



**Economic Advice & Related Services  
to Support Development of a New  
Rural Support Scheme for Scotland  
RESAS/005/21**



**BPS regionalisation options – some  
conceptual considerations**

# **BPS regionalisation options – some conceptual considerations**

An output to RESAS as part of commissioned project  
on Economic Advice & Related Services to Support  
Development of a New Rural Support Scheme for  
Scotland

Output Ref: RESAS/005/21 – W2

Steven Thomson, Keith Matthews and Andrew Moxey

March 2022

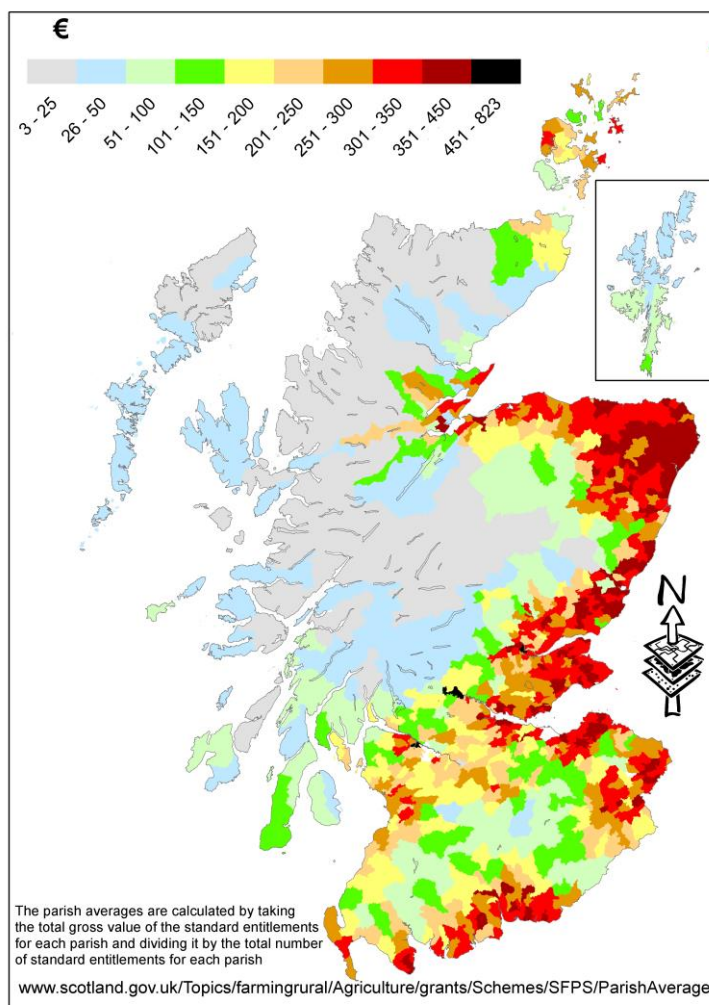
## Key Points

- From 2014, most Pillar I support under the Common Agricultural Policy had to move towards a regional flat-rate basis for payments. This meant that Scotland had to transition away from the historic basis used since 2005 for the decoupled Single Farm Payment Scheme (SFPS) and which had deliberately largely preserved the distribution of funding seen under previous coupled support schemes.
- Unlike some other countries, Scotland did not adopt a single, uniform flat-rate for all land under the new Basic Payment Scheme (BPS) and Greening payments. Rather, after considerable analysis and deliberation of options, a 3-region model with tiered payments was adopted.
- Land previously used for arable or improved grassland was classified as Region 1 and received the highest payment rate per hectare. Land previously used for rough grazing was classified as either Region 2 or Region 3 depending on how intensively stocked it was and received lower payments. An additional activity requirement was also imposed.
- The 3-region model was chosen because of concerns about other models' practical data requirements but also their potential to redistribute funding – in particular moving support away from areas producing significant agricultural output to those not doing so.
- Specifically, very low payment rates for Region 3 were designed to counter the possibility of large areas of land on sporting estates being drawn into the payments system for the first time, thereby diluting funding for existing claimed land.
- Coupled payments for sheep and beef activities were introduced and intended to boost support for active farmers/crofters with Region 2 and 3 land, but only partially compensate for low area payments.
- Alternative payment models (e.g., different criteria, different payment rates) can, of course, be revisited. However, as evident from previous rounds of policy reform (i.e., introduction of LFASS, SFPS, BPS), choice of payment categories (e.g., regions, business types and sizes) are not made independently from choices on the gradient of payment rates across them (e.g., do rates slope up or down across categories), nor from practical implementation considerations.
- A number of different regionalisation options, each with pros and cons, are summarised in tabular form below. These include: the incumbent 3-Region model; 2 Regions, with a single rough grazing category; 3 Regions – rough grazing delimited by environmental designation; 2 region model– with stocking density delimitations; 3 Regions with land in LCA7 or above a specific elevation excluded; 3 regions with redistributive payments for rough grazing; 3 Region model – with separate small holder scheme; 3 regions with disadvantage uplift embedded in direct support; 3 regional model with coupled support embedded; Single region scheme.
- However, unless and until some clarity is achieved with respect to policy objectives and priorities, there is a risk that different options will once again be viewed narrowly through the lens of redistribution, as about winners-and-losers rather than wider outcomes.
- For example, Region 1 currently accounts for c.42% of claimed land, but 80% of support payments. Regions 2 and 3 account, respectively, for c.22% and 36% of land but c.8% and 4% of support. Yet whilst this may reflect the distribution of agricultural production, it does not necessarily reflect the distribution of other ecosystem services required to meet policy objectives relating to climate change and biodiversity.

## Introduction to regionalised direct support

1. As part of the EU's commitment to delinking CAP payments from historic support levels (and activity levels) on farms in 2000–2002 (when most livestock support was coupled) administrations had to move to a fully regionalised payment structure by 2019.
2. This process led to the introduction of the Basic Payment Scheme (BPS) and Greening payments. In Scotland there was a 5-year transition away from the Single Farm Payment Scheme (SFPS), starting in 2015. This transition also started a process of 'internal convergence' towards the EU's desired uniform flat-rate payments.
3. However, the extent of internal convergence in Scotland was not as significant as introduced in many other countries where administrations opted to support all eligible land at a single 'flat rate' level of support. Scotland stood out as being different to many EU countries.

**Figure 1 Average parish level SFPS payment rate per hectare (2014)**

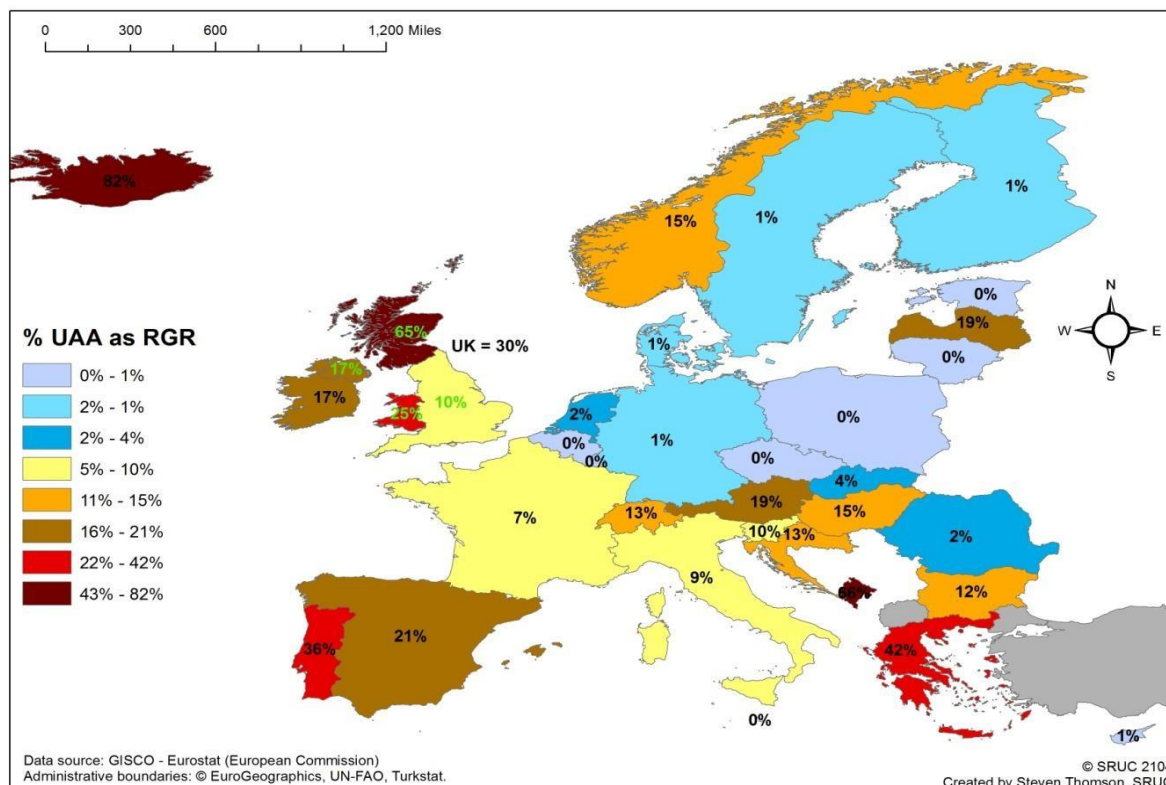


4. Firstly, Scotland received very low payment rates per hectare on average, through the SFPS. This low average was largely due to very low payment rates per hectare in the uplands (linked to low historic coupled support levels per hectare).

5. Average parish level SFPS rates per hectare in 2014 (see Figure 1) illustrate the wide variations in support levels across Scotland – noting that this map largely mirrored the Land Capability for Agriculture and stocking density maps for Scotland.

Secondly, in Scotland a very large proportion of utilisable agricultural area (UAA) is used for rough grazing – considerably higher than other EU countries (where it is assumed that areas of rough grazing were never declared as agricultural) as illustrated in Figure 2.

**Figure 2 Rough grazing as proportion of utilisable agricultural area in the EU (2014)**



6. A historic SFPS distribution that was largely determined by historic stocking levels (and hence stocking densities), with the upper limit capped by land capability, led to a position where it was deemed undesirable to introduce uniformly flat rate BPS & Greening support across Scotland. Specifically, there concerns that a uniform flat rate payment<sup>1</sup> would result in most of the support monies flowing 'up the hill' to land that contributed relatively low levels of agricultural output.
7. Related to this was the perception that a uniform flat rate would be sufficiently high that it would encourage the entry into BPS/Greening of businesses that had previously not been part of the agricultural support (specifically sporting estates). Indeed, specific LCA based analyses were undertaken to assess the envelope of land that might become part of the systems (dependent on eligibility criteria).

<sup>1</sup> Noting that the proportion of monies available to coupled support schemes was limited to 10% of the direct payment envelope

8. Considerable debate during the 2014 CAP reforms led to a significant body of evidence on the possible redistributive impacts<sup>2</sup> of different regionalisation choices (Matthews et al; various).<sup>3</sup> Examples of regionalisation ‘agronomic’ regions assessed (see Table 1) included both farm and parish level: (i) land capability mixes; (ii) LFA status; (iii) land use; and (iv) historic parish level SFPS rates.

**Table 1 Regionalisation models considered by stakeholders<sup>4</sup> during CAP 2014 reforms**

Name	No. Regions	Definitions
LCA Farm Level 1a	2	<ul style="list-style-type: none"> <li>• 1 – 5.3</li> <li>• 6.1 – 7</li> </ul>
LCA Farm Level 1b	3	<ul style="list-style-type: none"> <li>• 1 – 3.1</li> <li>• 3.2 – 5.3</li> <li>• 6.1 – 7</li> </ul>
LCA Farm Level 1c	4	<ul style="list-style-type: none"> <li>• 1 – 3.2</li> <li>• 4.1 – 4.2</li> <li>• 5.1 – 5.3</li> <li>• 6.1 – 7</li> </ul>
LFA	3	<ul style="list-style-type: none"> <li>• Non-LFA</li> <li>• LFA</li> <li>• LFA-HIE</li> </ul>
Land Type Farm Level	3	<ul style="list-style-type: none"> <li>• Arable (incl. Temporary Grass)</li> <li>• Permanent Grass</li> <li>• Rough Grazing</li> </ul>
LCA Parish Level 1a	3	<ul style="list-style-type: none"> <li>• 1 – 3.1</li> <li>• 3.2 – 5.3</li> <li>• 6.1 – 7</li> </ul>
LCA Parish Level 1b	10	<ul style="list-style-type: none"> <li>• 1 – 3.1 Dominant (Dominance <math>\geq</math>75%)</li> <li>• 1 – 3.1 Dominant (Dominance = 50–74%)</li> <li>• 3.2 – 4.2 Dominant (Dominance <math>\geq</math>75%)</li> <li>• 3.2 – 4.2 Dominant (Dominance = 50–74%)</li> <li>• No Dominant Class (but most land is 1 – 4.2)</li> <li>• 5.1 – 5.3 Dominant (Dominance <math>\geq</math>75%)</li> <li>• 5.1 – 5.3 Dominant (between 50–74%)</li> <li>• No Dominant Class (but most land is 5+)</li> <li>• 6.1 – 7 Dominant (Dominance = 50–74%)</li> <li>• 6.1 – 7 Dominant (Dominance <math>\geq</math>75%)</li> </ul>
Historical SFPS Parish	9	<ul style="list-style-type: none"> <li>• €1–€1- &lt;20; €20–49; €50–99; €100–149; €150–199;</li> </ul>

<sup>2</sup> Noting that the desired outcome appears to have been minimising support redistribution that would have negative impact on food production and farm incomes, maintaining activity in the hill, uplands and islands – rather than environmental outcomes.

<sup>3</sup> For example, see [https://macaulay.webarchive.hutton.ac.uk/LADSS/research\\_policy.html](https://macaulay.webarchive.hutton.ac.uk/LADSS/research_policy.html)

<sup>4</sup> These are the published options with a large number of other payment scenarios varying in the numbers or regions and their bases assessed (Matthews et al; unpublished)

Land Type Parish	3	<ul style="list-style-type: none"> <li>• Arable (incl. Temporary Grass)</li> <li>• Permanent Grass</li> <li>• Rough Grazing</li> </ul>
------------------	---	--

9. Further to various choices of agronomic ‘regions’ the importance of budget allocations to these regions is a vital decision. This became apparent during the CAP 2014 reform discussions with stakeholders where the redistributive impacts of the various combinations of agronomic region and budget allocations were revealed. (Matthews et al; various) demonstrated various budget allocation models to these agronomic regions, including: (i) historic; (ii) economic contribution (measured by Standard Output); (iii) land-based weightings (including single flat rate, weighted to best quality land, weighted to middle quality land; (iv) environmentally weighted (poorest land gets uplift in recognition of ecosystem service provision). Within the pre 2014 analysis there was limited discussion and no analysis of alternatives to LFASS even though in many ways LFASS was also historic payment converted to an area basis. This was later considered in detail as part of the Areas facing Natural Constraints analysis (Matthews et al 2016<sup>5</sup>).
10. These options were considered by stakeholders at a national conference and many scenarios were disregarded due to (a) undesirable redistributions of support monies and (b) data quality issues (for both LCA and parish-based options). The conclusion of these considerations and further analysis by RESAS was to opt for a 3-region model based on historic land use. Arable and grassland was classified as Region 1 and rough grazing land was split in to more intensively stocked (Region 2) and less intensively stocked (Region 3). The splitting of the rough grazing region was a decision made late in the process – the justification of which was to lower the incentive for sporting estate rough grazing land to be entered into the system, thereby diluting the regional budget envelope. As compensation for the lower payment rates in Region 3 the Scottish Upland Sheep Support Scheme was introduced to incentivise activity<sup>6</sup> – that was required under

---

<sup>5</sup> Summarised here

<https://www.webarchive.org.uk/wayback/archive/20161001212351/http://www.gov.scot/Topics/farmingrural/SRDP/ANC2018/ANCworkshoppapers>

<sup>6</sup> See <https://www.theyworkforyou.com/sp/?id=2014-06-11.17.0#g17.26> Cabinet Secretary Richard Lochhead MSP “We want to reward activity, which is why the basic area payment is as low as possible in Scotland’s rougher rough grazing; the activity payment is then added in by the coupled sheep scheme. If the outcome happens to be, say, €35 per hectare when the money from the sheep scheme is added to the €10 payment, that will be the same as the payment for the better rough grazing land in Scotland.” The statement did not acknowledge that a ewe per hectare (0.16 livestock units per hectare) was required to make up the €25 shortfall – yet most of these farms/crofts were stocked at densities much lower than that required to get to €35/Ha.

the new ‘activity’ clause (minimum stocking density across a business of 0.05 livestock units per hectare).

11. This preamble is designed to remind officials of the complex set of decisions that would have to be made should adjustments to the current 3-region model be desired. The choice of regional model needs to be considered alongside budget weightings allocated to the regions as well as coupled support and any future LFA / ANC support.
12. The work of Matthews et al, working with officials and stakeholders, demonstrates that maintaining activity and minimising the redistribution of CAP monies was a major consideration in the previous reform package, and that focused environmental outcomes were not part of this consideration. At the March 2022 ARIOB meeting the redistributive impacts of these reforms were presented by Matthews et al – which in turn refocused a proportion of stakeholders’ attention on entrenched perceptions of further redistribution.

### **The existing 3 region model**

13. Despite the original CAP regionalisation approach requiring individual fields (FIDs) to be allocated to a single ‘agronomic’ region it appears that by 2019 there was a lack of clarity regarding if FIDs are now split between regions.
14. Estimates from Matthews et al (2021) suggest that in the 2019 claim year there were c. 1.6m hectares of region 1 land (42.4%), c. 844k hectares of region 2 land (21.9%) and 1.36m hectares of region 3 land (35.6%) supported (see Table 2). In addition to regionalised BPS and Greening support, eligible farmers and crofters were also able to claim coupled support through the Scottish Suckler Beef Support Scheme<sup>7</sup> – Mainland (SSBSSM), Scottish Suckler Beef Support Scheme – Island (SSBSSI) and the Scottish Upland Sheep Support Scheme (SUSSS).<sup>8</sup>
15. SUSSS was aimed at supporting activity in areas dominated by Region 3 land through a ewe hogg<sup>9</sup> payment whilst the Scottish Suckler Beef Support Scheme was available for any calf of primarily beef genetics (75%) with a higher payment rate in the islands as an acknowledgement of additional costs incurred in cattle rearing in these areas.
16. Using 2020 payment rates and the official exchange rate (£:€ = 0.89) we estimate that the average BPS and Greening rate in Scotland was £108.5 / ha. Of the £463m

---

<sup>7</sup> <https://www.ruralpayments.org/topics/all-schemes/scottish-suckler-beef-support-scheme/>

<sup>8</sup> <https://www.ruralpayments.org/topics/all-schemes/scottish-upland-sheep-support-scheme/>

<sup>9</sup> A ewe hogg is young female sheep intended for use as breeding ewe replacements.



direct support budget 80% was allocated as BPS and Greening to Region 1 land (8% to Region 2 and only 4% to Region 3). The allocation of BPS and Greening budgets in 2019 was 86.5%: 9.1%: 4.4% respectively. Much of the SSBSSM and SSBSSI support will be linked to Region 1 land.

**Table 2 Estimated split of direct support payments in Scotland, 2019**

BPS/ Greening	Rate	Per	Total Ha / head	Total Spend	Proportion of Direct Support	Proportion land
R1	£221.27	Ha	<b>1,632,193</b>	£361,155,345	77.9%	<b>42.4%</b>
R2	£44.79	Ha	<b>844,150</b>	£37,809,479	8.2%	<b>21.9%</b>
R3	£13.52	Ha	<b>1,368,565</b>	£18,502,999	4.0%	<b>35.6%</b>
<b>Total</b>	<b>£108.53</b>	<b>Ha</b>	<b>3,846,698</b>	<b>£417,467,823</b>	<b>90.03%</b>	
<b>Coupled support</b>						
SBSSM	£100.72	Beef calf	332,798	<b>£33,519,442</b>	7.2%	
SBSSI	£145.13	Beef calf	39,874	<b>£5,786,947</b>	1.2%	
SUSSS	£62.00	Ewe hogg	111,481	<b>£6,911,826</b>	1.5%	
<b>Total</b>				<b>£46,218,215</b>	<b>9.97%</b>	
<b>Total Direct Support</b>				<b>£463,686,037</b>	<b>100%</b>	

17. In addition to this Pillar I support an additional £50.59m was spent on LFASS support in 2019<sup>10</sup> thereby increasing the *de facto* direct support budget to £514m.
18. A number of key observations need to be made with regards to regional BPS and Greening support payments and any future changes to the system.
  - Firstly, these payments cannot be considered in isolation from voluntary coupled support payments (and LFASS) as they combine to underpin farm and croft activity.
  - Secondly, without knowing the policy objectives and the relative prioritisation of those objectives it is difficult to respond to questions of how well the current system meets its objectives<sup>11</sup> and thus to make any meaningful recommendations with regard to future changes to the 3 Region model, or the relative support rates.
  - Thirdly, to add to the complexities of the 3-region model, a minimum activity requirement was included that requires an environmental audit<sup>12</sup> on

<sup>10</sup> Thomson and Moxey (2022) Estimation of sectoral CAP payment ‘envelopes’ and distribution of agri-environment and forestry support 2019. A report for Scottish Government

<sup>11</sup> Posing a counterfactual of why does the direct payments system need to change.

<sup>12</sup> This environmental proxy for activity was a compromise approach reflecting stakeholders’ concerns and trying to disincentivise ‘sporting estates’ from entering the 2014 BPS and Greening system. The Scottish Government had initially requested that ‘sporting estates’ be included on the ‘negative list’. However, due to definitional issues that was dropped in favour of a minimum stocking density threshold but the EU Commission enforced an ‘environmental audit’ as an

all eligible hectares as a proxy for activity. Activity criteria (0.05 livestock units per hectare) were designed to maintain payments to active farmers/crofters, yet a number of derogations already exist<sup>13</sup>, often for environmental reasons. It remains unclear, however, how much of the hill area is genuinely actively grazed (stocking densities are calculated as averages over the whole business, and there may be many instances where not all claimed rough grazing is being actively grazed (this is an assessment that SGRPID must make during land inspections).

## Alternative regionalisation models?

19. It is against this backdrop, that RESAS requested some consideration of alternative regionalisation models – models that may better reflect the Scottish Government stated vision for Scottish agriculture: *“Scotland will have a support framework that delivers high quality food production, climate mitigation and adaptation, and nature restoration.”*<sup>14</sup>
20. Should future support payments be differentiated by attainment of conditional thresholds, as presented at ARIOB, then the baseline levels of support will, by necessity, be pushed down across all regions to accommodate higher tiers of support. This provides an opportunity to consider if alternative models can better deliver the Scottish Government’s aims for agricultural support.

If policy are minded to introduce an absolute cap on support to an individual business (or progressive degressivity) it is worth noting that Matthews at al (2017)<sup>15</sup> provided a confidential (and unpublished) assessment of capping scenarios for Pillar 1 support ranging from £50k to £500k. Whilst the assessment included coupled support payments as well as BPS and Greening support the analysis remains indicative of the number of businesses affected by absolute caps (using 2015 data). It is likely that the numbers of businesses impacted by

---

alternative form of demonstrating activity amongst alleged concerns that minimum stocking densities could be construed as stimulating production and therefore be considered WTO amber box.

<sup>13</sup> <0.05 livestock units per hectare is permitted where it can be demonstrated that such a stocking density is appropriate for the land by reference to records kept on the carrying capacity of the holding, or there is an environmental management agreement with NatureScot or an agri-environment commitment that limits stocking density.

<sup>14</sup> <https://www.gov.scot/publications/next-step-delivering-vision-scotland-leader-sustainable-regenerative-farming/>.

<sup>15</sup> Keith Matthews, Dave Miller, Doug Wardell-Johnson. Briefing for Agricultural Strategy Champions. 28th September 2017. Supplementary analysis of 2015 CAP Pillar 1 Reforms Regional Effects and Capping Options

capping would remain affected by any introduction of degressive payments. Their analysis demonstrated that for example:

- an absolute support cap of £250k only impacted 25 businesses that would generate £2.7m to redistribute to other schemes / businesses c.330k ha, 155k sheep and 56k cattle
- an absolute support cap of £100k impacted on 350 businesses that would generate £18.5m<sup>16</sup> for redistribution. These businesses accounted for c.890k ha, 747k sheep and 224k cattle.
- an absolute support cap of £50k impacted 1,836 businesses that would generate £62.1m to redistribute. These businesses accounted for c.2.06m ha, c.2.5m sheep and 685k cattle.

21. A number of options, including the 3-region model, have been considered and a summary of potential pros and cons (including administrative issues) follow. It must be stressed that stated policy objectives (and their prioritisation) will dictate the optimum type of area-based income support model. Until policy objectives and weightings are set with regards to criteria such as income support; maintaining activity; food production; climate change mitigation; biodiversity enhancement, etc., it remains challenging to make any objective assessment with regards to desired outcomes. Further, policy and political intent with regards to the desire to minimise redistribution of support or to maximise outcomes will further impact on the 'optimal' model.

<b>Regionalisation Model:</b>	<b>Incumbent 3-Region model</b>
<b>Description:</b>	Maintenance of 3 region model
<b>Benefits:</b>	Minimises support redistribution as a 'Just Transition' towards enhanced conditionality occurs. Whilst blunt – enhanced conditionality can help deliver more for GHGs and biodiversity within the existing model. Farmers and crofters understand the existing model (although some disagree with the budget allocations)
<b>Disbenefits:</b>	Region 3 was considered a let down by many hill producers in the 2014 CAP reforms. Whilst SUSS was introduced as compensation, stocking densities were generally so low that active farmers and crofters cannot achieve the equivalent payment rate that Region 2 receives (despite there being identical minimum activity rules). A SUSS hogg payment may add £15/Ha if stocked at 1 ewe per ha (0.16 livestock units per ha) but the reality is that many Region 3 farms and crofts are stocked at levels as low as 0.02 livestock units per hectare in designated areas / peatlands. Even with low

<sup>16</sup> Noting equates to the 2019 full allocation of Greening and BPS support to Region 3.

	Region 3 payment rates, some large land holdings received significant uplifts as a result of BPS/ Greening without any change in outcomes (production / labour / environment).
<b>Administrative considerations:</b>	<p>The incumbent 3-region system is already bedded in RPID IT systems. No redefining required.</p> <p>Regional envelope budgets are a legacy of minimising support redistribution. Are the budget splits appropriate given renewed emphasis on GHGs, biodiversity and wider environmental outcomes?</p> <p>Given the role of uplands in current attainment or residual provisioning (because or despite of land management) ecosystem service and peatland management – will current budgetary allocations (particularly to Region 3) reflect Scottish Government objectives (including socio-economic objectives. How will improvements in the lowlands be attained. Some lessons can be learned from the Greening Review completed by JHI – especially the trends in environmental indicators and the expert panel review<sup>17</sup>.</p> <p>Is it equitable to delimit land based on historic stocking density using livestock unit measurements as an inevitably inaccurate proxy and inaccurate (e.g., a dairy cow LU is based on milk yield of 3,000 litres, suckler cows come with various energy requirements, sheep breeds vary significantly in size and energy requirements)? It is surprising that a legal challenge (per Wales) has never been made on this particularly as whole business stocking densities were used with no attempt to allocate livestock to rough grazing. This implies the Region 2 and Region 3 delimitation may indeed be spurious in some instances<sup>18</sup>.</p>

<b>Regionalisation Model:</b>	<b>2 Regions (single rough grazing region)</b>
<b>Description:</b>	Maintain existing Region 1 but merge Region 2 and Region 3 land.
<b>Benefits:</b>	Farmers and crofters understand the existing model and some might see this as more equitable across the uplands. Whilst there would be support redistribution as a result a larger envelope for rough grazing region could be used to lever GHG, biodiversity and other ecosystem services if conditionality payment rates are set correctly (non-delivery

<sup>17</sup> <https://ics.hutton.ac.uk/research/land-systems-research-team/cap-analysis/cap-greening-review/>

<sup>18</sup> This is not helped by differences in the calculations of livestock units (e.g. by FADN, JAC, LFASS, Defra, etc.)

	on conditionality should see very low rough grazing payment rates). SUSSS would no longer be required.
<b>Disbenefits:</b>	Region 1 or current Region 2 budget envelope could be reduced in order to pay for current region 3 uplift. With Region 2+Region 3+SUSS envelopes added this would mean a payment rate of £28.57/ha without any adjustments to Region 1 rates. Should a single rough grazing area be paid at the existing Region 2 payment rate, that would mean a reduction in Region 1 budget of £35.9m or a decline to £199/Ha (10% reduction). Any such redistribution will undoubtedly lead to stakeholder backlash and there will therefore be policy and political concerns. A significant uplift in current Region 3 payment rates may, ironically, lead to poor uptake of any future conditionality measures (if the baseline payment rate remains at, or higher than, the existing Region 3 level some may be content to simply maintain the status quo).
<b>Administrative considerations:</b>	<p>The incumbent 3-region system is already bedded into RPID IT systems. No redefining required as Region 3 and Region 2 would simply be merged. Such an approach would lead to removal of SUSSS administration and inspections.</p> <p>Regional envelope budgets are a legacy of minimising support redistribution – which should be reviewed frequently against evolving Scottish Government objectives. Outcomes from a combined rough grazing region should be assessed and this may provide an opportunity to reshape support in vulnerable areas. In contrast policy objectives for grasslands and arable areas should also be considered and implications for any reduced budget assessed. This certainly would focus minds on what policy is aiming to achieve from agriculture.</p>

<b>Regionalisation Model:</b>	<b>3 Regions –Rough grazing differentiated by peatland and environmental designation and / or common grazings</b>
<b>Description:</b>	Maintain Region 1 definition but instead of differentiating within the rough grazing region by historic stocking densities (that will be a decade old by 2024) rough grazing is split into 2 new regions delimited by: (i) FIDs falling within statutory environmental designations and, peatlands (and potentially common grazings) and; (ii) those outwith designated areas.
<b>Benefits:</b>	This could allocate funding and require specific, relevant conditionality in areas defined as of national / international importance in terms of habitats, species and GHG emissions (peatland). This could incentivise maintenance

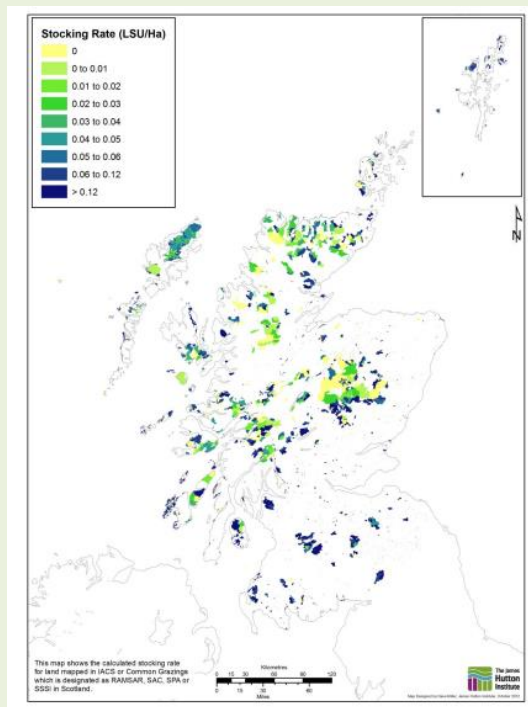
	and restoration of these areas if conditionality payment tiers are designed correctly.
<b>Disbenefits:</b>	Any designations in Region 1 would appear to have less conditionality focus (but that could be embedded as options). Further, it is likely that in order to bridge the gap between competitive targeted schemes and desired outcomes for these areas some redistribution of monies will be required. Rough grazing areas currently in Region 2 that are not in designated areas / peatlands / commons may suffer reductions in basic, areas based support levels (SUSS could be operated there?)
<b>Administrative considerations:</b>	<p>It is likely that FIDs will not align well to designated areas and / or peatland areas. This could be contentious if parts of FIDs fall between different Regions (yet as noted above this complexity already occurs).</p> <p>The budgetary allocations to any such regions would likely need considered and aligned to Government priorities.</p> <p>An alternative version could be that that a specific higher tier of conditional support be made available based on measure undertaken of condition score of designated areas / restored peatland. Any such approach would necessitate greater investment in monitoring designated sites (and condition scoring methods would need to utilise best available technologies to generate evidence).</p> <p>Further, as designated areas and peatlands transcend individual businesses there may be accusations of (a) the free rider problem, (b) overall site condition impacted by other businesses – something that may drive more cooperative actions.</p>

<b>Regionalisation Model:</b>	<b>2 region model – with stocking density delimitations</b>
<b>Description:</b>	Region 1 remains arable and grassland. Rough grazing would be delimited by stocking density (rebased to 2022/ every 5 years).
<b>Benefits:</b>	This model would account for ‘activity’ per the existing model but it would revise the current model’s baseline. It should be noted here that ‘activity’ here is measured by sheep and does not account for the fact that more extensive grazing systems may require the same (or more) labour input per ewe.
<b>Disbenefits:</b>	This may lead to increased stocking density in some areas where they sit close to a threshold – that increase may have negative environmental consequences. Any measure that uses stocking density is only using proxies – yet, for

example, the use of LCA was previously rejected due to issues of acceptable granularity of mapping (as well as multiple LCA classes being present in FIDs).

Stocking densities remain a blunt tool that do not reflect management constraints (it is output focused rather than labour activity' focused), particularly in designated area / peatlands. As part of the evidence used by the Areas facing Natural Constraints (ANC) working group, Miller et al (2012) examined the stocking rate on designated areas (did not include peatlands per se) demonstrating some, historic, agricultural policy interest in these areas. They noted that *"between 50 and 75% of the area has a stocking rate of 0.04 or less depending on the combination of designations"*

Figure 3 Stocking density for designated areas 2010



**Administrative considerations:**

Is it acceptable to continue to use stocking densities based on old livestock unit proxies that may not reflect modern farming systems and breeds. Would stocking density delimitation reflect Scottish Government objectives?

Which year should be chosen as a baseline?

How are animals allocated to rough grazing areas (compared to grassland) within a business that reflects actual rough grazing stocking intensity (this may need a farmer/crofter declaration that could be challenging to verify).

<b>Regionalisation Model:</b>	<b>Incumbent 3 Regions –with land in LCA7 or above a specific elevation excluded</b>
<b>Description:</b>	Make land over a certain elevation or within LCA7 ineligible for support
<b>Benefits:</b>	Reduced the effective area of Region 2 and Region 3 that some may suggest are not agricultural land – some of which may no longer carry stock (even in summer months) as the use of high-hills as fallen as a result of large changes in national sheep numbers in some areas over the last 25 years. It may provide some small budget for redistribution. Refocuses support on areas where there is active land management being undertaken <sup>19</sup> .
<b>Disbenefits:</b>	It may impact negatively on some very extensive hill grazing systems, including on some crofting common grazings. Any reduction in area may affect stocking densities that may require some reclassifications from Region 3 to Region 2. It may mean policy levers on some of these areas are lost (if it is considered that there are desired environmental outcomes from this land).
<b>Administrative considerations:</b>	The LCA7 mapping may be challenged in terms of accuracy. It may be a large exercise for little impact (i.e. the area reduction may be large but the budget savings may be low).  Would any redistribution be acceptable to policy and ministers – noting that some of these areas may have limited conditionality options attached in future schemes. Are these areas truly agricultural? Welsh ministers were challenged (and lost) previously on a moorland line (elevation) to delimit payments – this option would likely require scientific evidence.

<b>Regionalisation Model:</b>	<b>3 region model – redistributive payments for rough grazing</b>
<b>Description:</b>	Similar to the existing 3 region model except there is a redistributive payment on the first (e.g.) 100 hectares of rough grazing.
<b>Benefits:</b>	This would support smaller farmers and crofters in the hill, upland and islands. The redistributive payment (e.g. Wales) effectively takes money from the largest claimants and redistributes a proportion to smaller producers. For

---

<sup>19</sup> Some work on peatlands has examined FIDs which are used to claim support – and the proportion of the FID utilised for support



	<p>example, if the first 100 hectares received double payments that could be an uplift to £27/Ha in Region 3 and to £90/Ha in Region 2. If the monies are reallocated within Regions it limits any politically challenging decisions. If these higher rates were achievable for smaller producers in future tiered conditional payments, they could act as a big incentive to smaller producers. This introduces a form of degressivity to largest claimants, recycling the monies to smaller producers</p>
<b>Disbenefits:</b>	<p>Larger landholdings would be disadvantaged meaning there would be resistance to such an approach in some quarters (Matthews et al previously undertook redistributive analysis that was rapidly dismissed by key stakeholders present).</p>
<b>Administrative considerations:</b>	<p>This would be more complex to administer – although it is a simple calculation.</p> <p>What would be the area threshold?</p> <p>What would the uplift be (lessons could be learned from Wales)? Would it better deliver Scottish Government objectives?</p> <p>This redistributive approach should likely be considered for any of the regionalisation approaches – as a means of supporting smaller producers (acknowledging that economies of scale exist)</p>

<b>Regionalisation Model:</b>	<b>3 Region model – with separate small holder scheme</b>
<b>Description:</b>	Maintain the existing 3 region model but introduce an optional scheme for claimants under (e.g.) 25 Ha
<b>Benefits:</b>	<p>It may remove some of the future conditionality elements from future schemes that may be challenging / onerous for smallholders to achieve. Higher payment rates could be awarded (similar to redistributive support) and conditions focused on biodiversity provisioning, water and soil quality. If optional, it would provide smallholders a choice of schemes to apply for.</p>
<b>Disbenefits:</b>	<p>Some may argue that all producers should play their part on GHG mitigation measures – through improved technical efficiency. Such a scheme would be unlikely to have efficiency conditions and given the extent of the emissions from these producers there would be limited GHG impact if they were to be forced to undertake GHG mitigation measures.</p>
<b>Administrative considerations:</b>	<p>Whilst initially cumbersome – once running such a ‘lite’ scheme should be relatively easy to administer. What would the size threshold be? What would the future conditionality</p>

	measures look like? Does the scheme support delivery of Scottish Government objectives? Would claimants be able to apply for targeted support / disadvantage uplifts?
--	---

<b>Regionalisation Model:</b>	<b>Disadvantage uplift embedded in direct support</b>
<b>Description:</b>	Uplift paid as percentage of Direct Support (including coupled payments). Extent of uplift delimited by to be defined areas
<b>Benefits:</b>	It would embed disadvantage/peripherality support into the direct payment system using weighting factors. With future conditionality support in mind those attaining higher tier conditions could receive greatest uplifts – further incentivising attainment of conditionality thresholds. Better targeted support (e.g. based on additional costs as well as environmental provisioning) and removes link to historic production that is embedded in LFASS.
<b>Disbenefits:</b>	Some regions / businesses may lose LFASS support due to any new classification scheme (ANC/LFA Fragility/Peripherality). The beef sector in marginal LFA areas may be affected worst and that may lead to structural adjustments. If linked to conditionality those not attaining higher tiers would lose support – but if they are not delivering the desired outcomes is that a bad thing?
<b>Administrative considerations:</b>	Removes LFASS (and all its complexities) as a scheme. How would levels of disadvantage be delimited (ANC / LFA fragility classes / peripherality)? Would such an approach remove alignment with EU (stated Scottish Government intent – although lack of ANC scheme means that alignment is already missing). Redistribution of LFASS has been politically sensitive for years and will receive stakeholder backlash. Will policy officials and ministers accept the redistributive challenges to deliver a future fit scheme that can deliver against Scottish Government objectives. If it is a <i>de facto</i> coupled payment (as many quarters suggest) and needs to be maintained as a separate scheme what conditionality requirements need included (to an already complex scheme) to deliver more for the environment?

<b>Regionalisation Model:</b>	<b>Incumbent 3 regional model with coupled support embedded</b>
<b>Description:</b>	Build SUSSS, SSBSSM and SSBSSI into the area based regional support payments.

<b>Benefits:</b>	A single scheme, with easier administration. This may lead to alternative land uses being sought in grazing areas – for example woodlands and afforestation. Would move all support to WTO green-box direct payments without concerns of interpreting coupled support as blue-box or amber box schemes
<b>Disbenefits:</b>	Allocating coupled support into area-based support is fraught with challenges – how to allocate livestock to the different regions within a farm (this ‘could’ be done using Dry Matter estimates for different land types – but any estimates would be challenged as rough grazing quality is highly variable). There would be no specific incentive to maintain beef or sheep production, and this would lead to agricultural abandonment / downsizing in some areas (with associated impacts on critical mass in the industry as well as on habitats and species reliant on livestock grazing mosaics). More challenging to embed conditionality measures designed to lower GHG emissions in livestock in an area-based scheme compared to a coupled scheme
<b>Administrative considerations:</b>	It would be simpler to have a single scheme but it would reduce policy levers on certain sectors. How to allocate livestock to different regions. Livestock Units are a proxy and inaccurate (e.g. a dairy cow is based on a milk yield of 3,000 litres, suckler cows come with various energy requirements, sheep breeds vary significantly in size and energy requirements) that would lead to significant challenges. Would the consequences for the beef (and to a lesser extent sheep) sector be politically acceptable?

<b>Regionalisation Model:</b>	<b>Single region</b>
<b>Description:</b>	Single region model – all hectares get paid the same amount
<b>Benefits:</b>	Significant uplift in Region 3, and Region 2 support rates (to £108/ha based on 2019 estimates). Some may argue this is would provide a more equitable distribution of support.
<b>Disbenefits:</b>	Significant decline in Region 1 support rates from £221/Ha to £108/Ha based on 2019 estimates. Large landholdings in Region 2 and Region 3 (in particular) could see very large uplifts in overall payments unless there was an absolute support CAP or progressive degressivity introduced. Such an approach would significantly impact Scotland’s productive agricultural areas and significantly reduce the profitability of low ground agriculture. Even if baseline support was set low (say for example £50 / Ha there may be limited appetite to deliver on conditionality tiers since

	<p>the baseline would be higher than monies received. Such an approach may have downstream supply chain issues, in particular for the beef, cereals and dairy sectors that impact.</p>
<p><b>Administrative considerations:</b></p>	<p>Administratively this is simple approach. The stakeholder backlash would be significant (including from upstream suppliers and downstream processors) It is hard to imagine how this would be politically acceptable (e.g. a farm with 4,000 Ha of Region 3 land currently would receive £54k in BPS/Greening but would receive £434k under a single tier scheme. Of course, some would argue that having a low flat rate income support level (lowest tier of support) across the country is desirable and the higher tiers could be designed to provide specific uplifts to different land uses – per the Defra model with the addition of a minimum resilience payment (per Northern Ireland). Setting the minimum flat rate support level in such a model would need serious consideration – would lead to very large redistributions in support and likely may lead to limited uptake of conditional support tiers in some lower quality land areas.</p>



# SRUC

## **At the heart of the natural economy**

This and other documents can be made available in other formats such as large print and/or community languages on request. If you would like a translated copy, please contact the author with the details of the format/language required.

SRUC is a charitable company limited by guarantee, Scottish Charity Number: SC003712. Registered in Scotland, Company Number: SC01033046. Registered Office: Peter Wilson Building, King's Buildings, West Mains Road, Edinburgh EH9 3JG. SAC Commercial Limited. An SRUC Company. Registered in Scotland, Company Number SC148684. Registered Office: Peter Wilson Building, King's Buildings, West Mains Road, Edinburgh, EH9 3JG.