P2	Pillar 2
BRN	Business Reference Number	PGRS	Permanent Grassland
CAGS	Crofting Agricultural Grant Scheme	PSG	Project Steering Group
EARS	Economic Advice and Related Services	RESAS	Rural and Environment Science Analytical Services
EFA	Ecological Focus Area	RP	Rural Priorities (payment scheme)
FGS	Forestry Grant Scheme	RPID	Rural Payments and Inspections Division
FPMC	Food Processing, Marketing and Co-operation	SAF	Single Application Form
FPS	Farmland Premium Scheme	SBCS	Scottish Beef Calf Scheme
FWPS	Farm Woodland Premium Scheme	SFGS	Small Farms Grant Scheme
FWS	Farm Woodland Scheme	SFPS	Single Farm Payment Scheme
JAC	June Agricultural Census	SSBSS	Scottish Suckler Beef Support Scheme
KTIF	Knowledge Transfer and Innovation Fund	SUSSS	Scottish Upland Sheep Support Scheme
LFASS	Less Favoured Areas Support Scheme	VCS	Voluntary Coupled Support
LMO	Land Managers Options	YFSUG	Young Farmers Start Up Grant

Summary

This report presents analysis of a set of options for updating how Scotland is divided into regions for the purposes of making direct agricultural support payments to farmers and crofters. The research is part of the 2022-27 Strategic Research Programme (SRP) and was conducted by James Hutton Institute staff from the Land Use Transformations project working with Scottish Government (SG) colleagues in RESAS and RPID. The study addressed questions relevant to ongoing analysis within Scottish Government, of post EU-exit agriculture policy options, and builds on previous SRP studies (2008-2021) and collaborations with SRUC and Pareto Consulting.

The analysis assessed: the Basic Payment Scheme regionalisation *status quo* – three regions, with two of these (R2 and R3) being predominately rough grazing and differentiated by stocking rates; options for merging these two rough grazing regions; and for differentiating between the cropping and livestock areas within the other BPS region (R1). Options for changes to the Less Favoured Area Support Scheme (for disadvantage, LFASS) and Voluntary Coupled Support (per head payments for livestock, VCS) were also tested as part of the study, building software tools that allow the assessment of options for all direct support payments.

Key Findings

1. Maintaining the differential in payment rates between BPS R2 and R3 is incompatible with the SG aspiration to make 50% of direct payments conditional (via Enhanced Conditionality) as it would mean differences in payment rates for the same activities being undertaken on land that is otherwise functionally identical, except for historic stocking rates.

2. Merging current BPS R2 and R3 only involves 13% of the BPS budget so the degree of redistribution is limited (£25M in total, so £12.5M gain and loss). Indeed, 7,241 businesses are wholly unaffected as they have no R2 or R3 land. For the remainder the degree or relative change is small, 6,826 with less than 20% reduction in payments and of these most have a low magnitude, 4,370 have less than a £500 reduction. Numbers of gaining businesses are not insignificant (n=2,532) and are concentrated in Highland and Western Isles, in specialist sheep businesses.

3. Since BPS R1 is where 87% of current BPS spend occurs, the region is crucial to the delivery of the policy outcomes sought by SG. In addition to merging BPS R2 and R3, splitting BPS R1 between cropping and livestock systems would help to ensure that appropriate Enhanced Conditionality measures are implemented. This would avoid Enhanced Conditionality measures being undertaken only on grasslands and undermining the gains made in the current Ecological Focus Areas within BPS Greening. A key decision remains of how best to treat temporary grasslands, either as part of cropping or livestock systems.

4. The analysis also highlighted that the current LFASS has a distribution of payments similar to that which would be delivered by combining a top-up payment for a merged BPS R2 and R3 with an additional VCS payment for suckler cattle. Being explicit on the share of current LFASS funding that is, in effect, a coupled payment, and paying it via VCS would enhance transparency and allow better alignment between the funding and reasonable delivery expectations, such as improvements in efficiency.

5. Finally, whatever the regionalisation, and other options considered, there will be large numbers of small recipients (9% of current funds go to the 50% of recipients receiving the lowest payments, <£15k each). Having the 50% of recipients with the highest payments deliver 100% of the environmental objectives rather than 91% should thus be possible. They have 4.3M ha of land at their disposal, of the 5.6M ha of land within the IACS payment system (77%), or 3.51M ha of 3.96M ha of the land claimed for BPS (89%). This could mean that that for the remaining 50% of recipients a simpler, light touch, "do no harm" scheme should be possible and where such businesses can cooperate to deliver outcomes (e.g. via the institutions of crofting) then this would enhance the delivery of outcomes via Enhanced Conditionality.

1 Introduction

This document is an output of the policy-led analysis within the Land Use Transformations (LUT) research project (C3-JHI-1) part of the 2022-27 Scottish Government (SG) Strategic Research Programme (SRP). The LUT project has a focus on how to deliver high level policy outcomes – especially achieving "Net Zero and other environmental objectives". This is the second of the Quantitative Story Telling (QST) processes conducted within the LUT project. QST is an iterative process defining and interpreting policy options with stakeholders, in this case SG Rural Payments and Inspections Division (RPID) officials and Rural and Environmental Science Analytical Services (RESAS) analysts. The focus of this second QST was on options for changes to the way farm support payments are distributed across Scotland and between sectors or size classes, referred to here as "regionalisation options".

2 Policy and research background

The Scottish Government's Vision for Agriculture signals the potential for a transformation in agricultural support, particularly via the use of Enhanced Conditionality (EC) on at least 50% of direct payments and future Less Favoured Areas (LFA) funding being made available through Tier 2. The first QST process in the LUT project has evaluated the EC measures themselves and the wider factors that would shape their success in delivering the objectives of the Vision for the Agricultural Bill (see the Enhanced Conditionality Synthesis Report). A key finding was that the outcomes for an EC based scheme would be determined, in large measure, by the distribution of funds across Scotland and that this would be shaped by budget and region decisions (the number and their definition), their interactions with other measures such as voluntary coupled support (VCS), and key region implementation options such as capping or front loading[1]. The second QST process (being reported here) thus took Regionalisation as its focus building on and extending previous analysis conducted by Hutton as part of the 2022-27 SRP on the 2015 Reforms and the regionalisation options analysed in the 2023 Economic Advice and Related Services project (RESAS/005/21).

3 Scope, Materials and Methods

The research had five Stages that were agreed between Hutton, RESAS and RPID staff and refined over the course of the analysis in line with the QST process.

- **Stage 1 Baseline Characteristics** used data from 2022 to characterise farm businesses in terms of their areas, entitlement and claimed areas per BPS region. Stage 1 also added a range of discriminatory variables to allow the characterisation of BPS payment regions in terms of factors such as land capability, presence of peatlands, socio-economic performance (SEP) or peripherality. Stage 1 also considered the characteristics of

[1] Capping is setting an upper limit on payments, whereas frontloading is increased rates of payment on land up to an area-based threshold (e.g. the first 55 ha) or livestock count.

businesses in the baseline that are in receipt of Less Favoured Area Support Scheme (LFASS) and Scotland Upland Sheep Support Scheme funds (SUSSS). Options for defining a 3 Region system splitting the 2015 Region 1 between cropping and grassland (scenario S6 from EARS) were also considered.

- **Stage 2 Basic Payments (BPS) Options** updated the 2 Region + SUSSS scenario (EARS scenario S4) to 2022 and added new characterisations of change per business (distributions of change) and linked the new distributions of payments with the discriminatory variables from Stage 1 to allow better assessment of how well the new payments distribution matches with expectations of outcomes or capacity to undertake EC measures.
- **Stage 3 Less Favoured Area Support Scheme (LFASS) Options** assessed the effects of implementing LFASS as a flat rate top-up payment – both as a change to regionalisation on its own and combined with the 2 Region + SUSSS option. The same change and outcome characterisations were used for these options as the scenarios in Stage 2.
- **Stage 4 Voluntary Coupled Support Scheme (VCS) Options** considered if deficiencies (if any) in the flat rate LFASS options (particularly for LFA cattle businesses) could be addressed via changes to VCS. This led to the implementation of an option that replaced LFASS with increased payments for the new Region 2 (scenario S4) and higher rate of payment for both Beef Island and Beef Mainland VCS schemes.
- **Stage 5 Provision of data to SG, write up of analysis, presentation to stakeholders**. See Section 4, *Outputs.*

3.1 Stage 1 Baseline analysis

Stage 1 makes use of integrated administrative, and research derived datasets held by Hutton. These include payments and farm structure data from the Integrated Administration and Control System (IACS) and the Land Parcel Identification System (LPIS) both from RPID. This is supplemented by farm characteristics data from June Agricultural Census (JAC) from RESAS. The range of research derived datasets such as land capability and peatland extent/condition are detailed on the webpage Land Systems Research team and in the Land Use Transformation project Story Map collection.

A series of dashboards were created (combinations of charts, graphs, tables and maps) to visualise and allow the interrogation of the data to answer specific policy-led questions. The dashboards use breakdowns by agricultural region, farm types and business size (area) in common with previous analyses by the Hutton team. The outputs for Stage 1 Baseline are collated within PowerBI – a software tool that enables the sharing of the analysis between Hutton and SG analysts and officials. A summary of the Stage 1 Baseline analysis was also generated as an annotated PowerPoint file, including assistance on interpreting the dashboards and listing the key insights generated with the RESAS and RPID colleagues.

3.2 Stages 2 to 4, BPS, LFASS and VCS options

The analysis for each of these stages used a Scenario Builder. The Scenario Builder is an online software tool (written in Shiny[2]) that allows the Hutton team to quickly generate, test and share, alternative combinations of regionalisation options. The Scenario Builder has the following functionality:

- Calculates payments per business for alternative regionalisation options using 2022 SAF population as a baseline.
- Calculates the change in payments from the 2022 baseline.
- Presents charts of payments and change against farm type, agricultural region and size (area) classes and subsets of these entities or recipients of payments, for individual or combinations of payment schemes.
- Maps the rates of payment and change in payment per business (again with options for subsets as above).
- Saves the payments data for further characterisation – via Scenario Dashboards (similar to those used in the Stage 1 Baseline analysis – e.g. assessing distribution of funds against objectives).

The capability and use of the Scenario Builder are fully documented in the Regionalisation Scenario Builder – Worked Example, with the mechanisms available in designing scenarios also outlined in Appendix I – Regionalisation Scenario Builder of this document.

4 Outputs

The outputs from the screening are:

Project Stage	Documentation	Links
Stage 1 Baseline Analysis	Part 1: Baseline Areas and Payments	Slide Deck – D8.3
	Part 2: Baseline Characterisation	Slide Deck – D8.4
Stage 2 Basic Payments (BPS) region options	BPS - 2 and 3 Region Options	Slide Deck – D8.5
Stage 3 Less Favoured Support Scheme (LFASS) options	LFASS Options - FlatLFASS	
Stage 4 All Direct Payments options	BPS, LFASS and VCS combined options - 2 Region - No LFASS	
Stage 5 Provision of data to SG, write ups of analysis, presentation to stakeholders.	Regionalisation Scenario Builder	Slide Deck – D8.6
	Regionalisation Scenario Builder - Worked Example	Report – D8.7
	Presentation to ARIOB	Slide Deck – D8.8
	ARP, Regionalisation Options: Interpretation of Outputs Report	Report – D8.2
	ARP, Regionalisation Options: Synthesis Report	Report – D8.1 - this document

[2] Shiny is a package for the R statistics and graphics software. It is used to build interactive web applications.

4.1 Accessing the Dashboards and Scenario Builder.

Currently the Dashboards and Scenario Builder are accessible only to the Hutton and SG project participants. With the permission of the SG project leads a wider community of interest can have access can granted. Please follow up with the Hutton lead author.

5 Interpretation of the outputs

The integrated datasets and software tools can generate a multitude of views of baseline and alternative options. The intent within the project was partly to build an overall capacity to rapidly conduct options appraisals in a more systematic and repeatable way than has been the case in previous rounds of options appraisals. In particular, it has been important to build the ability to consider all the direct payment (or analogous) schemes simultaneously. This has been exploited in Stages 3 and 4 to experiment with reusing existing regionalisation and VCS measures to deliver the intent of LFASS in different ways.

This document is not intended to be a summary of all the information content within Dashboards or generated within the Scenario Builder. Instead, it provides a structured interpretation of the project outputs as a whole and details of how the components (dashboards and scenario builder) can be accessed, used and interpreted.

The interpretation of the policy implications of the analysis conducted to date has been undertaken with RESAS and RPID colleagues. This was done first, with the project steering group (PSG) in the iterative process of defining the scope of the baseline characterisations and in the selection and analysis of specific scenarios. Secondly there was interpretation of outputs undertaken near the end of the project once the tools and dashboards had been developed and refined. These policy-led implications of the analyses were generated in workshops both within the PSG and with a wider range of RPID and RESAS colleagues and others with interest in the Tier 1 Base project within SG. The policy-led interpretations are summarised in the next sections.

5.1 Baseline Areas

Key baseline characterisations are the area and proportion of Scotland on which agricultural payments are made. Neither is all the utilisable agricultural area of Scotland included in the area that is paid on, nor is all the land at the disposal of those businesses that do receive support payments (see Figure 1).

The table in Figure 1 quantifies the area of Scotland, and the area and percentage of Scotland, first for the land at the disposal of businesses included in any scheme administered via IACS (the IACS land use area), then the claimed and net Basic Payment Scheme BPS areas and finally the Less Favoured Area Support Scheme claimed areas. The chart presents these data broken down by Agricultural Region. The figure highlights that while a very substantial proportion of Scotland's land area is included within businesses that participate in agricultural or related schemes the proportion of Scotland on which payments

are made is more modest at ~50%. It is worth noting that regionally the biggest differences between Land Use and BPS area occurs in the Highlands.

Area Type	Area (M ha)	% of Area
Scotland	7.79	100%
IACS Land Use	5.69	73%
BPS Claimed	3.96	51%
Net BPS Entitlements	3.72	48%
LFASS Claimed	2.82	36%

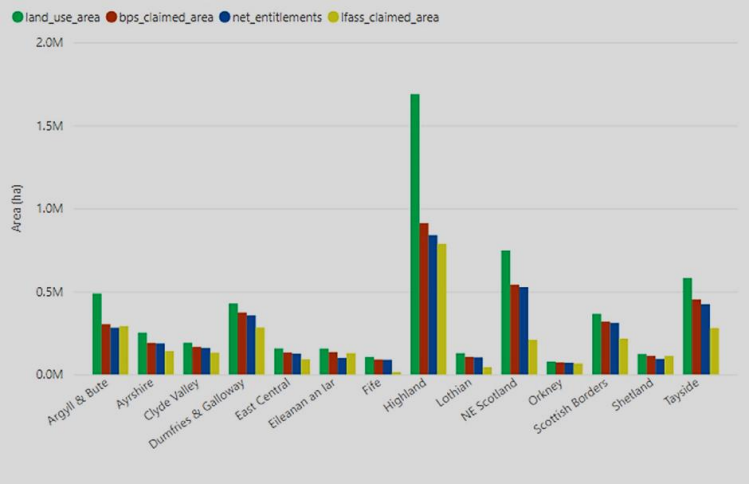


Figure 1: Area Types for each Agricultural Region

There could thus be potential for land previously excluded (as features that could not be claimed on) or not claimed on (due to lack of agricultural activity) to be included within scope of future payment regions as the improved management of habitat features could be how businesses' Enhanced Conditionality requirement is met. The management of which areas are included within the paid-on region is via mechanisms such as eligibility and activity criteria and entitlements, and these were not part of the scope for this analysis. Whether additional areas should be included raises significant policy questions balancing agricultural and environmental outcomes against a background of tightening government finances. Additional areas, without additional funding, necessarily mean a dilution in the rate per hectare of funding. For the SAF population up to 1.64M ha of land at their disposal is currently unclaimed, that would, if included, be a 29% dilution. For those businesses without additional area to claim this dilution means a loss in their total payment.

Without limits on additional areas this would see a net transfer of resources to larger businesses that tend to have larger unclaimed areas. That may be seen as undesirable without a more than commensurate increase in the requirement for delivery for such businesses via Enhanced Conditionality.

5.2 Baseline Payments

A wide variety of payment distribution analyses for the *status quo* were carried out assessing how the current budget and regionalisation regime distributes funds in space and between sectors. This was seen as a relevant capacity for analysis when considering if sufficient funds are likely to be available to fund Enhanced Conditionality measures or conversely where the greatest expectation in terms of delivery of Enhanced Conditionality outcomes would occur. Figure 2 does though highlight that, across Scotland, it is decisions on the funds linked to current BPS Region 1 that are likely to be the most consequential,

with 87% of funds allocated to 43% of the BPS area. This raises the question of whether this land can deliver 87% of the outcomes being sought by Scottish Government. For reductions in GHGs, this is perhaps possible, since in general this is the most intensively managed land and may also see the greatest gains from habitat restoration. Yet the remaining 13% of funds may be inadequate to protect and enhance the habitat and biodiversity associated with lower intensity management regimes.

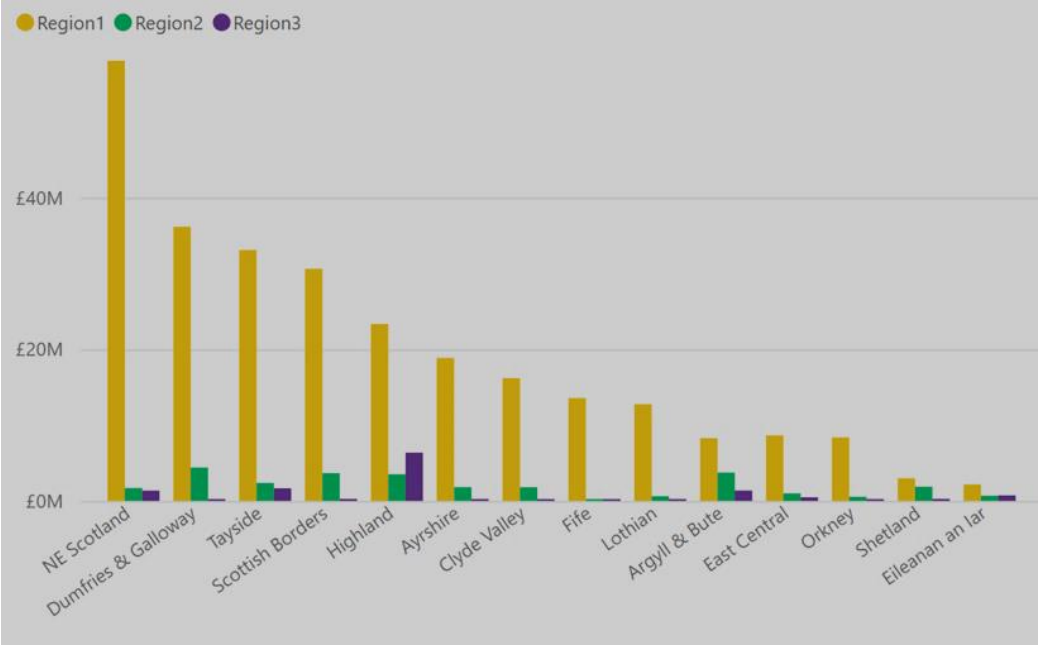


Figure 2: Spend per BPS region for each Ag-Region

5.3 BPS Regions Options

The BPS regions options considered by this analysis were a subset of those previously defined in the Economic Advice and Related Services (EARS) project to Support Development of a New Rural Support Scheme for Scotland. The Scottish Government Desk-based Review also considered three of the EARS scenarios. For the Active Farmed hectares (EARS scenario S2), in addition to the limitations identified in the EARS analysis, the desk-based review concluded that implementing S2 would require data that is not currently available and was not compatible with existing IACS capabilities. This meant that scenario S2 was not considered further in the Scottish Government Technical Review nor in this analysis. The scenarios analysed are thus scenario S4 – *2 Regions, Merge R2 and R3* and scenario S6 – *3 Regions - Merge R2 and R3 and Split R1* into grassland and arable areas.

5.3.1 BPS Scenario S4 – 2 Regions, Merge R2 and R3

The current BPS Regions 2 and 3 are both predominantly rough grazing but with differing payment rates. This payment rate differential is based on historic stocking rate differences. Maintaining this differential is incompatible with Enhanced Conditionality as it would likely mean differences in payment rates for the same activities being undertaken on land that is

otherwise functionally identical. Merging current Regions 2 and 3 creates a new Region 2 with 2.25M ha, with the BPS budgets merged and reallocated across all the land in the region (using the same rate for all land). Since the Scottish Upland Sheep Support Scheme (SUSSS) was predicated on the existence of the two rough grazing regions, this budget was also merged into the new Region 2 budget for this analysis. There may though be justification for a differently constituted sheep VCS scheme on a social or environmental basis, but further analysis would be required.

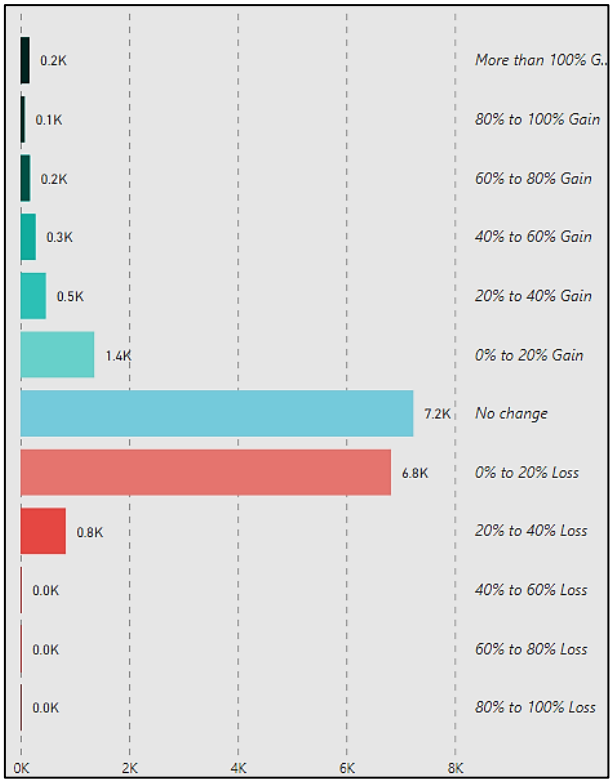


Figure 3: Distribution of change in payments (counts for percentage gains and losses classes)

Overall, since this scenario only deals with 13% of the BPS budget the degree of redistribution is limited (£25M in total, so £12.5M gain and loss). Indeed, 7,241 businesses are wholly unaffected as they have no Region 2 or 3 land (see Figure 3). Of the remainder the degree or relative change is small (6,826 with less than 20% reduction in payments and of these most have a low magnitude (4,370 have less than £500 reduction). Numbers of gaining businesses are not insignificant (n=2,532) and are concentrated in Highland and Western Isles, in specialist sheep businesses.

The Scottish Government desk-based review concluded that the new region had better compatibility with Enhanced Conditionality and any revised LFASS payments and better aligned with peatlands policy. The technical review did though conclude that changes would have very high implementation impacts within government.

5.3.2 BPS Scenario S6 – New 3 Region

BPS scenario S6 builds on scenario S4, merging BPS Regions 2 and 3, but also splitting BPS Region 1 based on an arable versus grassland classification of land. Conceptually these are quite distinctive land covers with associated land uses and management regimes. Being able to differentiate between these new regions in terms of targeting Enhanced Conditionality measures, the balance of their Enhanced Conditionality requirements and budget allocations is highly desirable. The diversity of current Region 1 is highlighted in Figure 4 encompassing: Arable (LCA 1-3.1); Mixed (LCA 3.2-4.2); Improved Grasslands (LCA 5.1-5.3) and even Rough Grazing (LCA 6.1-6.3), the latter due to the 40% threshold used for

deciding whether a land parcel was allocated into current Region 1. Better differentiating within this region will be important since this is where 87% of current BPS spend occurs.

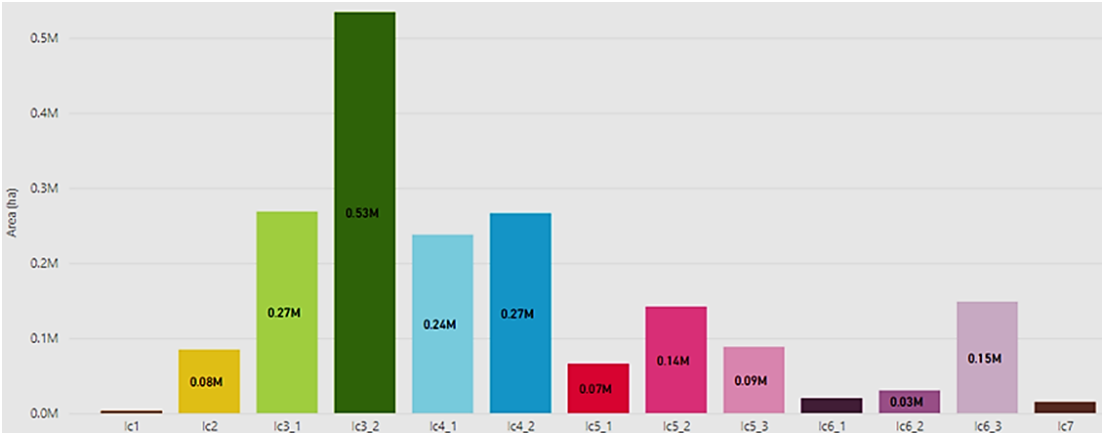
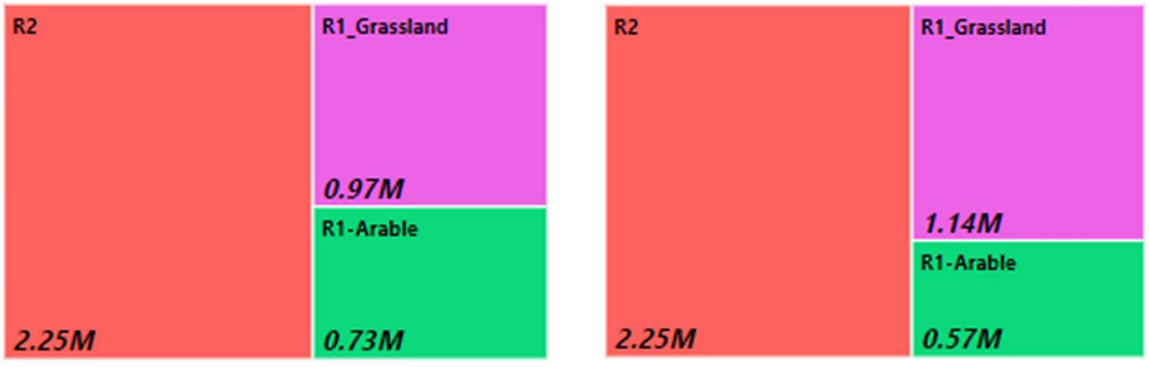


Figure 4: Land Capability for Agriculture for BPS Region 1 (1.7M ha)

Note that while it would be possible to vary rates and budgets between the two new regions, this was beyond the scope of the analysis, with the focus instead on assessing options for how the split within Region 1 would be implemented. Tools have been built to allow any combinations of land covers as defined by IACS crop codes to be used (and other factors could be added if needed). A key decision is how to treat temporary grasslands (TGRS 1-5 crop codes) with about 160k ha of area that could be included in either of the new regions depending on interpretations (see Figure 5). Note that it may ultimately be more desirable to differentiate within the TGRS class based on what triggers the change to TGRS. That is, if the previous crop code is a fodder or forage crop then the TGRS may be better thought of as part of a grassland (livestock) system whereas other arable crops or shorter periods of TGRS may indicate that the TGRS was a grass break in an otherwise arable system[3].



(a) (b)

Figure 5: Two options for splitting BPS Region 1 – treating Temporary Grassland (<5 years) as Arable (a) or Grassland (b)

[3] Pers Comm. Steven Thomson, SRUC.

The Scottish Government desk-based research concluded that the New 3 Region model was more flexible than the existing regionalisation and better aligns with both Enhanced Conditionality and disadvantaged areas support. Again, the Scottish Government technical review noted that the scenario would have very high implementation impacts within government.

5.4 LFASS Options

Part of the scope of the analysis was to place the BPS regionalisation options in a wider context, and a key element of that was the inclusion of LFASS. The Scenario Builder tool includes options for changing the basis of regionalisation for LFASS, with the intervention logics being simplification and the elimination of historic elements in payments (that become increasing hard to justify as equitable as they become more dated).

5.4.1 Flat LFASS

As a baseline for LFASS regionalisation options the simplest option is to take the LFASS budget and pay a flat rate per hectare across the current LFASS claimed area. This is the FlatLFASS scenario in this analysis. This sets aside the challenges of redefining disadvantage or disadvantaged areas or of using other regions e.g. those from BPS as a basis. Note though, that all those options can be studied, for example see Matthews et al. (2016) for previous analysis in the context of Areas of Natural Constraint options. Instead, the FlatLFASS scenario is being used to highlight that any introduction of very simple, area based, payments would likely have redistributive impacts that might be challenging for the sector to adapt to in the short term and have the potential to result in windfall gains that would be difficult to link to the range of policy outcomes being sought by Scottish Government. This is illustrated by Figure 6, that highlights the degree of redistribution (£41M from a budget of £61.5M) and especially the net transfer between specialist cattle and specialist sheep. This highlights that the current LFASS, via a variety of mechanisms, is providing greater support to cattle businesses, so any change to LFASS regionalisation would need to consider the balance of negative and positive outcomes and how any transition would need to be managed.

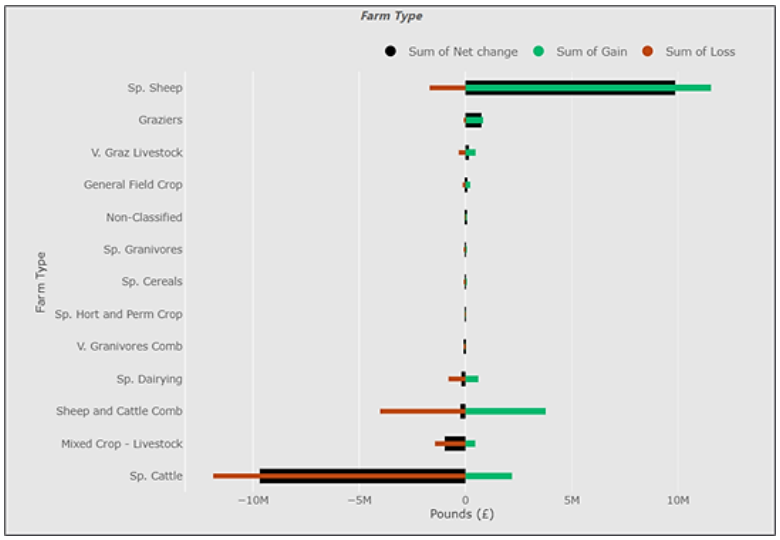


Figure 6: Per farm-type gains, losses and net change for the FlatLFASS scenario

5.5 All Direct Payments options

One further scenario was considered in the analysis and was used primarily as a demonstrator for the capabilities of the Scenario Generator but also to further explore the role of VCS and how the functions of current LFASS could be replicated by other, simpler, means, while eliminating the use of historical stocking data. This was the *2 Regions - No LFASS* scenario. The underpinning idea behind the 2 Regions - No LFASS scenario was that LFASS in effect combines a regionalised top-up payment on an area basis and a voluntary coupled support type payment based on cattle stocking rate.

The No LFASS scenario shared the LFASS budget between a top up payment to the merged BPS regions 2 and 3 (from scenario S4) and increased payment rates for Beef Mainland and Island voluntary coupled support. The top up payment to the merged regions was capped to limit net redistribution in favour the largest size class (>500 ha). Finally, all payments were frontloaded with higher rates (150%) for the first 55 ha. The changes in payments are illustrated in Figure 7 with more businesses gaining. What the experiment demonstrated was that there is little inherent in the current LFASS that could not be delivered by other means thus delivering, by implication, an improvement in fairness and making the payments more compatible with future Enhanced Conditionality.

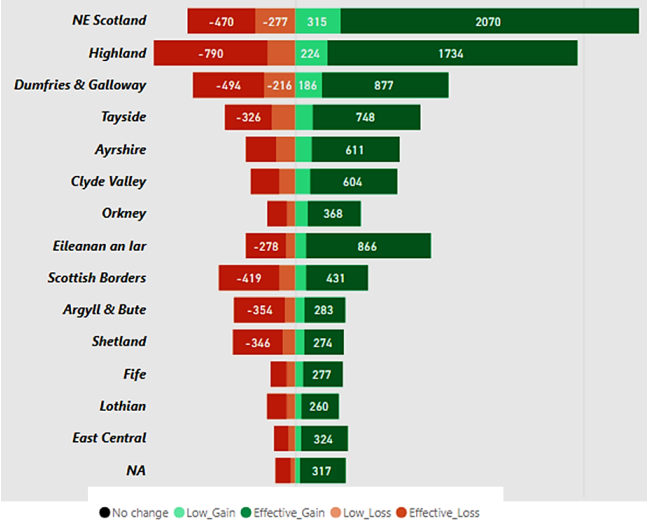


Figure 7: Counts of businesses gaining and losing from 2 Region – No LFASS – FrLd, Threshold for Effective Gain or Loss was 5%

6 Conclusions

The conclusions drawn are shaped by the themes of the Payment Region Desk and Technical Reviews conducted by illustrated in Figure 8.

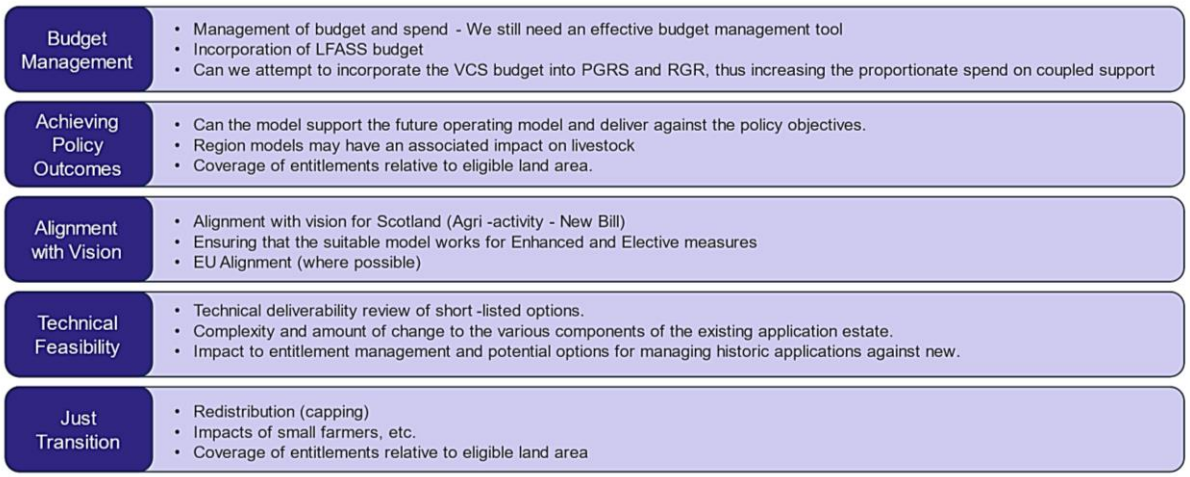


Figure 8: Themes of the Desk Based Review of Regions by RPID

6.1 Budget Management

The regionalisation analysis did not address the management budget and spend in any detail, but the scenarios were not seen as raising any issues beyond those of potential non-participation commented on in previous analyses.

6.1.1 Potentially incorporating the LFASS budget

Changes to LFASS (delivered via a combination of BPS regions and VCS payment) have been analysed and judged, by the project steering group and the policy/analysis teams consulted in the QST workshop, to be worthy of further consideration. In the context of LFASS the analysis highlights the need to continue to use beef VCS payments as a key mechanism maintaining the integrity of these systems of production. Yet the need for such systems to adapt to deliver GHG mitigation and other public good outcomes is also recognised (e.g. via efficiency measures such as shorter calving intervals). Being explicit on the share of current LFASS funding that is, in effect, a coupled payment, and paying it via VCS would enhance transparency and allow better alignment between funding and reasonable delivery expectations, such as improvements in efficiency. Subjecting these payments to efficiency and potentially Enhanced Conditionality requirements would be compatible with the objectives of the Vision and is worth further consideration as part of any LFASS replacement analysis.

6.2 Achieving Policy Outcomes

6.2.1 Deliver against policy objectives

Regionalisation is a key underpinning policy decision in that it distributes money across farm types, regions and business sizes. As such, it therefore sets the funds available with which to deliver all policy objectives. For Enhanced Conditionality measures, regionalisation is critical for targeting funding and is thus the mechanism defining the requirements and capacity to undertake agri-environment-climate measures by individual businesses.

Regionalisation is thus at the heart of setting the ambition for and delivery of the wide range of agricultural and environmental policy objectives in the Vision.

There are, though, many elements beyond regionalisation that have an impact on policy delivery but, without funds in the right place, delivery either cannot occur or must use other mechanisms such as volunteering or regulation. The linkage between regionalised payments and policy outcomes is, however, uncertain and complex. For example, land managers need to: take up the funds; then choose a mix of measures that work with their businesses and could deliver meaningful progress on objectives (make a plan), the measures then need to be implemented, drawing as necessary on advice, in the right place, in the right way, and potentially cooperating with others in their area; and the outcomes need to be monitored and quantified to allow adaptation of the targeting, weighting of measures and advice etc. Enhanced Conditionality is thus a radical departure from previous direct payments where there was a looser coupling between payments and objectives. For Enhanced Conditionality to be effective, the budgets set by regionalisation need to be more tightly coupled to expected outcomes. Significant decisions, in terms of the budgets available for Base and Enhanced tiers are implied by the greater need for resources to support advice, coordination and monitoring of the linkage between Enhanced Conditionality and other measures enacted and their long-term outcomes.

6.2.2 Linkage with livestock

Changes to regionalisation has implications for livestock systems, especially since the *status quo* three-region model was seen as addressing limitations of a simpler two region model for the sheep sector and had both stock rate components of region definitions (between BPS Region 2 and 3) and a supplementary sheep VCS scheme. Regionalisation analysis previously, and in this study, has questioned the benefits of the three-region model and its compatibility with Enhanced Conditionality. The simpler two-region model could be implemented without damaging levels of redistribution but the outcomes for livestock are perhaps better understood in the wider context of combining changes of BPS regions, LFASS and VCS together, rather than per individual scheme, despite the increased complexity of the scenario.

6.3 Alignment with Vision

6.3.1 Alignment with Vision

The regionalisation scenarios analysed to date have been shaped by the recognition that the *status quo* in terms of agricultural payment regime needs to change to better deliver the range of objectives expressed in the Vision. The importance of the mitigation of GHG emissions and reversing biodiversity decline are both recognised as is the need to underpin the resilience of farming systems to climate and other changes and the capacity for Scotland to grow its own food in the face of increasing geopolitical conflicts and climate change impacts. This all implies the need to strike an appropriate balance between production and

environmental protection/restoration and between land managers and taxpayers. The regionalisation scenarios explore the options for striking this balance and in simplifying the system of payments, making it more transparent and providing the opportunity to start to mainstream participation in agri-environmental management by all land managers rather than only those innovators and early adopters participating in elective schemes (Tier 3).

The distribution of business sizes within the population receiving agriculture payments means that unless very radical redistribution options were considered (and this this would likely undermine the resilience of the sector) then whatever the regionalisation (and other) options considered there will be large numbers of small recipients (9% of current funds go to the 50% of recipients receiving the lowest payments, <£15k). Having the 50% of recipients with the highest payments deliver 100% of the environmental objectives rather than 91% should thus be possible. They have 4.3M ha of land at their disposal, of the 5.6M ha of land within the IACS payment system (77%), or 3.51M ha of 3.96M ha of the land claimed for BPS (89%). This could mean that that for the remaining 50% of recipients a simpler, light touch, "do no harm" scheme should be possible and where such businesses can cooperate to deliver outcomes (e.g. via the institutions of crofting) then this would enhance the delivery of outcomes via Enhanced Conditionality.

6.3.2 Working for Enhanced and Elective measures.

As noted above there will need to be a policy and stakeholder judgement made on how well regionalisation decisions distribute funds to support the delivery of outcomes via Enhanced Conditionality measures. The current 87:13 split in funding between BPS Region 1 and the other Regions may be effective in generating improvements in the more intensively managed areas of Scotland but may be insufficient to address issues such as peatland restoration or semi-natural habitat management in BPS Regions 2 and 3. The desirability of directing requirements for Enhanced Conditionality measures to both arable and grassland systems within current BPS Region 1 may mean that a three-region model (splitting current Region 1) may be needed, not to differentiate in terms of payment rates, but to avoid Enhanced Conditionality measures being undertaken only on grasslands and undermining the gains made in the current Ecological Focus Areas within BPS Greening.

The interaction of regionalisation with elective measures has not been yet considered except to note that there is the potential for greatly enhanced outcomes for biodiversity and water management from cooperation and coordination between land managers within catchments or bioregions with particular challenges. The potential for elective funding to support such cooperation and coordination (and to include peer-to-peer learning) and act as a force multiplier for Enhanced Conditionality measures needs active consideration of the budget need and the existing networks that can demonstrate success. Allocation of budgets to such endeavours should not be seen as a net cut to land management funding rather as an investment in capacity within the sector to address new challenges.

6.3.3 EU Alignment

The regionalisation scenarios have not been formally assessed for alignment with EU regulations but do make use of concepts and mechanisms included within current and previous EU defined schemes. The potential for Scotland to go beyond what can be agreed within the EU CAP may be significant in better delivering the SG's Vision. So EU alignment may be best understood in terms of objective alignment with delivery beyond EU schemes unlikely to be a major alignment issue as long as WTO rules are followed.

6.4 Technical Feasibility

While the regionalisation scenarios were developed with RPID inputs they did not include any detailed analysis of technical feasibility, partly as the acceptable degree of technical feasibility is shaped by the resources available within government.

A vital point to bear in mind is that all but one of the mechanisms used in the scenarios are existing mechanisms that are modified (e.g. changes in thresholds for capping), not wholly new elements that would need to be cut from whole cloth (front loading being the exception). In most cases, the regionalisation scenarios see simplification (e.g. fewer regions or in the delivery of LFASS outcomes via other direct payment mechanisms the elimination of an entire scheme). This is not to minimise the degree of business process or computer infrastructure changes that would need to be made within government but increase in complexity of direct payment calculations is not an outcome of the regionalisation options assessed to date.

6.5 Just Transition

6.5.1 Redistribution

Redistribution levels for all scenarios are lower than that those experienced over the course of the 2015-19 transition from historic to area based direct payments. Minimisation of redistribution is not a policy goal, but unnecessary or undesirable redistribution needs to be avoided. A case can be made that there were windfall outcomes of the 2015-19 reforms that can be addressed via capping. Capping as tested (only in scenario 2 Regions – No LFASS) is typically less redistributive than front loading as less funds are moved between businesses. Capping can address cases where the most extensive businesses receive large payments for limited (verifiable) delivery of public goods. With Enhanced Conditionality the need for capping (at least of Tier 2 funding) could be greatly diminished, especially if progressive requirements were implemented for Tier 2, recognising economies of scale for the delivery of environmental outcomes. For the LFASS alternatives there is certainly a Just Transition justification for change since the historic component of LFASS payments does not reflect current farming or other practices.

6.5.2 Impacts on small farmers

Of the regionalisation scenarios tested, none result in clear net detriments to the smallest size classes (<50ha). That said, extensive businesses (even >500ha) can be economically small in terms of financial turnover where they are dependent on land with limited agricultural potential (i.e. the most heavily constrained land in BPS Region 3). So, there is the need for more checking of outcomes for combinations of other size classes with farm types and regions, e.g. for specialist sheep businesses for Argyll and Bute. Front loading of payments is a key method for ensuring that, for small recipients, the cost of Tier 1 compliance alone cannot be a justification for non-participation in Tier 2.

Appendix I – Regionalisation Scenario Builder

Assumptions and Fixed Elements

Budgets

- Fixed as 2022 (£) value, using the total payments to the SAF population as supplied to Hutton from RPID in May 2023

Regions

- Uses the existing three BPS regions, option to split Region 1 is available using a grass land arable split (with TGRS in arable area)
- No change in the mix of regions per business
- Uses the 2022 LFASS region areas per business

Livestock

- Types and numbers used for VCS in 2022 are fixed (but could be changed if alternatives were seen as desirable)

Mechanisms available in designing scenarios

Number of regions

- Up to four future regions, any combination of BPS regions

Area per region

- Determined by the assigned BPS regions

Money per region

- Constrained to stay within the maximum budget but otherwise free to be assigned between regions to best meet scenario goals
- LFASS and VCS budgets may be converted to fully area-based payments (flattened)

LFASS – a scheme specifically to address issues of disadvantage – use existing LFA areas or other regions.

Voluntary Coupled Support – schemes where payments are linked to production systems – typically particular types of livestock seen as foundational for wider systems (e.g. suckler cattle).

Capping – sets a maximum payment per region, for all regions or per scheme (e.g. VCS), typically used to limit payments for the very largest businesses.

Frontloading – a progressive payment that favours smaller businesses. Pays more (a multiplier of the rate for the region) for the first x hectares of a business (which may be a mix of region types). Can also apply to the first x animals in a VCS scheme.