Llywodraeth Cymru
Welsh Government

Sustainable Farming Scheme

Full Business Case – with Annexes

September 2025

CONTENTS – FULL BUSINESS CASE

INTRODUCTION

The Sustainable Farming Scheme (SFS) is the Welsh Government's response to a Programme for Government commitment to create a new system of farm support that will maximise the protective power of nature through farming, recognising the needs of family farms in Wales and acknowledging the need for ecologically sustainable local food production.

This Business Case for the SFS follows the Five Case Model which is HM Treasury's approved standard to produce public sector business cases. It comprises five dimensions and answers the following key questions:

- The Strategic Case - Does the SFS provide a strategic fit and offer a compelling case for change?
- The Economic Case - Will the SFS maximise social value through the optimal selection of activities?
- The Commercial Case – Is the SFS commercially viable and attractive to the supply side?
- The Financial Case – Is the SFS affordable and fundable over time?
- The Management Case – Can the SFS be delivered successfully?

The Business Case covers the period from 1 January 2026 when the scheme is launched to the end of the Transition Period in December 2029.

The Business Case should be read in conjunction with the accompanying Scheme Detail and the Integrated Impact Assessment.

STRATEGIC CASE

Key question: Does the SFS provide a strategic fit and offer a compelling case for change?

This section explains the Strategic Case for the Sustainable Farming Scheme (SFS). It is divided into six main parts:

- A description of the strategic context for the SFS;
- An explanation of why the SFS is needed, the case for change;
- A summary of the spending objectives for the SFS;
- An explanation of the design of the SFS;
- A description of the expected benefits of the SFS; and
- A summary of the key constraints and dependencies which have shaped the SFS.

Strategic context

Support for farming in Wales

Importance of land & farming in Wales

Welsh land matters and Welsh farmers hold a unique position in Welsh society. The land provides Welsh consumers with food whilst supporting livelihoods and rural communities and delivering vital environmental and social services which benefit Welsh residents. Welsh farmers are recognised for supplying high-quality food and have the potential to tackle some of the most pressing challenges Wales faces by contributing to clean air and water, reducing carbon emissions, capturing carbon, supporting ecosystems whilst sustaining rural communities, livelihoods, the Welsh language and culture. These wider benefits of farming are less often recognised.

History of farming support in Wales

The way support, especially financial support, has been provided to Welsh farmers has changed over time. After the Second World War, the main purpose of agricultural policy was to ensure an adequate and secure food supply. When the UK became a member of the EU in 1973, its Common Agricultural Policy (CAP) provided a stable framework for farmers in Wales for decades. It gave farmers significant income support and access to a large market for their products protected by an external tariff boundary. Farming and land management practices in Wales were also controlled by a detailed framework of EU and domestic legislation.

As the challenges facing Wales and the rest of the EU changed, support for farming became increasingly linked to the environment. The 2014 -20 CAP provided direct payments to Welsh farmers through the Basic Payment Scheme (BPS), greening, redistributive and young farmer schemes plus a Rural Development Programme which provided environmental and socio-economic support to the wider rural economy.

Impact of the UK's Brexit decision

Following the UK's decision to leave the EU, Common Agricultural Policy (CAP) support to farmers and land managers in Wales ended in 2020 and funding for the RDP ceased in 2023. CAP and RDP are being replaced with support designed to meet the needs of Welsh farmers and Wales. Devolution means Wales can develop its own legislative framework for agricultural support separate from the UK and the rest of the EU. This presents the Welsh Government with the opportunity to align its future agricultural policy to the unique challenges and opportunities Wales faces.

Agriculture Act 2020 (AA 2020)

The AA 2020, which received Royal Assent in November 2020, is UK legislation that contains provisions that enable Welsh Ministers to continue to provide financial support to the Welsh agricultural sector after 2020 through a domestic version of the CAP's Basic Payments Scheme (BPS) and Rural Investment Schemes (RIS) with the aim of promoting the agricultural sector and agriculture markets. The Welsh Government was clear

from the outset that the powers it derived from the AA 2020 were intended to be transitional until Welsh primary legislation could be implemented to support its ambitions for Wales and Welsh farmers.

Welsh Government response to Brexit

The Welsh Government has been developing the SFS as its proposed replacement for the BPS through an iterative process dating back to the UK's decision to leave the EU.

The process has involved extensive engagement and consultation with stakeholders (see Figure 1):

- In Brexit and our Land (2018)[1], the Welsh Government consulted on its initial proposals to continue to support farmers after leaving the EU[2].
- Following on, in Sustainable Farming and Our Land (2019)[3], the Welsh Government consulted on its proposals to continue and simplify support for farmers and the wider rural economy[4].
- Both consultations set the ambition to bring forward an Agriculture (Wales) Bill in the Senedd.
- In 2020, Welsh Ministers launched the Agriculture (Wales) White Paper consultation which outlined their intention to implement the principles of Sustainable Land Management (SLM) and to use this framework to shape a long term, holistic approach to support for the agricultural sector in Wales[5]. The Welsh Government published its summary of feedback and its policy response in September 2021[6].
- In July 2022, the Welsh Government published its outline proposals for the SFS[7]. This allowed meaningful engagement with farmers and other stakeholders on the proposals and further demonstrated how the powers contained in the Agriculture (Wales) Act are intended to be used. The Welsh Government received 100 responses from organisations and groups with an interest in the agricultural sector. The feedback and the Welsh Government's response was published in July 2023[8].
- In 2023, the Welsh Government consulted again on its proposals for the SFS[9] including its plans to incentivise farmers to join the SFS and for transition, for example the approach to stability payments and how these will be reduced over the period.
- In May 2024, the Cabinet Secretary for Climate Change and Rural affairs announced the introduction of a SFS Preparatory Phase in 2025 with the proposed SFS Transition Period starting from 2026. The aim was to allow time for the Welsh Government to finalise development of the SFS in consultation with key stakeholders. A collaborative structure was established with stakeholders to achieve this (Ministerial Roundtable, Officials Group and Trees and Hedges Stakeholder Delivery Group and a Carbon Sequestration Evidence Review panel was a subset of the Ministerial Roundtable)
- In November 2024, the Welsh Government published the scheme outline which set out the proposed structure and content of the SFS, including details of the Universal Actions (UAs). Since then, the Welsh Government has continued to engage with key stakeholders.

In parallel, the Welsh Government has carried out two phases of 'co-design' work to enable stakeholders to inform the development of its proposals for the SFS. Both have involved intensive participation by key stakeholders. The first phase, in 2020, involved almost 2,000 farmers responding to a survey with 270 subsequent meetings. The second phase, in 2022, generated 1,344 survey responses from farmers online or by paper and an additional 101 surveys via phone or in-person interviews. In addition, 26 workshops were held to

[1] Welsh Government, Brexit and our land: Securing the future of Welsh farming, (2018), https://www.gov.wales/sites/default/files/consultations/2018-07/brexit-and-our-land-consultation-document_1.pdf
[2] 1,043 substantive responses were submitted to Brexit and our Land
[3] Welsh Government, Sustaining Farming and Our land: Simplifying agricultural support, (2020), https://www.gov.wales/sustainable-farming-and-our-land-simplifying-agricultural-support
[4] The Welsh Government received 508 unique responses to its 'Sustainable Farming and Our Land' consultation, which set out our revised proposals for supporting farmers;
[5] 232 responses were received from individuals and organisations on the Welsh Government's proposals for its legislative framework to support Welsh agriculture.
[6] Welsh Government, Written Statement: Agriculture (Wales) White Paper – Summary of Responses and Welsh Government Policy Response (21 September 2021) | GOV.WALES
[7] Welsh Government, Sustainable Farming Scheme Outline Proposals for 2025, (2022), https://www.gov.wales/sites/default/files/publications/2022-07/sustainable-farming-scheme-outline-proposals-for-2025.pdf
[8] Welsh Government, Sustainable Farming Scheme: analysis of feedback to the outline scheme proposals, Sustainable Farming Scheme: analysis of feedback to the outline scheme proposals | GOV.WALES
[9] Welsh Government, Sustainable Farming Scheme Keeping farmers farming, (2023), https://www.gov.wales/sites/default/files/consultations/2023-12/sustainable-farming-scheme-consultation-document_0.pdf

collect more detailed feedback on the proposed SFS: 23 workshops covered the proposed SFS Actions and three focused on its processes such as eligibility and registration. The Welsh Government's response to the co-design final report was published in June 2023[10].

This engagement through consultation and codesign has enabled the Welsh Government to understand and respond to the views of farmers, farming unions and other organisations such as environmental NGOs and the wider public in developing its proposals for the SFS. In particular, it has affirmed the need for farm support whilst enabling the potential options for the scope, solution, delivery, implementation and funding to be narrowed. This is explained further later in the Strategic Case discussing the need for the SFS and its design.

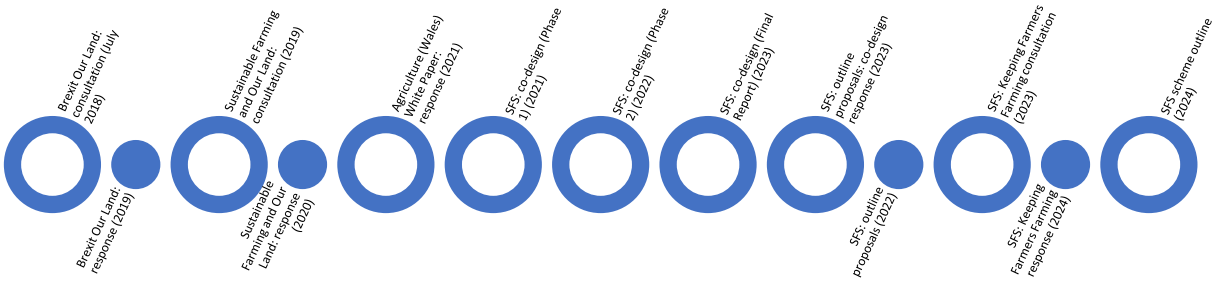
Agriculture (Wales) Act 2023

The Agriculture (Wales) Act 2023 sets sustainable land management (SLM) as the overarching principle for future agricultural policy in Wales, including regulation and support. Its objectives reflect the principles for SLM previously set out in *Sustainable Farming and Our Land* (2020)[11] and the *Agriculture (Wales) White Paper* (2020)[12].

The Act includes provisions:

- Introducing the Sustainable Land Management (SLM) Objectives;
- Giving Welsh Ministers powers to provide future support for agriculture although without defining the delivery mechanism;
- Requiring monitoring and reporting of SLM; and
- Requiring monitoring and reporting of future agricultural support.

Figure 1: Timeline for development of proposals for SFS



[10] Welsh Government, Sustainable Farming Scheme Outline Proposals: co-design response
[11] Welsh Government, Sustaining farming and our land: Simplifying agricultural support, (2020), https://www.gov.wales/sustainable-farming-and-our-land-simplifying-agricultural-support
[12] Welsh Government, Consultation Document, Agricultural (Wales) White Paper, (2020), https://www.gov.wales/sites/default/files/consultations/2020-12/agriculture-wales-bill-white-paper.pdf

Sustainable land management

SLM is defined by four strategic objectives:

- To produce food and other goods in a sustainable manner[13];
- To mitigate and adapt to climate change;
- To maintain and enhance the resilience of ecosystems and the benefits they provide; and
- To conserve and enhance the countryside and cultural resources and promote public access to and engagement with them, and to sustain the Welsh language and promote and facilitate its use[14].

These objectives must be met in a way which:

- Meets present needs without compromising the ability of future generations to meet their own needs; and
- Contributes to the well-being goals set out in the Well-being of Future Generations (Wales) Act 2015.

Together, they are intended to provide the basis for a holistic approach which ensures that the desired economic, environmental and social outcomes of SLM can be delivered for the long-term benefit of Wales.

Under the Act, Welsh Ministers may modify BPS legislation as it affects Wales and support Welsh farmers (financially or otherwise) to adopt practices that contribute to SLM. The Act also envisages multiple purposes for support which contribute to the Welsh Government's SLM outcomes:

- **Encouraging the production of food in an environmentally sustainable manner**: for example, by supporting the adoption of environmentally sustainable agricultural practices that use natural resources in a way and at a rate that maintains and enhances the resilience of ecosystems and the benefits they provide.
- **Helping rural communities to thrive and strengthening links between agricultural businesses and their communities**: for example, by supporting the economic resilience of agricultural businesses through farm diversification and strengthening farm businesses to contribute to thriving rural (local) communities.
- **Improving the resilience of agricultural businesses** to keep farmers on the land and maintain the future prosperity of agricultural businesses, including new entrants and succession planning, to contribute to the sustainability of the Welsh agricultural sector and its production of food and other goods.
- **Sustaining the Welsh language and promoting and facilitating its use** across all levels of competency, including encouraging new learners to engage with the Welsh language across the agricultural sector.
- **Reducing emissions of GHGs** including through making efficient use of fuel and energy, minimising external inputs and having productive livestock and crops.
- **Maximising carbon sequestration and storage** by creating new, and enhancing existing, carbon stocks on farms, for example through increasing soil carbon content, restoring peatland, tree and/or hedge planting and farm woodland management.
- **Maintaining and enhancing the resilience of ecosystems** by avoiding negative impacts on, and delivering benefits for, biodiversity, species, and habitats.
- Conserving and enhancing landscapes and the historic environment including the natural beauty and cultural heritage.
- **Improving air quality** by limiting pollution from human made particles and harmful gases, including ammonia (NH_3), fine particulate matter (PM2.5) and non-methane volatile organic compounds.
- **Improving water quality** by managing the water environment sustainably to support healthy communities, flourishing businesses and biodiversity.
- Maintaining and enhancing public access to and engagement with the countryside and the historic environment so that people are more easily able to enjoy the countryside benefit from improved health and wellbeing.
- **Mitigating flood and drought risks** by helping farms prepare for periods of low or high rainfall thereby reducing the risks to the farm and communities from flooding, drought and coastal erosion including through nature-based flood management.

[13] Factors relevant to whether food and other goods are produced in a sustainable manner include the resilience of agricultural businesses within the communities in which they operate and their contribution to the local economy.
[14] Cultural resources include cultural heritage and the historic environment.

- Achieving and promoting high standards of animal health and welfare.
- **Maximising resource efficiency** by adopting a circular approach to keeping resources and materials in use as long as possible and avoiding waste.
- **Encouraging agricultural businesses to manage energy effectively** including by adopting energy efficiency and energy saving practices and generating renewable energy on their land so helping them to become more competitive and resilient.

Alignment of the SFS with other existing Welsh Government policies & strategies

Besides the Act, the SFS also needs to align with relevant international, national, regional, sector and local policies, initiatives and targets. The following are considered along with others in the published SFS Integrated Impact Assessment.

The Wellbeing of Future Generations (Wales) Act 2015

The Wellbeing of Future Generations (Wales) Act (WFG) 2015 requires the Welsh Government to think more about the long-term based on a joined-up approach to preventing problems and creating a Wales that everyone will want to live in, now and in the future. The Sustainable Development Principle and seven Well-being Goals included within the Act provide a framework for government decision-making which must be reflected in our new approach to land management.

The WFG is based on key "ways of working":

- Long term delivery of outcomes to contribute to Welsh society's long-term needs such as climate change mitigation, adaptation and the reversal of biodiversity decline whilst enabling farmers to continue to make a living from agriculture;
- Prevention whereby environmental issues associated with agriculture that can arise from demands on land to deliver outputs beyond its natural capacity and a narrow focus on economic outcomes are addressed at their root cause: issues such as climate change and biodiversity loss can have substantial impacts on production: the potential implications are illustrated in a recent report for WWF Cymru[15];
- Integration of the drivers of prosperity [in agriculture] with actions to enable long-term improvement of the [rural] environment; and
- Collaboration and Involvement with stakeholders throughout policy development.

The Environment (Wales) Act 2016

The Environment (Wales) Act 2016 establishes the framework for sustainable management of natural resources in Wales by aligning with the Welsh Government's commitment to tackling climate change, conserving biodiversity and promoting sustainability.

The Act has four key aims:

- Sustainable management of natural resources: Ensuring that Wales's natural resources are managed in a way that maintains and enhances ecosystems for future generations.
- Biodiversity and ecosystem resilience: Strengthening biodiversity conservation by requiring public bodies to maintain and enhance ecosystem resilience.
- Climate change mitigation and adaptation: Establishing a statutory target to reduce greenhouse gas emissions by at least 80% by 2050 (now superseded by the 2050 net-zero goal[16]).
- Resource efficiency and waste reduction: Introducing measures to promote waste reduction, recycling and sustainable resource use, including powers to introduce new waste management regulations.

Amongst other things, the Act:

- Requires the Welsh Government to produce a Natural Resources Policy outlining national priorities for sustainable resource management;
- Requires the Welsh Government to publish a report which assesses the condition of Wales's natural resources and how they contribute to well-being;

[15] WWF Cymru, Extreme weather and its impact on farming viability in Wales
[16] Welsh Government, Climate change targets and carbon budgets, March 2021

- Strengthens the responsibility of public bodies to maintain and enhance biodiversity;
- Establishes a framework for carbon budgeting to ensure Wales reduces its emissions effectively; and
- Gives Welsh Ministers the power to introduce charges on carrier bags, restrict certain waste types, and improve recycling rates.

Programme for Government commitments

The SFS responds to several specific commitments, namely to:

- Create a new system of farm support that will maximise the protective power of nature through farming, recognising the needs of family farms in Wales and acknowledging the need for ecologically sustainable local food production;
- Introduce a Transition Period to the new farm support scheme, including continuing stability payments, beyond the current Senedd term;
- Support active farmers and landowners based in Wales to encourage woodland creation on less productive land and explore ways of drawing investment for woodland creation that secures local ownership and control; and
- Develop a Wales Community Food Strategy to encourage the production and supply of locally sourced food in Wales (see below).

The SFS is intended to play an important role in achieving the Welsh Government's vision for a sustainable and prosperous future.

Other environmental regulations and commitments

Water Resources (Control of Agricultural Pollution) (Wales) Regulations 2021

The SFS needs to work in tandem with other existing regulations to encourage farmers to adopt practices that exceed statutory requirements, for example the Water Resources (Control of Agricultural Pollution) (Wales) Regulations 2021 which aim to prevent water pollution from agricultural activities.

The SFS will not fund activities that are already mandated by law: for example, farmers are legally required to maintain public rights of way on their land, so the SFS will include support to enhance public access beyond these statutory obligations.

Kunming-Montreal Global Biodiversity Framework

Support is intended to prioritise actions to address this and other Welsh Government policies and international commitments. For example, in October 2022, the Welsh Government committed to delivering Wales contribution to the Kunming-Montreal Global Biodiversity Framework (GBF) [17]. The SFS will make an important contribution to Wales' delivery against key targets in particular (but not exclusively) to:

- Protect and effectively manage 30% of land, freshwater and sea by 2030 (Target 3);
- Reduce pollution and excess nutrient run-off from agriculture (Target 7); and
- Sustainably manage areas under agriculture and forestry (Target 10).

Environment (Principles, Environmental Governance and Biodiversity Targets) (Wales) Bill

The collective aim of the Environment (Principles, Environmental Governance and Biodiversity Targets) (Wales) Bill is to strengthen and enhance the response to the climate and nature emergencies. Specifically, the Bill will combat negative cycles around environmental damage and the loss of biodiversity by embedding environmental principles and introducing biodiversity targets aimed at halting and reversing the decline in biodiversity. Targets will cover four priority areas: halting species loss, enhancing ecosystems resilience, reducing pollution and increasing access to and use of evidence. The SFS will play a key role in delivering these targets when they are established in secondary legislation.

[17] Welsh Government, Written Statement: Biodiversity Deep Dive, 2022

Environment (Wales) Act 2016

The SFS will also make an important contribution to the Duty of Welsh Ministers under Section 6 of the Environment (Wales) Act 2016 which requires them to seek to maintain and enhance biodiversity and promote the resilience of ecosystems in the exercise of their functions.

Animal Health and Welfare Framework

The SFS builds on Wales's Animal Health and Welfare Framework which seeks to achieve lasting improvements in the standards of animal health and welfare for kept animals whilst protecting public health and contributing economically and environmentally[18].

The Animal Welfare Plan for Wales 2021-26 – which has been developed as part of the Framework - describes how the Welsh Government intends to build on the progress made in Wales on animal welfare by introducing a broad range of policies to maintain the momentum of reform in animal welfare established since devolution of the relevant powers[19].

The key direct outcomes desired from the Framework and its delivery plan are that:

- Wales has healthy productive animals;
- Animals in Wales have a good quality of life; and
- People trust and have confidence in the way food is produced and the way public health is protected.

In addition, the Framework is intended to contribute to Wales having a thriving rural economy and a high-quality environment.

The Wales Community Food Strategy

The Community Food Strategy has been developed with a vision for the Welsh Government to work in partnership to promote and strengthen the local and community food system in Wales, increase the availability and consumption of locally sourced, healthier and sustainable food and inspiring improvements in well-being within our communities[20].

It has six objectives:

- To ensure joined up strategic thinking and leadership across Welsh Government to address the diverse and complex nature of food related issues;
- To enable local food system coordination and action to help address long-term viability, bring new local supply chain opportunities and improve local food system resilience;
- To strengthen food resilience in our communities by tackling food poverty, diet related ill-health and reducing food waste;
- To create cohesive food communities and so benefit social inclusion, mental and physical well-being;
- To enable stronger, diverse local supply networks so that more food bought in Wales is produced in Wales; and
- To enable community growing and horticulture.

The Strategy has been formulated based on consultation with stakeholders including community groups, local businesses and public bodies so that it addresses the unique needs and opportunities within Welsh communities.

Case for change

Producing safe, high-quality food remains a vital economic and social priority for Wales which requires the farming sector to become more efficient and resilient. At the same time, the sector – like all other parts of the Welsh economy and society – needs to respond to the challenges posed by the climate and nature emergency by reducing net GHG emissions and reversing the decline in biodiversity in Wales.

Despite continued support from the Welsh Government, the farm sector remains vulnerable:

[18] Welsh Government, Wales Animal Health and Welfare Framework, 2014
[19] Welsh Government, 2021, Our Animal Welfare Plan for Wales 2021-26
[20] Welsh Government, 2025, Wales Community Food Strategy

- Whilst the largest farms accounted for 47% of total turnover in 2023, they were only 3% of farms: in contrast, the smallest farms were 61% of the total yet produced only 5% of turnover on 16% of farmed land[21];
- Farm incomes show volatility from year to year, influenced by prevailing market conditions which are affected by the weather[22];
- Over 75% of farm profits depended on payments through BPS in 2023[23] (see Table 10);
- The number of sheep and lambs in 2024 was the lowest level since 2011[24];
- Since 2004, the dairy herd has increased slightly (3%) whilst the size of the beef herd has fallen considerably (33%);
- Total farm labour has declined by 11,708 (18.9%) to 50, 244 in the last 25 years[25]; and

The natural environment provides the conditions and resources which the farming sector needs to produce high quality food:

- Wales has declared a climate emergency[26]:
    - It already experiences more extreme seasonal weather patterns such as flooding and hot dry summers, and these events are set to become the norm (not the exception);
    - It has experienced an increase in average annual temperatures, with hotter summers and milder winters;
    - Farmers face less predictable growing seasons, soil erosion and crop stress due to more extreme weather;
- Wales faces a nature emergency[27] which stems from habitat loss, pollution, and unsustainable land use:
    - One in six species is at risk of extinction[28];
    - Only 11% of land is protected for nature (but much is not in good ecological condition) [29];
    - Soils, which are crucial for supporting biodiversity and agriculture, are being degraded with loss of organic matter reducing their ability to store carbon, exacerbating climate change[30];
    - The number of substantiated pollution incidents from agricultural sources has not improved since the start of data collection in 2001 with an average of 150 incidents per year[31];
    - A high number of water bodies fail to meet good status due to pollution from agriculture[32].
- The health and welfare of farmed animals needs to be protected[33]:
    - Healthy and productive animals minimise negative environmental impacts such as greenhouse gas emissions and pollution from use of pharmaceuticals;
    - Consumers and supply chains increasingly expect food-producing animals to enjoy a good quality of life;
    - Wales faces increasing threats from exotic diseases, especially those that pose existential threats to livestock; and
    - Animal health is essential to produce safe food and protect public health.

Farming also plays an important role in the cultural and social make up of Wales as well as helping to meet its wellbeing goals.

[21] Welsh Government, Survey of agriculture and horticulture, June 2024
[22] Welsh Government, Farm incomes: April 2023 to March 2024, 2025, and earlier publications.
[23] Welsh Government, Farm Business Survey, 2023-2024
[24] Welsh Government, Survey of agriculture and horticulture: June 2024, 2024
[25] Welsh Government, Survey of agriculture and horticulture: June 2024, 2024
[26] The Welsh Government declared a climate emergency in April 2019.
[27] The Welsh Government declared a nature emergency in June 2021.
[28] Welsh Government, State of Nature Report, 2019
[29] Welsh Government, State of Nature Report, 2019
[30] Welsh Government, Review of Welsh soil evidence, 2022
[31] Welsh Government, Statutory review of the Control of Agricultural Pollution Regulations: 2025 review, 2025
[32] Welsh Government, Statutory review of the Control of Agricultural Pollution Regulations: 2025 review, 2025
[33] The Economics of Animal Health and Production, Jonathan Rushton, Editor, CABI, 2009

Responding effectively to these pressures can deliver economic, environmental and social benefits simultaneously:

- Consumer demand for sustainably produced food is increasing;
- More efficient use of farm inputs such as fertiliser and energy can improve efficiency whilst reducing adverse effect on climate change and the environment;
- Adopting new farming systems and practices can boost productivity whilst also benefiting ecosystems;
- Sustaining good animal health is a key driver of animal productivity and is essential for sustainable livestock farming; and
- More resilient farm businesses are crucial to protecting agricultural livelihoods and those of Wales's future generations.

Spending objectives for the SFS

Aim and objectives of the SFS

The proposed SFS is designed to support Welsh farmers to address the Welsh Government's four broad SLM objectives and so contribute to realising the Welsh Government's ambition for Welsh farmers to be world leaders in sustainable farming[34]. It is intended to reward farmers for the delivery of a range of economic, environmental and social outcomes alongside and because of the sustainable production of food and other goods.

The aim of the SFS is to build on the high standards of farming practice already in place in Wales by supporting farmers with the work they do to lower their carbon footprint and improve the environment, alongside the sustainable production of food. It is based on an approach of delivering the desired economic, environmental and social outcomes at a whole farm level through the adoption of more sustainable farming practices in unison. The Welsh Government believes that Wales is well suited to this type of farming and the SFS will support farmers - both financially and with knowledge transfer and advice – to adopt these practices.

The SFS has the following key long-term objectives:

- 95% of farm business currently participating in BPS join the SFS by the end of the Transition Period (i.e. December 2029);
- 100% of farmers participating in the SFS adopting more sustainable land management practices by the end of the Transition Period (i.e. December 2029);
- 75% of farmers participating in the SFS regard their resilience as having been maintained, if not enhanced (when the full range of UAs, OAs and CAs are available) as they transition to sustainable farming practices;
- All farmers participating in the SFS farmers have adopted new/different farming practices to reduce their carbon emissions or adapted to changing climate conditions by end of the Transition Period (i.e. December 2029);
- All farmers participating in the SFS manage at least 10% of the farm for nature and biodiversity, have created new woodland or hedgerows and are maintaining their existing woodland and hedgerows by the end of the Transition Period (i.e. December 2029); and
- All farmers participating in the SFS maintain or have enhanced the management of historic sites on an annual basis.

Current position

As required by the Agriculture (Wales) Act 2023, the Welsh Government's Multi-Annual Support Plan (MASP) sets out how Welsh Ministers will contribute to achieving the SLM objectives through its provision of support. It provides the agricultural sector with assurance, transparency and clarity about the Welsh Government's planned activities to support the sector over each 5-year period. The current MASP covers the period from 1st January 2025 to 31st December 2029.

[34] Welsh Government, Keeping farmers farming, December 2023

Currently, farmers in Wales continue to receive financial support in the form of Basic Payment Scheme, Redistributive Payment and Young Farmer Payments, all commonly referred to as BPS[35]. The objectives of the support are primarily focused on providing financial stability to farmers and, thereby, supporting rural economies:

- The BPS offers direct revenue support to farmers to help them manage financial risks and uncertainties associated with farming, such as fluctuating market prices, extreme weather, or diseases;
- Farmers receiving BPS must adopt certain farming practices and adhere to defined livestock management and environmental standards, primarily set in legislation, known as Cross Compliance[36]; and
- The BPS helps sustain rural communities that rely heavily on agricultural activity.

In addition to the BPS, the Welsh Government also supports the agricultural sector through various RIS funded schemes, many of which align to the proposed SFS. This funding aims to support the rural economy and Wales's natural environment, productivity and diversification, woodland and forestry, on farm environmental improvements and food and farming supply chains.

Habitat Wales is one of the key RIS available to farmers prior to SFS. Its aims are to protect habitat land previously under Glastir, to include additional habitat land not currently under paid management and to maintain support for common land.

Farmers also benefit from Farming Connect which is the Welsh Government's programme for delivering knowledge transfer, innovation and advisory services for farming and forestry businesses. It was originally set up under the RDP 2014-2020 to provide advice and support to improve resilience and to promote transformational change in agriculture, forestry and rural communities. Following EU exit, the Welsh Government announced funding of £22.9m for Farming Connect for 2023-2025 to support transition to the proposed SFS. Looking ahead, the Welsh Government intends to adapt the current model for Farming Connect so that farmers will receive the advice, guidance and support they need to meet the SLM Objectives and requirements of the SFS.

The Welsh Government and specifically, Rural Payments Wales (RPW), play critical roles in delivering the BPS, RIS and Farming Connect:

- They are responsible for oversight, management and delivery of BPS and RIS;
- Welsh Government policy teams work with RPW to ensure the RIS offer contributes to the Welsh Government's policies and commitments;
- RPW ensures that farmers meet the requirements for receiving BPS and many of the RIS payments including:
    - Delivery of the Integrated Administration and Controls Systems;
    - Maintenance of the Land Parcel Identification System (LPIS);
    - Administrative checks, including grant management standards;
    - Inspections to verify compliance with eligibility criteria and scheme rules;
    - Admin and inspections to check compliance with the Cross Compliance rules;
- RPW provides guidance and support to farmers through:
    - Online platforms which simplify applications, payment processing, and communication;
    - A dedicated customer contact centre to help farmers understand the rules, access funding opportunities and facilitate digital assistance;
    - Technical assistance and published guidance to help farmers meet compliance requirements;
    - Welsh Governments Farming Connect programme deliver knowledge transfer, innovation and advisory services for farming and forestry businesses and the Farm Liaison Service provides advice and guidance on general policy and grants; and

[35] Greening was removed from the BPS in 2021 following a CAP simplification consultation in 2020.
[36] Cross Compliance is a set of rules which are made up of Statutory Management Requirements (SMRs) and standards for Good Agricultural and Environmental Conditions (GAECs).

- The Welsh Government is responsible for ensuring that funding is used appropriately and transparently.

Table 1 shows the Welsh Government's allocation of revenue and capital funding to farm support over the period since 2019/20. It covers direct payments to farmers and others as well as the costs of administering the different initiatives. It also distinguishes revenue and capital spending.

Table 1: Welsh Government spending allocation to farm support (£'000, 2019/20 – 2025/26)

Type	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Revenue							
Agriculture strategy	20	100	400	650	400	500	500
Basic Payment Scheme (BPS)	243,000	243,000	238,000	238,000	235,000	238,000	238,000
RPW administration	12,996	0	3,548	9,194	8,194	3,694	3,794
RPW administration - non cash		14,070	12,048	9,649	6,649	6,300	10,243
Rural Investment Schemes (RIS)			6,820	6,830	23,272	42,889	60,220
Rural Development Plan 2014-20[37]	100,265	86,102	73,458	81,629	62,338		
New Farm Entrants	4,000	0					
Capital							
Common Agriculture Policy IT	0	0	3,458				
Rural payments ICT	2,000	1,505	1,505	6,000	6,000	12,380	8,200
Rural Development Plan 2014-20[38]	47,228	32,318	33,631	35,184	18,804		
Rural Investment Schemes (RIS)				20,500	23,300	46,620	66,952
Revenue	**360,281**	**343,272**	**337,732**	**345,952**	**335,853**	**292,883**	**314,257**
Capital	**49,228**	**33,823**	**35,136**	**65,684**	**48,104**	**59,000**	**75,152**
Total	**409,509**	**377,095**	**372,868**	**411,636**	**383,957**	**351,883**	**389,409**

Need for the SFS

Whilst farmers in Wales know how to produce exceptional food, they need assistance to adapt their farming practices to address environmental and social pressures whilst ensuring that their businesses are profitable and resilient. Market forces alone will not be sufficient to align improvements in long-term agricultural productivity with better environmental stewardship, more social benefits, and greater rural economic stability. Instead, support is required for several reasons:

- Some farming practices often lead to negative externalities such as GHG emissions which contribute to climate change, water pollution, soil degradation, biodiversity loss: this can be addressed if these external costs are internalised by rewarding farmers for practices that enhance ecosystem services or reducing the need for future public spending on environmental remediation;
- Linked to this, Welsh Government funding can support the delivery of social benefits which markets do not typically value: these include clean(er) water and air, carbon sequestration, enhanced biodiversity and landscape preservation: paying farmers to deliver these benefits can justify taxpayer investment in agriculture beyond food production;
- To reduce the risk facing farmers and land managers and increase economic stability by promoting the long-term resilience of Welsh agriculture, for example by promoting healthier soils and crop diversity which can reduce input costs over time and encouraging sustainable grazing and land use to enhance resistance to climate shocks (e.g. floods, droughts);
- To support local (Welsh) supply chains and rural branding by helping Welsh agriculture to differentiate itself internationally thereby creating opportunities for value-added products and more eco-tourism; and
- To maintain the economic viability of rural areas by keeping otherwise vulnerable farms in business (e.g. through diversified income streams) and by supporting rural employment in conservation, tourism, and environmental services.

[37] Includes WG and EU funded elements
[38] Includes WG and EU funded elements

- To retain the substantial contribution farming and farmers provide to our valuable culture and language.

In summary, the opportunity exists to develop a more sustainable and resilient agricultural industry that provides food and essential social benefits while sustaining rural livelihoods and managing the long-term value for money of public expenditure.

Current and recent Welsh Government's support for farmers (e.g. BPS, RIS and Glastir) is insufficient to achieve its objectives for SFS for several reasons:

- The BPS is not adequately targeted to realise the economic opportunities available from Welsh land by improving farm resilience;
- The BPS is restricted in terms of its scope, failing to support the wider resilience and sustainability of farming in Wales;
- Agri-environment schemes such as Glastir provided insufficient incentive for farmers to participate to deliver significant beneficial change at a national level, especially on land where intervention is most desirable; and
- Funding is often weakly linked to the desired outcomes and are incompatible with the SLM objectives.

Moreover, evidence from evaluations of recent agricultural support schemes in Wales highlights their limited success in balancing improving farm productivity and enhancing the natural environment. For example, an evaluation of Glastir provides evidence on the status and change for a range of habitats and natural (and some selected cultural) resources[39]. Key findings include:

- Woodland was estimated to cover 23,700 ha (16.9%) of Wales in 2021, 7% more than in 2010 but less than desired;
- Hedgerow length increased by 4% with a 9% increase in both width and height to 2021, but still less than desired;
- 5% of the most productive agricultural land (Arable and Improved Grassland) was lost up to 2021;
- No change was detected in semi-natural land;
- Changes in woodland and urban cover will have adversely affected landscape visual quality at the local scale as well as other services and benefits; and
- Overall, 6.8% of Wales changed land use between 2010 and 2021.

In addition, a suite of indicators of habitat condition were used to track trends of time over the long, medium and short term. Whilst most indicators suggest no change or stability, the number of indicators in decline has steadily increased suggesting that further action may be required to increase the resilience and sustainability of natural resources in Wales given the ongoing land use management pressures and the risks posed by climate change, chemical pollution and biosecurity.

Design of the SFS

Reflecting the lessons from previous farm support as well as the new challenges facing farmers, design of the SFS has been guided by five key principles:

- The SFS should keep farmers on the land and so ensure that land continues to be managed by those who know it best (i.e. farmers) whilst supporting them to adapt and prosper;
- The SFS should sustain vital food production in Wales and so contribute to the Welsh Government's ambition for Welsh farmers to be world leaders in sustainable farming, meeting Wales's global obligations without offshoring food production to countries with lower environmental standards;
- The SFS should build a prosperous and resilient agriculture industry recognising that the delivery of environmental and social outcomes depends on farms being economically sustainable;
- Future support from the SFS should aim to maximise all SLM outcomes by providing support that encourages them to be delivered together whilst minimising trade-offs; and
- All farmers should be able to access the SFS, including tenants and those with rights to common land.

[39] ERAMMP – Report 105, 2024, Wales National trends and Glastir Evaluation

SFS structure

The SFS will pay farmers to carry out 12 Universal Actions which mean that they adopt [more] sustainable practices which go beyond those required by existing law/regulation. As such, the SFS will mean that farmers will deliver [specific] outcomes which generate benefits not only for the farm but also for the environment, animal health and welfare and wider society in line with the Welsh Government's SLM objectives.

Whilst some of the Actions are already being carried out on many farms across Wales, the SFS is designed to help farmers make the best use of their resources and to work well within their environment. In many cases, consistently undertaking the Actions may help them to reduce their costs.

A three-layer structure is envisaged comprising:

- Universal Actions (UAs), which are required of all participants in the SFS: they are designed to apply to the variety of Welsh farms although some Actions are not applicable to all farms (e.g. animal health actions are not applicable to arable farms);
- Optional Actions (OAs), which will offer participants a choice to prioritise or undertake the actions most important and appropriate to their circumstances; and
- Collaborative Actions (CAs) which will offer participants the chance to work with others to deliver change on a larger scale.

Farmers will be rewarded under the SFS for exceeding the SFS regulatory baseline and meeting a set of scheme requirements. This includes the requirement that at least 10% of each farm is actively managed as habitat for the benefit of wildlife alongside the production of food[40]. If farms do not have sufficient existing habitats to meet this 10% requirement, they will be able to create new temporary habitats to meet the threshold.

The previous proposal that at least 10% of each farm should have tree cover as woodland or individual trees has been removed based on the findings of the Carbon Sequestration Evidence Review Panel[41] and discussions with Roundtable members and wider stakeholders. It has been replaced with a scheme level target for tree planting and hedgerow creation and a requirement to complete a tree planting and hedgerow creation opportunity plan. Specific funding for this planting will be provided through OAs.

The Optional and Collaborative Layers will provide technical and financial assistance to help farmers build on the Universal Actions, to achieve additional economic, environmental and social benefits. Early participation in the Scheme will help farmers to improve their levels of income, stability and sustainability. The range of OAs available is expected to include actions on productivity, sustainable farm practice, habitat restoration and continued small grants support. These will build from existing SFS preparatory schemes available in 2025.

The Collaborative Layer will support farmers and organisations to work together to maximise the potential for delivering economic, environmental or social benefits. Examples include sharing knowledge and innovation with other farmers or academia to improve farm efficiency and working together to improve and enhance local supply chain opportunities. Some RIS schemes such as the Integrated Natural Resources Scheme (INRS) which is supporting the creation of interconnected habitats across landscapes in a co-ordinated way to maximise environmental outcomes are being used to inform the CAs[42].

[40] When determining if the 10% requirement is met, all habitats such as species rich grasslands, ponds and established broadleaf woodland will be included together with areas of newly created habitat such as hedgerow, woodland planting or habitat creation on improved land. Other features such as dry-stone walls, traditional farm buildings and coniferous woodlands are not intended to be included.

[41] Carbon Sequestration Evidence Review Panel: full report, November 2024

[42] The INRS is the Welsh Government's initiative to encourage collaborative efforts among farmers, land managers and other stakeholders to enhance and sustainably manage Wales's natural resources. It provides funding to implement nature-based solutions on a landscape scale aimed at delivering environmental benefits while supporting the economic interests of participants. The INRS application process consists of two phases: the project development phase, where groups or partnerships apply for support to develop a proposal, and the project delivery phase where they access further funding to implement their proposed interventions. The INRS stresses the importance of collaborative, landscape-scale approaches to land management, recognising that coordinated efforts can lead to more significant and sustainable environmental outcomes. By targeting actions and interventions across larger areas, the scheme aims to improve biodiversity, water quality, soil health, and other critical aspects of the natural environment in Wales.

Farmers will be able to choose which, if any, OAs and CAs they adopt. The Welsh Government will identify priority OAs and CAs to be available when the SFS is launched in 2026; others will be introduced during the Transition Period (see below).

SFS eligibility

To be eligible for the Universal and Optional Layers of the SFS[43]:

- Farmers must undertake agricultural or ancillary activities on agriculture land as defined within the Agriculture (Wales) Act[44];
- Farmers must have at least three hectares of eligible agricultural land in Wales[45] or be able to demonstrate more than 550 standard labour hours; and

Farmers must have management control of the land[46] for at least 10 months of the calendar year[47].

SFS payment methodology

The SFS Universal Layer is intended to support the resilience of farm businesses through the completion of Universal Actions associated with a Universal Payment made up of two elements:

- A Universal Baseline Payment. This is based on the estimate cost incurred and income foregone from undertaking the UAs that meet the SFS requirements and payable against:
    - The whole farm taking account of the improved land, areas of woodland and habitat and any common land grazing rights;
    - Areas of habitat;
    - Areas of woodland; and
- A Social Value Payment which reflects the benefits produced for wider society by producing food in a sustainable way.

> *The total SFS Universal Baseline Payment = Payment reflecting costs incurred and income foregone for SFS Actions + Payment to recognise social value*

In designing the SFS payment methodology, social value is defined as:

"The public value of the outcomes delivered through land use change in agriculture as a result of the SFS, which are not properly reflected in market prices for agricultural output, and which contribute to the statutory Sustainable Land Management Objectives."

The social value aligns to the Welsh Government's four SLM objectives and are estimated over a timescale which reflects the wellbeing of existing and future generations (and is consistent with Section 4 of the Wellbeing of Future Generations (Wales) Act 2015).

[43] A 'Farmer' is defined as a natural or Legal Person or a group of natural or Legal Persons, regardless of the legal status granted to such persons or groups by national law, whose holding is situated within Wales and who exercises an agricultural or ancillary activity on agriculture land.

[44] This can be summarised as the production, rearing, or growing of agricultural products, including harvesting, milking, breeding animals and keeping animals for farming purposes and acting on land used for agriculture to create and manage habitats, nature conservation, mitigate and adapt climate change or maintain and enhance resilience of ecosystems.

[45] The land should be maintained in a state that makes it suitable for agriculture and ancillary activities.

[46] In cases where two or more farmers have a share farming agreement, so do not have exclusive occupation, only one can claim SFS. All the land within the agreement must be included on the designated farmer's Single Application Form (SAF). Compliance with the land-based UAs will need to be met by both to ensure appropriate management of the land. The Welsh Government is considering whether any variations are needed to scheme eligibility requirements to accommodate business partnerships designed to enable new entrants a route into the industry.

[47] The UAs need to be maintained for the full calendar year.

The Payment Rates will be provided as part of the final Scheme detail in 2025 and will continue to be monitored and updated thereafter.

Scheme administration and verification processes

Scheme guidance

The Scheme details will be published to ensure farmers have sufficient information to understand the Scheme and how they can benefit from participation. The Welsh Government will provide detailed scheme guidance before the Scheme is introduced in 2026 which will include the scheme requirements needing to be met to receive the Universal Payment.

Application

Farmers will need to apply for the Universal Payment annually through the Single Application Form (SAF). They may also need to update RPW and Farming Connect systems to confirm completion of UAs. The Welsh Government's aim is to ensure that administration of the UAs is as simple as possible. The scheme year will operate on a calendar basis.

OAs or CAs are voluntary so will require separate applications but the intention is that these will be as efficient as possible though RPW online.

Advice and support

The Welsh Government is determined to ensure that its processes are clear and accessible with suitable advice and support provided where appropriate.

We will support farmers to gain and / or maintain the knowledge and skills they need to deliver the UAs and to choose/deliver appropriate OAs and CAs by providing advice, learning and development support, including through face-to-face opportunities on farm and with other farmers. The intention is to build this around the trusted Farming Connect programme.

Warnings and penalties

Maintaining compliance with the SFS's eligibility criteria, scheme requirements, regulatory baseline and all the applicable SFS Actions are a condition of payment. Where there is non-compliance or inaccurate declarations, this may lead to guidance to correct minor issues where possible. Payment reductions and/or financial penalties may be applied in the event of repeated or more significant compliance issues. These will be proportionate and appropriate.

Transition to SFS

Preparatory phase

In advance of the introduction of the SFS, during 2025, the Welsh Government has introduced a Preparatory Phase which is designed to prepare farmers and land managers for the SFS. It comprises several interventions which provide advice and support to farmers including:

- Direct payments to farmers through the BPS until the end of 2025, which are exempt from SLM duties;
- Continuing Habitat Wales Scheme and extending commons agreements;
- Maintenance of the Organic Support Payment;
- Extension of Farming Connect to Spring 2026 to continue knowledge transfer and innovation support;
- A new INRS to support farmer-focused partnerships delivering nature-based solutions across a landscape, catchment or on a pan-Wales scale: this will help inform SFS CAs; and
- Further Small Grant scheme application windows such as Growing for the Environment.

Before the SFS is launched in 2026, the Welsh Government will ensure that its proposed processes are appropriate, including by:

- Continuing with the Animal Health Improvement Cycle pilot;
- Working with Natural Resources Wales (NRW) and farmers to pilot a more efficient mechanism to create Management Plans for SSSI areas; and

- Launching the Farming Connect Key Performance Indicator tool and developing the Farming Connect learning record.

Transition Period (2026 – 2029)

The Transition Period for the SFS will start on 1 January 2026 and run to 31 December 2029 in keeping with the period of the Multi Annual Support Plan[48]. During this time, the Welsh Government intends to introduce a full programme of support. This includes the Universal Actions and a full suite of OAs and CAs.

From 2026, farmers will be able to choose to participate in either the SFS or BPS. If they choose the SFS, they will not be able to revert to the BPS. Payments under the BPS will be phased out during the Transition Period through an incremental reduction in value starting in 2026.

It is anticipated that the support provided under the SFS will change over time, including during the Transition Period, in response to farmer feedback and leaning from its introduction/delivery. For example, moving the emphasis from soil testing to soil health planning as farmers will have the necessary knowledge to implement sustainable decisions on their farms following the testing of all fields within 5 years. Similarly reviewing and responding to progress with Designated Site Management Plans and the tree planting and hedgerow creation targets which are intended to be achieved before 2030.

Data & information requirements

The Welsh Government intends to only request the minimum data and information requirements from farmers in the Scheme, primarily to calculate and enable payments.

The Welsh Government has already completed an initial data confirmation exercise which has allowed farms to update RPW LPIS to confirm habitat areas and tree canopy cover at field and farm level in preparation for the SFS and for reference under the 2025 Habitat Wales Scheme. A further exercise is envisaged in 2025 to confirm any additional features required as part of the final SFS in preparation for its launch in 2026.

Applications for the SFS Universal Payment will be submitted on RPW Online Single Application Form (SAF). This will confirm the features present on each farm each year to validate land-based UAs and make SFS payments. It will, for example, confirm the broad habitat types and trees present on farms and will identify other important features such as historic features and designated sites.

Other UAs, such as Benchmarking or Animal Health & Welfare will be validated either directly from third parties or from the declaration and subsequent evidence provided by the farmer where appropriate.

The Welsh Government will be the Data Owner and Processor for the SFS which means that it must meet the Data Protection Principles set out in the Data Protection Act 2018 as well as the UK General Data Protection Regulation.

If farmers opt to progress to the Optional or Collaborative Layers of the SFS, to undertake bespoke habitat enhancement for example, the Welsh Government plans appropriate guidance to support, among other things, targeted habitat enhancement or additional planting of trees on sensitive areas. Some applications may require a site assessment to ensure the action is suitable for the area identified.

Farm carbon assessment

The Welsh Government proposes to provide a single carbon assessment for use by farmers to understand their farm's carbon balance. This is intended to be the foundation of advice, guidance and action to future proof farms and provide both environmental and business benefits. It will enable farmers to understand better the opportunities for managing their carbon impact.

Expected benefits of SFS

The expected benefits of the SFS can be divided into broad groups based on the expected beneficiary:

- Direct and indirect benefits to the public sector in Wales; and
- Wider benefits to Welsh society, notably farmers but also other individuals, businesses and communities.

[48] Welsh Government, Multi-Annual Support Plan Agriculture 2025-2029, 2024

The benefits can be further categorised according to whether:

- They release (save) cash immediately;
- They are monetisable (but not cash releasing) because they improve economic efficiency without necessarily reducing the budget the Welsh Government requires;
- They are credibly quantifiable although not monetisable but still need to be considered when appraising the options; and
- They can be described qualitatively but not quantified so are unlikely to be decisive considerations.

Table 2 summarises the expected benefits of the SFS.

Table 2: Expected benefits of the SFS

Benefit category	Benefit
Direct public sector benefits (to Welsh Government)	
Cash releasing benefits	• No cash releasing benefits are anticipated given that the budget for the SFS is expected to be maintained at prior levels.
Monetisable non-cash releasing benefits	• No monetisable non-cash releasing benefits are anticipated given that the budget for the SFS is expected to be maintained at prior levels
Quantifiable but not readily monetisable benefits	• Better quality of service to farmers – more responsive (faster), less enforcement, etc. • Avoided (lower) cost of managing changes to farm support
Qualitative but not readily quantifiable benefits	• Improved value for money of Welsh Government expenditure because of better integration of farm related policy with other policies • Efficiencies from better data sharing
Indirect benefits to other public sector organisations	
Cash releasing benefits	• No cash releasing benefits are anticipated given that the budget for the SFS is expected to be maintained at prior levels
Monetisable non-cash releasing benefits	• No monetisable non-cash releasing benefits are anticipated given that the budget for the SFS is expected to be maintained at prior levels
Quantifiable but not readily monetisable benefits	• No quantifiable but not readily monetisable benefits are anticipated
Qualitative but not readily quantifiable benefits	• Improved outcomes from more efficient management of Designated Sites within SFS rather than negotiating individual agreements • Land under agreements to support NRW • Improved reputation as farm regulators
Wider benefits to Wales society (e.g. households, individuals, businesses)	
Monetisable non-cash releasing benefits	Farmers
	• Increased long-term farm GVA
	Other businesses
	• None
	Local communities
	• Avoided costs of premature deaths (life years lost) from poor air quality • Value of improved water quality • Increased biodiversity
	Wider society
	• Avoided social cost from reduced GHG emissions • Social value of increased carbon sequestration
Quantifiable but not readily monetisable benefits	Farmers
	• Reduced variability of farm GVA
	Other businesses
	• Increased GVA of farm supply chain – established and new

Benefit category	Benefit
	• Increased value of (new) green skills/businesses (where not included in supply chain)
	Local communities
	• Avoided health costs from improved physical and mental health • Improved wellbeing • Improved productivity [reduced absenteeism] of non-farm workforce • Lower cost of reliable water supply households & individuals • Avoided damage to infrastructure and personal/business property from floods & droughts risks
	Wider society
	• Increased physical activity • Increased [non-use] value of landscape (especially heritage sites)
Qualitative but not readily quantifiable benefits	Local communities
	• Contribution to recreation (as a proxy for the countryside and cultural resources and public access to them) • Avoided environmental cost from reduced pesticide use • Change in value of "sustaining and promoting and facilitating" use of Welsh language • Value of increased food security (over and above impact on GVA) • Enhanced property values • Increased tourism GVA • Enhanced social cohesion within rural communities – social capital

Constraints

The development of the SFS as a replacement for the BPS is constrained by various external factors as well as agreed parameters defined within the Welsh Government. They reflect various political, economic, social and environmental considerations.

External factors

The external factors include:

- The availability of long-term funding commitment which limits the resources available for farm support;
- The diversity of Welsh landscapes and farm types which require a tailored approach to the design of the SFS rather than a pick and mix or one-size-fits-all model if it is to be effective and fair;
- Deep rooted farming traditions and systems connected to their communities and supply chains;
- The impact of UK trade agreements on food imports and exports;
- The need for a level playing field between countries based on World Trade Organisation (WTO) rules and the UK Subsidy Control Act which limit the agricultural support that can be provided[49];
- UK Government reserved policy decisions (e.g. related to market regulation and competition); and
- The rising cost of farm inputs (e.g. fertiliser & energy) which increases the costs of meeting the SFS requirements and makes it more difficult to allocate sufficient funding to incentivise participation in the SFS.

Agreed parameters

Development of the SFS is also constrained by:

- The funding allocated from the Welsh Government's budget to the Welsh Government Rural Affairs Directorate to develop and provide agricultural support;
- The need to align the SFS with the Welsh Government's legislation, policies and commitments, such as the Well-being of Future Generations Act, climate targets and nature recovery plans;
- The agreed principles which have guided the design of the SFS, and which reflect extensive feedback from stakeholders over an extended period;
- The challenge inherent in balancing economic viability and achieving environmental and social objectives;
- The challenge of developing metrics that adequately measure all the outcomes of the SFS;
- The need for the SFS to be designed to be simple to administer and accessible for all farmers; and
- The skills and capacity available to support delivery of the SFS.

Dependencies

Two types of dependency outside the scope of the SFS have influenced its design and affect the likelihood of its success:

- Interdependencies between other programmes and projects: these are external to the SFS but are still within the Welsh Government's programme and project management environment; and
- External dependencies outside the SFS programme environment (e.g. external dynamics, such as UK legislation, strategic decisions and approvals).

Interdependencies

As noted above, the SFS is intricately linked to several existing and planned Welsh Government policies. This reflects the strong interconnections between farming, environmental sustainability, rural development and community well-being. If the SFS is to maximise the environmental, social, and economic benefits for Wales, the dependencies need to be carefully managed to ensure policy coherence (see *Table 4*). Further detail is included in the published SFS Integrated Impact Assessment.

[49] The UK is required to comply with the WTO Agreement on Agriculture when providing agricultural support. This agreement limits certain types of agricultural support that can be provided to farmers, with the aim of reducing trade distorting subsidies.

Table 3: SFS policy & programme dependencies

	Dependency	Implications
Well-being of Future Generations (Wales) Act 2015	The SFS must align with the well-being goals as farmers are key contributors, particularly in areas like biodiversity, climate resilience and cultural preservation	The SFS is a critical mechanism for achieving long-term environmental and social sustainability and needs to coordinate across sectors
Environment (Wales) Act 2016	The SFS is directly tied to the Act, which sets targets for reducing carbon emissions, promoting sustainable resource use and enhancing biodiversity	Farmers participating in the SFS will play an important role in meeting the environmental targets through practices like carbon sequestration, tree planting and habitat restoration
Climate Change Strategy and Net Zero Wales Plan	The SFS supports Wales's commitment to achieve net zero by 2050 by promoting carbon-reducing farming practices	Achieving net-zero requires farmers to balance how they produce food with managing their carbon emissions
Nature Recovery Action Plan for Wales (NRAPW)	The NRAPW aims to halt biodiversity loss and promote ecosystem restoration: farmers have a key role to play in managing habitats and improving biodiversity	The SFS can contribute to the NRAPW: how far it does so depends on whether the Actions in the three layers align with wider nature recovery goals
Welsh Government Food and Drink Action Plan	The SFS links to efforts to develop a sustainable and resilient food and drink sector, including support for local supply chains and high-quality Welsh products	The SFS must promote sustainable food production practices while maintaining the economic viability of farming and protecting food security
Rural Development Programme	The SFS builds on the principles of the Rural Development Programme which has historically supported rural economies, communities and sustainability	Alignment with the Rural Development Programme means ensuring that farmers continue to receive adequate financial and developmental support from the SFS
Planning Policy Wales (PPW)	Land-use planning policies under PPW affects implementation of SFS measures, such as afforestation, renewable energy projects and habitat restoration	Effective coordination between the SFS and planning policies is essential to avoid conflicts over land use and ensure compatibility with rural development goals
National Forest for Wales	The National Forest initiative, which aims to create a connected network of woodlands, relies on farmers' participation in the SFS for tree planting and land management	Incentives within the SFS must encourage farmers to contribute to the National Forest while balancing agricultural productivity
Agricultural pollution regulations	Recent regulations to reduce agricultural pollution (e.g., nutrient management, water quality) depend on the SFS to support farmers comply without undue financial strain	The SFS must provide practical guidance and financial support to enable farmers to meet regulatory requirements while improving environmental outcomes
Water resources and flood management policies	Policies addressing water management and flood risk reduction depend on the SLM practices promoted by the SFS	Farmers' role in managing catchments, restoring wetlands and reducing runoff is essential to delivering integrated water resource solutions
Trade and Brexit policies	UK trade deals post-Brexit influence the competitive environment for Welsh farmers	The SFS must enable Welsh farmers to meet sustainability standards while remaining competitive in domestic and international markets: policy needs to protect Welsh farmers from being undercut by cheaper imports produced to lower environmental and animal welfare standards
Public health and well-being policies	The SFS intersects with public health initiatives by promoting local food systems, reducing environmental	Sustainable farming practices can contribute to public health goals by supporting healthier diets, cleaner air, and greater community well-being

	Dependency	Implications
	pollution and improving access to green spaces	
Tourism and cultural policies	Wales's tourism strategy promotes the countryside as a key attraction; preservation of cultural heritage (e.g., Welsh language, traditional farming practices) is a priority	The SFS must support landscape and cultural preservation to align with tourism objectives and safeguard rural heritage
Welsh language	The Cymraeg 2050 Strategy sets out the Welsh Government's long-term approach to achieving its target of a million Welsh speakers by 2050	The SFS has a potentially important role to play in achieving the ambition by strengthening rural communities where the use of the Welsh language is concentrated
Education and training policies	The SFS relies on skills development and knowledge transfer initiatives to equip farmers with the tools and expertise needed to adopt sustainable practices	Effective collaboration with agricultural colleges, research institutions, and advisory services is critical to achieving SFS objectives

External dependencies

The SFS is also shaped by several external dependencies which influence how it is designed, implemented and received. The key ones are summarised in Table 5. These reflect the interconnected nature of farming, the environment, rural communities and broader economic and policy frameworks.

Table 4: External SFS dependencies

	Dependency:	Implications:
Environmental interdependencies	Climate change and biodiversity	The SFS addresses both climate change mitigation and biodiversity restoration: improving biodiversity (e.g., by creating habitats) can enhance ecosystem resilience and support carbon storage in soils, peatlands and forests
	Land use and ecosystem services	Farmers are stewards of land that provides multiple ecosystem services and the SFS must balance these services to avoid unacceptable trade-offs
	Soil health and water quality	Healthy soils improve water retention, reduce runoff and enhance crop productivity: managing soil quality depends on achieving broader environmental outcomes like improved water quality in rivers and reduced flooding
Economic interdependencies	Farm income and environmental goals	Farmers' financial stability is critical to achieving environmental and social objectives: without sufficient income, farmers may struggle to adopt farming sustainable practices. SFS payments need to be sufficient to replace lost income from reduced productivity (or increased costs)
	Markets and trade	Farmers' ability to adopt sustainable practices is tied to demand for sustainably produced goods: trade agreements, import competition and consumers' willingness to pay for sustainable products will directly influence the SFS's success
Social interdependencies	Rural economy	Farming underpins rural economies, supporting jobs in supply chains, food processing and tourism: the success of the SFS depends on maintaining rural livelihoods while transitioning to more sustainable farming practices
	Community well-being	Rural communities rely on farming not only for economic activity but also for cultural identity and social cohesion: the SFS needs to align with broader rural development goals to support the well-being of farming families and their communities
	Generational transition	The success of the SFS depends on younger generations staying in or entering the farming sector: access to training, education, and land ownership for young farmers is a key factor
	Public support	The SFS needs to show how it benefits Welsh society to maintain public approval and strengthen its legitimacy

	Dependency:	Implications:
Environmental and agricultural practices	Sustainable practices and food security	The SFS needs to balance meeting environmental and social goals with ensuring Wales's food security
	Livestock farming and climate goals	Livestock farming is a major component of Welsh agriculture but also a significant source of greenhouse gas emissions: reducing emissions must be balanced with the economic and social/cultural importance of livestock farming
Technological and knowledge interdependencies	Access to innovation	Adoption of sustainable farming techniques depends on farmers' access to technology and training
	Monitoring and data sharing	The success of the SFS requires robust systems for monitoring outcomes and sharing data so that progress can be tracked and adjustments made
Climate and geographic interdependencies	Regional variation	The SFS needs to support Welsh farms which operate in diverse landscapes: it needs to account for geographic differences as what works in one area may not suit others
	Weather and resilience	Farmers' ability to deliver environmental outcomes depends on their capacity to adapt to increasingly volatile weather patterns, such as flooding and drought.
Consumer and market interdependencies	Sustainable food demand	The success of the SFS depends on the level of consumer support for sustainable, locally produced food
	Export markets	Where Wales relies on export markets, trade agreements and changing consumer preferences abroad can affect farmers' willingness and ability to participate in the SFS
Timeframe interdependencies	Short-term costs vs. long-term benefits	The environmental and economic benefits of sustainable farming practices take time to materialise whilst farmers face immediate costs: the SFS must address this timing mismatch to ensure uptake
	Generational changes	Transitioning to sustainable farming practices requires changes in knowledge and behaviour which depend on generational shifts in attitudes and farming methods.

ECONOMIC CASE

Key question: Will the SFS maximise social value through the optimal selection of activities?

Introduction

There are different ways in which the SFS can potentially achieve its aim and objectives.

The purpose of the Economic Case is to identify the Preferred Option for the SFS that delivers the best value for public money by assessing both the benefits - including all the wider economic, social and environmental effects – and the potential costs of different options for the SFS, alongside the relevant risks.

The Economic Case is based on four steps:

- Identifying and agreeing the critical success factors (CSFs) against which to appraise the different options for the SFS alongside its objectives (as well as the risks);
- Identifying a 'long list' of possible options that satisfy the SFS's potential scope – as defined in the Strategic Case - and appraising how well each option meets the key long-term objectives and agreed CSFs (as well as the risk) to identify the Preferred Way Forward (PWF);
- From this long list appraisal, developing a 'short list' of options for further appraisal including business as usual (BAU) – as a benchmark for value for money – a 'Do minimum' option – a realistic way forward that acts as a further benchmark for value for money – and the recommended PWF; and
- Undertaking the value for money analysis based on an economic appraisal of the 'short list' of options to assess their costs and benefits and the associated risks to identify the Preferred Option.

CSFs & options analysis

Strategic aim & key objectives of SFS

The proposed SFS is designed to enable Welsh farmers to contribute to the Welsh Government's four SLM objectives and so contribute to realising the Welsh Government's ambition for Welsh farmers to be world leaders in sustainable farming. It will encourage farmers to deliver a range of additional economic, environmental and social outcomes alongside, and because of, the sustainable production of food and other goods.

The aim of the SFS is to build on the high standards of farming practice already in place in Wales. As explained in the Strategic Case, the SFS is designed to incentivise farmers to reduce their net GHG emissions and improve the environment whilst also producing food sustainably. It is based on an approach to delivering the desired economic, environmental and social outcomes through the adoption of more sustainable farming practices in unison (i.e. considering the whole farm area and system). The Welsh Government believes that Wales is well suited to this type of farming and the SFS will encourage farmers to adopt these practices.

The SFS has the following key long-term objectives:

- 95% of farm business currently participating in BPS join the SFS by the end of the Transition Period (i.e. December 2029);
- 100% of farmers participating in the SFS adopting more sustainable land management practices by the end of the Transition Period (i.e. December 2029);
- 75% farmers participating in the SFS regard their economic resilience as having been maintained, if not enhanced (when the full range of UAs, OAs and CAs are available) as they transition to sustainable farming practices;
- All farmers participating in the SFS farmers have adopted new/different farming practices to reduce their GHG emissions by end of the Transition Period (i.e. December 2029);

- All farmers participating in the SFS manage at least 10% of the farm for nature and biodiversity, have created new woodland or hedgerows and are maintaining their existing woodland and hedgerows by the end of the Transition Period (i.e. December 2029); and
- All farmers participating in the SFS maintain or have enhanced the management of historic sites on an annual basis.

Critical Success Factors

The critical success factors (CSFs) for the SFS are summarised in Table 6. They reflect:

- **Strategic fit**: how well an option for the SFS meets the key long-term objectives and provides strategic alignment with the Welsh Government's other strategies, programmes and projects based on meeting the core (essential), desirable and optional business needs defined in the Strategic Case;
- **Value for money**: how well an option for the SFS optimises social value in terms of its potential costs, benefits and risks;
- **Supplier capacity and capability:** how well an option for the SFS enables farmers – and their supply chains - to undertake actions to deliver the required outcomes;
- **Affordability:** how well an option for the SFS can be financed across its whole life from available Welsh Government funds (given resource constraints, including other potential sources of funding); and
- **Achievability**: how well an option for the SFS is likely to be delivered based on the capabilities and skills required.

Table 5: Critical success factors for the SFS

Strategic fit and business needs	• Aligns with the Welsh Government's objectives reflected in the Well-being of Future Generations Act 2015 and the Environment (Wales) Act 2016. • Best contributes to the Sustainable Land Management Objectives set out in the Agriculture (Wales) Act 2023. • Is supported by key stakeholders, particularly those directly impacted by the SFS (i.e. farmers and rural communities) and environmental NGOs. • Provision of financial support is linked to delivery of measurable economic, environmental and social outcomes. • Farmers see sustainable land management practice as feasible and appropriate for their business, with SFS support.
Value for money	• Is accessible to farmers in Wales. • Farmers receive clear, accessible information about the direct and wider benefits and requirements of the SFS. • Farmers are incentivised to adopt more sustainable farming practices to the benefit of their business and rural/farming communities. • Farmers are encouraged to act to adapt to and mitigate the effects of climate change. • Farmers are encouraged to maintain and enhance the resilience of ecosystems and the benefits they provide.
Supply side capacity and capability	• Farmers are equipped to undertake a holistic assessment/appraisal of the potential value of adopting [more] sustainable farming practices. • Farmers are encouraged (and supported) to develop the skills needed to enable them to adopt more sustainable farming practices and resilient businesses. • Farmers have sufficient access to advisory services and support networks (including peer-to-peer learning and demonstration projects). • Farmers are encouraged to collaborate to improve the efficiency of agricultural (and food) supply chains
Affordability	• Payment rates are consistent with achieving desired levels of farm participation in the SFS within the available budget [constraint]. • The allocation of funding between UAs and OAs/CAS maximises value for farmers and society. • The Welsh Government's costs of the administering the SFS are minimised (e.g. they are consistent with international best practice [less than 10% of the budget]). • Farmers' costs of participating in the SFS are minimised.

	• Farmers can supplement SFS support by attracting additional funding through non-government investment and greater returns from the supply chain.
Achievability	• Appropriate governance structure is established which continues to build trust with farmers and stakeholders. • Enables a smooth transition from current farm support. • Can be delivered [largely] based on existing Welsh Government infrastructure/systems. • Can be managed in a flexible enough way that it can be adapted to changes in the external environment (as required). • SMART targets are developed which provide focus and direction for the SFS and support benefit realisation based on effective monitoring and evaluation of environmental, economic, and social impacts against an established baseline.

Identifying and assessing the long list of options for the SFS

An Options Filter Framework has been used to identify and develop the long list of options for the SFS. This has then been reduced to a short list for more detailed appraisal as part of the value for money analysis.

The option filter framework is mandated for use within Welsh Government guidance and HM Treasury's Green Book. At each level, in line with the relevant guidance, a business as usual (BAU) option is considered alongside alternative, more ambitious options designed to enable the SFS to achieve its key long-term objectives.

The Options Filter Framework structures a wide range of possible options for SFS based on five key dimensions: scope (coverage); solution (interventions and projects); delivery (organisation and operating model); implementation (phasing and timing); and funding (spend) (see Table 7). The key dimensions align to the Five Case Model which is the expected standard. For each dimension, the aim is to identify the PWF, discounting and carrying forward other possible options to a short list of options for more detailed appraisal in the value for money analysis. Effectively, therefore, the purpose of the Options Filter Framework is to narrow the range of possible options for the SFS.

The application of the Options Filter Framework here builds on the learnings from the consultations (and codesign) which have been undertaken by the Welsh Government. This reduces the range of options considered here.

Table 6: Dimensions of the Options Filter Framework

Dimension	Issues
1. Scope	Potential combinations of farms and on farm activities shaped by the SFS
2. Solution	Potential structure of obligations and incentives aligned to the preferred scope for the SFS
3. Delivery	Potential 'strategies for delivery of the SFS in relation to the preferred scope and solution
4. Implementation	Potential phasing and timing of for the SFS given preferred scope, solution and delivery of the SFS
5. Funding	Potential funding for the SFS given preferred scope, solution, delivery and implementation of the SFS

Scope

The scope of the options is defined in terms of the broad coverage and/or targeting of the SFS to meet its key long-term objectives as well as the CSFs. It builds on the needs defined in the Strategic Case which emphasise the essential role that the SFS must play in:

- Promoting a holistic, whole farm approach to improving economic, environment and social sustainability; and
- Being attractive and accessible to all farmers based on limited conditionality of the Universal Actions.

The advantages and disadvantages of the scope options are summarised in the table below, with the option coloured green being the PWF, options coloured amber also being taken forward for further appraisal and options coloured red not being taken forward.

Table 7: Summary of assessment of advantages and disadvantages of scope options

Dimension and Continuum	BAU	Minimum	Intermediate	Intermediate	Maximum
Scope **Coverage - as outlined in Strategic Case**	1.0 A basic scheme which applies to all farms throughout Wales on a whole farm basis	1.1 A basic scheme which covers only limited actions on a part-farm basis	1.2 A basis scheme which applies only to farms in certain geographic areas	1.3 A basic scheme which applies only to farms of a certain size (e.g. those below median size)	1.4 An ambitious scheme which applies to all farms throughout Wales on a whole farm basis
Advantages	• Accessible to all farmers • Provides continuity for farmers which sustains confidence that support will be available • Provides most scope for support to be designed to benefit all farmers	• Targets specific actions where farmers will be incentivised to take actions • May reduce budget needed for agricultural support	• Could target specific areas where incentivised action is most needed most to deliver SLM objectives	• Could target farms which are most responsive to support (e.g. for economic resilience) • May reduce budget needed for agricultural support	• Accessible to all farmers • Provides continuity for farmers which sustains confidence that support will be available • Provides most scope for support to be designed to benefit all farmers • Change incentives sufficiently for farmers to adopt more sustainable practices
Disadvantages	• Does not change incentives sufficiently for farmers to adopt more sustainable practices • Lack of targeting of support for action risks poor VFM • Low levels of additionality risks poor VFM	• Farmers may intensify production on parts of the farm not within scope: risks negative impacts, for example on ecosystem goods and services • Overall level of support may be reduced: risks harming economic resilience of some farms	• Inaccessible to all farmers • Creates a "lines on map" approach to agricultural support which would not be supported by farming unions • Farms not eligible for support may intensify production with the risk of negative impacts on ecosystem goods and services • Risk to the economic resilience of farms not eligible for support	• Inaccessible to all farmers • Farms not eligible for support may intensify production: risks negative impacts, for example on ecosystem goods and services • Risk weakening the economic resilience of farms not eligible for support • Farmers may respond by reducing the size of their business to become eligible for support	• Having an incentive structure sufficient for all farmers to adopt more sustainable practices may risk poor VFM

Dimension and Continuum	BAU	Minimum	Intermediate	Intermediate	Maximum
	Carried forward	Discounted	Discounted	Discounted	PWF

The PWF (1.4) is to apply an ambitious SFS on a whole farm basis to all farms in Wales because this aligns best with a key design principle which underpins the SFS.

The 'Minimum' option (1.1) is discounted because it may encourage farmers to intensify their production on some parts of the farm as they seek to maximise market returns from the non-targeted part of the farm. This could have an overall negative impact on net GHG emissions and on ecosystem resilience. A part-farm scheme would also deny farms the opportunity to benefit from whole farm incentives to adopt more sustainable farming practices to the benefit of all areas of the business.

The two intermediate options (1.2 & 1.3) have also both been discounted because they are not available to all farms. This is inconsistent with an important design principle for the SFS to provide a scheme accessible to all.

Solution

Options for possible solutions to realise the preferred scope for the SFS are defined in terms of the policy levers available to the Welsh Government to encourage farmers to adopt more (sustainable) farming practices. These levers comprise:

- Adaptation of existing regulations to obligate farmers to adopt more sustainable farming practices;
- Provision of advice, training and guidance to farmers (and their supply chains);
- Provision of financial support that is decoupled from specific actions to achieve economic, environmental and social outcomes (such as the BPS); and
- Provision of financial support linked to delivery of measurable economic, environmental and social outcomes.

As with the scope, the advantages and disadvantages of the different options have been appraised based on how well they are expected to meet the key long-term objectives of the SFS and the CSFs. The advantages and disadvantages of the options are summarised in Table 9: the option coloured green is the PWF, the option coloured amber can also be taken forward for further appraisal and options coloured red can be discounted. The BAU option (2.0) is the existing BPS (primarily a payment per hectare that is decoupled from specific actions to achieve economic, environmental and social outcomes) plus existing Rural Investment Scheme (RIS) grants.

Table 8: Summary of assessment of advantages and disadvantages of solution options

Dimension and Continuum	BAU	Minimum	Intermediate	Maximum
Solution **In relation to the preferred scope (Option 1.4 above refers)**	2.0 BPS plus existing RIS	2.1 Regulation only with no Welsh Government financial support or advice	2.2 Information, advice and guidance only; no Welsh Government financial support nor regulation	2.3 Financial support linked to delivery of measurable economic, environmental and social outcomes
Advantages	• Provides continuity for farmers which sustains confidence that support will be available	• Reduces budget for agricultural support (releasing resources for other policy areas)	• Reduces budget for agricultural support (releasing resources for other policy areas)	• Aligned to statutory SLM objectives • Incentivises farmers to maintain or improve existing habitats and existing woodland • Incentivises farmers to act on

Dimension and Continuum	BAU	Minimum	Intermediate	Maximum
				GHG emissions: potentially • May deliver better value for money because greater additionality
Disadvantages	• Unless farms access RIS, they are not incentivised to mitigate and adapt to climate change and maintain and enhance ecosystem resilience • Farmers not accessing RIS may intensify production with the risk of negative impacts on GHG emissions and ecosystem goods and services	• Cost of regulation would fall on farmers threatening their economic resilience • Farmers may intensify production (at the expense of the environment) • Farmers may struggle to comply without advice or support to help them adapt	• Risks economic resilience of many farms and would have probable adverse social consequences in rural areas especially if land were abandoned • Farms reliant on market returns may intensify production • No incentive for farmers to invest in additional sustainable food production measures, including GHG mitigation actions	• Farmers outside the new scheme may be incentivised to intensify production (rather than invest in more sustainable food production)
	Carried forward	Discounted	Discounted	PWF

The Preferred Way Forward (2.3) is to provide financial support to farms that is linked to delivery of measurable economic, environmental and social outcomes.

The BAU option (2.0) assumes that the Welsh Government continues to provide ongoing support to farmers as at present. It is carried forward noting that it is less likely than the Preferred Way Forward to get farmers to change their behaviour and adopt more sustainable farming practices.

Two options are discounted (2.1 & 2.2) because they do not meet the key long-term objectives of the SFS.

Delivery

Four options for delivery of the SFS have been identified:

- Under **BAU,** the Rural Payments Wales (RPW) continues as the single payment agency with a limited role for NRW to deliver its existing statutory duties (for example with respect to issuing consents and licenses;
- Under **Minimum** there is no single payments agency, and farmers are paid individually for individual agreed actions through grant agreements agreed between themselves and individual Welsh Government policy divisions;
- Under **Intermediate** there is a continued role for Rural Payments Wales as the single payment agency and an enhanced role for Natural Resources Wales as part of the overall delivery model, especially in terms of its statutory and advisory role in actions that impact on designated sites in Wales; and
- Under **Maximum** the functions of the payments agency would be outsourced to a private sector provider.

Table 10 summarises the advantages and disadvantages of the different options based on how well they are expected to meet the key objectives of the SFS and the CSFs.

Table 9: Summary of assessment of advantages and disadvantages of delivery options

Dimension and Continuum	BAU	Minimum	Intermediate	Maximum
Service delivery **In relation to preferred scope and solution (Options 1.4 and 2.3 above refer)**	3.0 Continued role for RPW as the single payment agency and limited role for NRW in relation to delivery of its existing statutory duties	3.1 No single payments agency	3.2 Continued role for RPW as the single payment agency plus enhanced role for NRW in delivery reflecting the linking of all support to measurable outcomes	3.3 Functions of payments agency outsourced to private sector supplier
Advantages	• Familiarity and continuity with farmers • Existing systems in place • Experience of RPW	• Payments to farmers would be provided through individual grant agreements with specific Welsh Government policy division	• Familiarity and continuity with farmers • Existing systems in place • Experience of RPW • Clear role for NRW in delivery model, helps assure effectiveness of actions to deliver environmental outcomes	• May offer long-term efficiencies
Disadvantages	• Limited role for NRW in the delivery model	• Multiple applications for farmers to access individual grants, increasing costs to farmers • Uncertainty for farmers • Less flexibility than having payments managed by one agency • Benefits of RPW experience lost • Duplication of administrative effort in Welsh Government	• Additional RPW administrative costs reflecting complexity of agreements to deliver new scheme • Additional costs for NRW	• Would build on existing governance arrangements • Would disrupt established systems • Would increase short terms costs for both farmers and the Welsh Government • Farmers may not trust giving data to a private sector supplier
	Carried forward	Discounted	PWF	Discounted

The Preferred Way Forward (3.2) is the continued role for RPW as the accredited payments agency with an enhanced supporting role for NRW as part of the delivery model especially in terms of its statutory and advisory role in actions that impact on designated sites in Wales.

The BAU option (3.0) has been carried forward.

Two options have been discounted: not having a single payments agency (3.1) and outsourcing the functions of the payment agency (3.3).

Implementation

Four different options for implementation of the SFS have been identified:

- **BAU** – continued provision of BPS payments and existing RIS grant schemes (including Habitat Wales);
- **Minimum** – Two-year transition from BPS plus existing RIS grant schemes to the new scheme, including limited pilots;

- **Intermediate** – Four-year transition from BPS plus existing RIS grant schemes to the new scheme including limited pilots; and
- **Intermediate -** Immediate transition from BPS plus existing RIS grant schemes to the new scheme.

Table 11 summarises the advantages and disadvantages of these options based on how well they meet the key long-term objectives of the SFS and the CSFs.

Table 10: Summary of assessment of advantages and disadvantages of implementation options

Dimension and Continuum	BAU	Minimum	Intermediate	Maximum
Implementation **In relation to preferred scope, solution and method of service delivery (Options 1.4, 2.3 and 3.2 above refer)**	4.0 Continued BPS plus RIS	4.1 Two-year Transition Period plus limited pilots	4.2 Four-year Transition Period plus limited pilots	4.3 Immediate transition from BPS to new scheme
Advantages	• Offers familiarity and continuity for farmers • No transition required to new scheme	• Gives some time for pilots to generate learning and experience which can be built into delivery of new scheme	• Gives farmers more time to adjust business model and transition from BPS to new scheme • Provides a smooth transition from BPS to new scheme • Pilots allow learning and experience to be built into design and delivery of new scheme	• Provides an immediate end to support based on BPS which is not linked to measurable outcomes. • Accelerates benefit realisation
Disadvantages	• Less weight given to conditionality	• 2-year transition may be too short for many farmers to adjust • Provides a rushed (more costly) transition from to new scheme • May adversely affect scheme participation	• BPS as current support continues for a 4-year period	• Does not enable a smooth transition from current farm support. • No time to pilot approaches
	Carried forward	Carried forward	PWF	Discounted

The Preferred Way Forward (4.2) is a four-year Transition Period which offers a smoother, less costly transition to the new scheme than a two-year transition (4.1) – the latter may be seen by farmers as too hurried, and this may adversely affect participation in the new scheme. A four-year transition would also allow sufficient time for pilot approaches to be tested, and the learning and experience built into the delivery model.

The BAU option (4.0) has also been carried forward.

The option of having no Transition Period (4.3) has been discounted as it would not allow adequate time for a smooth transition from the BPS to the SFS.

Funding

Five broad funding options have been identified for the SFS. All depend on Welsh Government funding, but reflect different ways in which the level of funding could be determined and allocated to individual farmers:

- **BAU** – continued provision of BPS payments to farmers (based primarily on eligible land) and RIS schemes from Welsh Government;
- **Minimum** – provision of payments based on the average costs to farmers of undertaking any actions that deliver measurable outcomes
- **Intermediate** – provision of payments based on the average costs and average income foregone to farmers of undertaking any actions that deliver measurable outcomes
- **Intermediate** – provision of payments based on the average costs and average income foregone to farmers of undertaking any actions that deliver measurable outcomes plus a payment that reflects the value to society of the outcomes delivered
- **Maximum** - provision of payments based on the actual costs and actual income foregone to individual farmers of any actions that deliver measurable outcomes

Table 12 summarises the advantages and disadvantages of each option based on how well they would meet the key long-term objectives of the SFS and the CSFs.

Table 11: Summary of assessment of advantages and disadvantages of funding options

Dimension and Continuum	**BAU**	**Minimum**	**Intermediate**	**Intermediate**	**Maximum**
Funding **In relation to preferred scope (1.4), solution (2.3), method of service delivery (3.2) and implementation (4.2)**	5.0 Continued funding of BPS plus RIS	5.1 Payments based on average costs to farmers of undertaking actions that deliver measurable outcomes	5.2 Payments based on average costs and average income foregone to farmers of undertaking actions that deliver measurable outcomes	5.3 Payments based on average costs and average income foregone to farmers of undertaking actions that deliver measurable outcomes plus a payment to reflect social value outcomes delivered	5.4 Payments based on actual costs and actual income foregone to individual farmers of actions that deliver measurable outcomes
Advantages	• Familiarity and confidence in budget estimation	• Likely reduced funding requirement for Welsh Government	• Considers the costs incurred and income foregone of farmers from actions that deliver outcomes	• Considers the costs incurred and income foregone of farmers from actions that deliver outcomes • A payment to farmers that reflects the value to society of outcomes delivered should help incentivise participation	• Participating farmers receive actual costs and income foregone of any actions • Is there not one here about certainty of delivery against outcomes if more pay back increases participation?
Disadvantages	• Farmers have no incentive to invest in habitat or woodland maintenance or enhancement	• Paying only average costs of actions to delivery outcome will not incentivise participation as loss in	• Farmers with costs and income foregone greater than average will have little incentive to	• Likely higher funding requirement for Welsh Government • High-cost farmers may still not receive	• May not be affordable for Welsh Government • Farmers have no incentive to minimise CI&IF of new scheme

Dimension and Continuum	BAU	Minimum	Intermediate	Intermediate	Maximum
	through BPS alone	income foregone will not be covered in the payment • Likely negative impact on Farm Business Income for participating farms, detracting from economic resilience of farms	join the scheme and this may risk participation	a payment that incentivises participation	actions risking poor VFM • Large administrative costs paying and validating actual costs and actual income foregone for each participating farmer
	Carried forward	Discounted	Carried forward	PWF	Discounted

The PWF is the option that pays average costs incurred and income foregone and a payment that reflects the social value of outcomes (5.3). It is likely to incentivise participation as any payment above costs incurred and income foregone will impact positively on Farm Business Income.

The 'Minimum' option where the scheme only pays the average costs incurred of any actions that delivery outcomes (5.1) has been discounted as it is not likely to sufficiently incentivise participation in the new scheme, as the option does not cover income foregone.

The 'Intermediate' option of paying average costs incurred and income foregone has been taken forward (5.2).

The option of paying actual costs incurred and income foregone (5.4) has been discounted as the high administration costs of such an approach would risk poor VFM.

Table 13 summarises the conclusions of the assessment of the different combinations of options and provides the basis for developing a short list of options.

Table 12: Summary of Options Filter Framework

Dimension and Continuum	BAU	Minimum	Intermediate	Intermediate	Maximum
Scope **Coverage - as outlined in Strategic Case**	1.0 A basic scheme which applies to all farms throughout Wales on a whole farm basis	1.1 A basic scheme which covers only limited actions on a part-farm basis	1.2 A basis scheme which applies only to farms in certain geographic areas	1.3 A basic scheme which applies only to farms of a certain size (e.g. those below median size)	1.4 An ambitious scheme which applies to all farms throughout Wales on a whole farm basis
	Carried forward	Discounted	Discounted	Discounted	PWF
Solution **In relation to the preferred scope (Option 1.4 above refers)**	2.0 BPS plus existing RIS	2.1 Regulation only with no Welsh Government financial support or advice	2.2 Information, advice and guidance only; no Welsh Government financial support	2.3 Financial support linked to delivery of measurable economic, environmental and social outcomes	
	Carried forward	Discounted	Discounted	PWF	
Service delivery **In relation to preferred scope and solution (Options 1.4**	3.0 Continued role for RPW as the single payment agency and limited role for NRW in	3.1 No single payments agency	3.2 Continued role for RPW as the single payment agency plus enhanced role for NRW in	3.3 Functions of payments agency outsourced to private sector supplier	

Dimension and Continuum	BAU	Minimum	Intermediate	Intermediate	Maximum
and 2.3 above refer)	relation to delivery of its existing statutory duties		delivery reflecting the linking of all support to measurable outcomes		
	Carried forward	Discounted	PWF	Discounted	
Implementation **In relation to preferred scope, solution and method of service delivery (Options 1.4, 2.3 and 3.2 above refer)**	4.0 Continued BPS plus RIS	4.1 Two-year Transition Period plus limited pilots	4.2 Four-year Transition Period plus limited pilots	4.3 Immediate transition from BPS to new scheme	
	Carried forward	Carried forward	PWF	Discounted	
Funding **In relation to preferred scope (1.4), solution (2.3), method of service delivery (3.2) and implementation (4.2)**	5.0 Continued funding of BPS plus RIS	5.1 Payments based on average costs to farmers of undertaking actions that deliver measurable outcomes	5.2 Payments based on average costs and average income foregone to farmers of undertaking actions that deliver measurable outcomes	5.3 Payments based on average costs and average income foregone to farmers of undertaking actions that deliver measurable outcomes plus a payment to reflect social value outcomes delivered	5.4 Payments based on actual costs and actual income foregone to individual farmers of actions that deliver measurable outcomes
	Carried forward	Discounted	Carried forward	PWF	Discounted

The short list of four options derived using the results of applying the Options Filter Framework is summarised in Table 14. The distinctive features of each option are as follows:

- **Option 1** is the BAU option which reflects the existing approach to farm support and provides a benchmark against which to compare the costs, benefits and risks of the other options;
- **Option 2** is the 'Minimum' option under which the Welsh Government makes support available to all farms in Wales, under a new scheme where support is linked to the expected delivery of outcomes. There is a 4-year transition to the new Scheme, and the continuation of RPW as the delivery agency plus an enhanced role for NRW. Under this option, payments to farmers reflect average costs incurred by farmers in taking actions that deliver outcomes;
- **Option 3** is an 'Intermediate' option which is less ambitious than the PWF: it is like Option 2 except that payments to farmers reflect average costs and the average income foregone incurred by farmers in taking actions that deliver economic, environmental and social outcomes; and
- **Option 4** is the PWF: it extends Option 2 so that farmers also receive a payment that reflects the value to society of the outcomes they deliver.

Table 13: Short list of options for the SFS

Dimensions	Option 1: Business as Usual (BAU)	Option 2: 'Minimum'	Option 3: 'Intermediate'	Option 4: PWF
Service scope	1.0 Welsh Government support	1.0 Welsh Government support	1.0 Welsh Government support	1.0 Welsh Government support

Dimensions	Option 1: Business as Usual (BAU)	Option 2: 'Minimum'	Option 3: 'Intermediate'	Option 4: PWF
	is available to farms throughout Wales	is available to farms throughout Wales	is available to farms throughout Wales	is available to farms throughout Wales
Service solution	2.0 Basic Payment Scheme plus existing Rural Investment Scheme grants	2.3 Financial support that is linked to delivery of measurable economic, environmental and social outcomes	2.3 Financial support that is linked to delivery of measurable economic, environmental and social outcomes	2.3 Financial support that is linked to delivery of measurable economic, environmental and social outcomes
Service delivery	3.0 Continued role for RPW as the single payment agency and limited role for NRW in relation to RIS grants	3.2 Continued role for RPW as the single payment agency plus enhanced role for NRW in delivery reflecting the linking of all support to measurable outcomes	3.2 Continued role for RPW as the single payment agency plus enhanced role for NRW in delivery reflecting the linking of all support to measurable outcomes	3.2 Continued role for RPW as the single payment agency plus enhanced role for NRW in delivery reflecting the linking of all support to measurable outcomes
Implementation	4.0 Continued BPS plus RIS	4.1 Two-year Transition Period plus limited pilots	4.2 Four-year Transition Period plus limited pilots	4.2 Four-year Transition Period plus limited pilots
Funding	5.0 Continued funding of BPS plus RIS	5.2 Payments based on the average costs and average income foregone to farmers of undertaking any actions that deliver measurable outcomes	5.2 Payments based on the average costs and average income foregone to farmers of undertaking actions that deliver measurable outcomes	5.3 Payments based on the average costs and average income foregone to farmers of undertaking any actions that deliver measurable outcomes plus a payment that reflects the value to society of the outcomes delivered

Table 15 summarises the assessment of the short-list of options against the key long-term objectives of the SFS and the CSFs. The key points to note are that:

- Only the Preferred Way Forward (Option 4) links farmer reward to delivery of all the economic, environmental and social objectives of the SFS hence it also has the best strategic fit whereas Option 1 has the poorest strategic fit;
- All the options besides Option 1 (BAU) risk lower levels of participation if the level of reward is insufficient to make the SFS attractive to farmers;
- The Preferred Way Forward (Option 4) offers potentially better value for money than the other options because of the additional social value it will incentivise albeit risks around the capacity of suppliers to support farmers and the affordability of the SFS need careful management;
- The Preferred Way Forward (Option 4) may be less affordable than other options for a given level of scheme participation because of the additional cost of the social value payment; and
- Options 3 and Option 4 (the BAU) are best designed to achieving SFS's objectives with the least transition cost for farmers and Welsh Government alike.

Table 14: Summary assessment of short-list options

Description of option:	Option 1: Business as Usual (BAU)	Option 2: 'Do minimum'	Option 3: Intermediate	Option 4: PWF
Spending objectives				
1. Broad participation by farmers				

Description of option:	Option 1: Business as Usual (BAU)	Option 2: 'Do minimum'	Option 3: Intermediate	Option 4: PWF
2. Adoption of more sustainable farming practices				
3. Maintained/enhanced farm resilience				
4. Reduced GHG emissions				
4. At least 10% of farm managed for biodiversity				
5. Enhanced management of historical sites				
Critical success factors				
Strategic fit				
Benefits optimisation				
Supply-side capacity and capability				
Potential affordability				
Potential achievability				
Summary				

The short list of options is now taken forward for value for money analysis.

Value for money of short-listed options

This section summarises the assessment of the value for money of the two retained short-listed Options. It is structured as follows:

- A description of the approach and evidence that has been used to inform the analysis;
- A summary of the key conclusions;
- An overview of the key modelling results and other analysis for:
  - The Universal Actions;
  - The OAs and CAs;
  - The integrated analysis of the two Options;
- A final section draws together the key conclusions about the preferred option based on considering two key questions:
  - Is the PWF (based on the SFS) preferable to the BAU based on (BPS & RIS) and does it provide adequate money?
  - If so, what is the preferred initial Social Value Payment rate considering the trade-offs and potential dynamic, long-term benefits that early take-up of the SFS might provide?

Further details of the approach, the underlying evidence and the results can be found in the various Annexes which are referenced.

Overview of approach

The approach used to assess the costs, benefits and risks associated with the different Options for the SFS seeks to align with the requirements of the Green Book[50]. It focuses on comparing the two short-listed Options identified in the first part of the Economic Case. This implies estimating the Net Present Social Value (NPSV)[51]

[50] HM Treasury, The Green Book: appraisal and evaluation in central government, 2022
[51] The value of all economic benefits, less all economic costs, in each year when discounted and added together is the Net Present Social/Public Value (NPSV).

and Benefit Cost Ratio (BCR) of each Option[52], and also identifying any significant costs or benefits with cannot be quantified. It also involves assessing the expected outcomes and impacts against the objectives for the SFS defined as part of the Strategic Case to provide an overall assessment of value for money.

The two Options brought forward from the short-listing process are:

- Business as Usual (BAU) based on continued provision of support to Welsh farms through the current BPS and existing RIS;
- The Preferred Way Forward (PWF) for the SFS which comprises:
  - The 15 Actions (UAs) envisaged as part of the Universal Layer; and
  - The 17 OAs and CAs (OAs and CAs) initially proposed for the SFS.

The analysis considers the UAs separately from the OAs and CAs: the latter are considered individually and then aggregated. The results for the UAs, OAs and CAs are then combined.

Scope of costs & benefits

The costs and benefits included in the value for money analysis, which are consistent with those recommended in the Green Book, are designed to enable an assessment of the economic welfare implications of each Option.

Identification and valuation of the relevant costs and benefits (alongside the relevant risks) is at the heart of this approach to economic appraisal.

The potential costs and benefits of the Options have been defined from a Welsh perspective (i.e. viewed in terms of their impact on Welsh society as a whole)[53]. They are underpinned by the development of a set of logic chains which map the Actions funded under the PWF (and the BAU Option) through to their expected costs and benefits. These logic chains have also been used to develop and support the approach to benefit realisation set out as part of the Management Case.

The comparison of the changes between the Options is based on "marginal analysis" within a largely static model. In the case of the PWF, where the long-term aspiration is to change the focus of the relationship between farming and the wider environment and society, significant non-marginal issues may arise which also need to be assessed. The implications of this are discussed further below in the concluding part of the section.

The potential costs and benefits of the Options have been divided into broad groups based on the expected beneficiary:

- Direct and indirect costs and benefits to the public sector in Wales, for example payments to farmers by the Welsh Government; and
- Wider costs and benefits to Welsh society, notably farmers but also other individuals, businesses and communities.

The costs and benefits can also be categorised according to whether:

- They release (save) cash immediately;
- They are monetisable (but not cash releasing) because they improve economic efficiency without necessarily reducing the public sector budget required;
- They are credibly quantifiable although not monetisable but still need to be considered when appraising the Options; and
- They can be described qualitatively but not quantified so are unlikely to be decisive considerations.

In this context, transfers of resources such as the grants paid under the different Options need to be excluded from the overall estimate of the NPSV; they are a cost to the donor (the Welsh Government) and a benefit to

[52] The NPSV and Benefit Cost Ratio (NPSV divided by relevant public sector implementation costs) produces an initial ranking of Options.
[53] Except for the benefits from SSSI management where the evidence is of benefits to households in England and Wales

recipient farmers, and do not make Welsh society better or worse off[54]. They may, however, have important distributional consequences, and as part of that support the resilience of businesses within the farming sector.

Wherever possible, the analysis values relevant social and economic costs and benefits in monetary terms, unless it is not proportionate or possible to do so. The costs of the different Options for the SFS are derived by estimating the costs of the activities which farmers are expected to undertake to fulfil their obligations under the two Options. Whilst some of the benefits of the Options are reflected in market outcomes for farm businesses many of the intended benefits are reflected in non-market wider social outcomes, for example avoided environmental costs and improved wellbeing. The approach used to value these benefits – which is described further below and in Annex C - follows Green Book guidance.

All social and economic costs and benefits are expressed at constant 2025 prices (except where otherwise stated). They have also been discounted, where necessary, so that they are expressed on a present value basis[55].

Finally, the focus of the analysis is the impact of potential Welsh Government spending in the Transition Period from January 2026 to December 2029. The social and economic costs and benefits included within the analysis seek to reflect those which are attributable to the activities funded by either of the Options. In some cases, these costs and benefits will continue to accrue after the Transition Period (i.e. after the start of 2030). For example, there may be lags between the activities of farmers and their impact on the environment and, in some cases, the Options may support the creation of assets which have sustained, long-term impacts which extend beyond the year in which the investment is made without requiring continued Welsh Government funding. In both cases, the appraisal period reflects the expected lifetime of the asset.

Analytical issues

The value for money analysis has given rise to some important issues and challenges:

- How to simulate the transition from the existing BPS and RIS to the PWF;
- How to assess the nature and extent of additionality, especially how far any impacts can be attributed to payments under the PWF compared to the BPS and RIS (in the BAU);
- How best to combine the results of the separate analyses of the costs and benefits of the UAs and the OAs/CAs given the need to avoid double counting; and
- How to ensure adequate consistency when combining results from a range of studies with different analytical approaches and assumptions, and given uncertainties.

The approach to resolving each issue is explained further below, and in Annexes C and D.

Evidence base

The evidence base that has been used to inform the value for money analysis uses various sources.

The analysis of the Universal Layer under the PWF (and the BPS as part of the BAU Option) draws on two key evidence sources: modelling using the Integrated Modelling Platform (IMP) as part of the Environment and Rural Affairs Monitoring & Modelling Programme (ERAMMP) and analysis undertaken by an ADAS led consortium.

The IMP is a chain of specialised, state-of-the-art models covering agriculture, forestry, land use allocation decisions, water, air, soils, biodiversity, ecosystem services and valuation. Changes in land use are driven by assumptions regarding factors such as on-farm economics and land suitability. They do not consider skills, or cultural and behaviour responses.

The modelling estimates impacts for 7,401 full-time farms in Wales which account for:

[54] As far as transfers have a distributional impact, their effects can be considered alongside the estimated NPSV by undertaking distributional analysis.

[55] The approach to discounting follows Green Book guidance. The main discount rate used is 3.5% (which is the Social Time Preference Rate (STPR),) but a discount rate of 1.5% is used for impacts on health and life because the 'wealth effect', or real per capita consumption growth element of the discount rate, is excluded.

- 30% of the c. 24,608 active farms in the June agricultural survey[56];
- 73% of all cattle (78% of beef and 69% of dairy) in Wales;
- 83% of all sheep in Wales; and
- 67% of rough grazing, 61% of crop land and 50% of improved grass, of which 76% of temporary grass and 46% of permanent grass.

The modelling enables a comparison of the PWF and BAU Options by simulating four different scenarios:

- The Universal Layer within the PWF with two different assumed Social Value Payment rates:
  - £115 per ha – PWFa;
  - £70 per ha – PWFb;
- The BAU Option; and
- The baseline.

The key features of each scenario are summarised in Table 1.

Table 15: Key features of scenarios

PWF		BAU	Baseline
£115 per ha	**£70 per ha**		
• BPS is removed in full post-Transition • Rural Investment/SFS Preparatory schemes are excluded (like baseline) • GAECs continue to apply (like baseline) • The Water Resources (Control of Agricultural Pollution) (Wales) Regulations 2021 are in force for all farms, including costs of compliance • OAs and CAs are not modelled		• BPS is paid, no taper • Rural Investment/ SFS Preparatory schemes are not included (no change from baseline) • GAECs continue apply (no change from baseline) • The Water Resources (Control of Agricultural Pollution) (Wales) Regulations 2021 are in force for all farms, including costs of compliance • No element of the SFS is available	• BPS is being paid[57], with no taper • Rural Investment/ SFS Preparatory schemes are not included • Standards of good agricultural and environmental condition (GAECs) apply • The Water Resources (Control of Agricultural Pollution) (Wales) Regulations 2021 are not in force (CoAP) • No element of the SFS is available

Farms are modelled to enter the PWF (Universal Layer) or the BAU (BPS) if the farm business is simulated to generate £1 more profit than if they were to operate without Welsh Government funding[58]. A farm may generate a higher profit due to scheme costs, payments and dynamic changes within the farm business to maximise economic gains as a response to the scenario.

The simulated impact of the PWF is estimated as the difference from the BAU (i.e. difference between the projected value for the PWF and that of the BAU). This allows the impact of the Universal Layer to be separated from other factors such as the regulatory environment. The simulated impact of the BAU can also be expressed as the change from the baseline.

Further details of the modelling approach, including core assumptions used to represent the Universal Layer can be found in Annex C.

The ADAS-led consortium's economic modelling is based on 8,781 full time farms and 6,774 part time farms. The population used for the analysis is farm businesses registered under the Integrated Administration and Control System and in receipt of Pillar I or Pillar II CAP support payments in 2019[59].

[56] The shortfall represents both part time/micro farms and uncertainties in the allocation of LPIS to full time farms. Data limitations prevented the identification of all full-time farms, and all land associated with full time farms in Wales.
[57] This excludes payments on common land and Young Farmer top-up.
[58] In practice, farmers may need to be more confident about the potential financial benefits of participating in, say, the PWF before committing to do so.
[59] A biophysical and financial profile was constructed for each farm business by combining various existing datasets through Geographical Information Systems (GIS) and relational databases. A full-time farm is defined as having a Standard Output of at least €25k.

The model includes the impact of the existing regulatory framework, including the Control of Agricultural Pollution Regulations in the baseline and uses Farm Business Survey financial data for 2022/23.

SFS payments are modelled as paid against the whole farm, taking account of improved land, areas of existing woodland and habitat (including commons) and areas of newly created habitat to meet the scheme 10% rule. Two Social Value Payment rates are modelled: £115 per hectare and £70 per hectare. These used to test the potential impacts of alternative assumed rates. The model estimates changes in various outcomes compared with the BAU (i.e. 100% BPS). These include:

- Livestock numbers and land use;
- Gross margin associated with change in livestock;
- Aggregate agricultural output;
- Standard Labour Requirement;
- Farm Business Income compared to current situation; and
- The total cost of SFS payments by the Welsh Government.

The model assumes 100% uptake (i.e. all farm businesses participate in the PWF)[60]. In general, only first-order, static impacts are considered rather than allowing for potential dynamic adjustments to management practices and resource allocations.

All results should be viewed as sufficient to indicate the relative magnitudes of potential impacts arising from the Actions in the proposed PWF Universal Layer, but there are important uncertainties in the modelling which are important to note.

The key similarities and differences between the two modelling approaches and their implications for the interpretation of their results are summarised in Table 17. Further details of their implications for interpreting the results are explained in Annex C.

Table 16: Summary of key features of IMP and ADAS modelling

	IMP	**ADAS**	**Implications**
Scope	• 7,401 full-time farms in Wales (excludes commons)	• 8,781 full time farms • 6,774 part time farms	• The ADAS model allows the impact on part-time farms to be estimated
Options covered	• BAU (BPS) • PWF with two Social Value Payment rates: a high and a low one	• Based on comparison of PWF with current situation	• The IMP model compares the outcomes of the PWF with the two Social Value Payment rates with those of the BAU
Take-up of Options	• Uptake is simulated based on economic optimisation: farms are assumed to enter an Option if the simulated Farm Business Income at the given payment level is greater than with no funding[61]	• Assumes 100% uptake of SFS	• Whereas the IMP model allows the relationship between Social Value Payment rates and scheme uptake to be understood, the ADAS analysis presents worst case scenario.
Payments	• Payments are modelled as paid against the whole farm, taking account of improved land, areas of woodland and habitat (excluding commons):	• Payments are modelled as paid against the whole farm, taking account of improved land, areas of woodland and habitat, including commons	• The estimated Welsh Government payments and Farm Business Income in both models are based on different farmed land areas

[60] This, therefore, represents an upper bound which is reflected in the interpretation of the results.

[61] The IMP is based on optimisation which takes account of possible cost savings to the farm business from the changes implied by the Options (e.g. no longer needing to fertilise rough grass margins). Farm businesses in IMP do not just incur the costs of complying with the obligations implied by an Option, they may also benefit from reduced costs due to the Actions required or other changes made to optimise the farm business in response to the Option.

	IMP	ADAS	Implications
Outcomes modelled	Changes assessed against a baseline: • Farm Business Income compared to current situation • Livestock numbers and land use • Nutrient levels; • Environmental outcomes: air quality, water quality, biodiversity (plant species and bird species) and GHG emissions Value of changes in air quality, water quality and GHG emissions Estimated Welsh Government payments	• Change in livestock numbers and land use • Change in gross margins associated with change in livestock • Change in aggregate agricultural output • Change in Standard Labour Requirement • Change in Farm Business Income • Estimated Welsh Government payments	• The IMP includes changes in environmental outcomes under the different Options whereas the ADAS analysis focuses on economic indicators.

The analysis of the potential value for money of the 17 OAs and CAs follows a broadly similar approach to that used to analyse the impacts of the UAs although the evidence base is, perhaps, less strong with current evidence gaps and uncertainties for so and OAs/CAs.

For seven of the OAs, evidence of the monetary value of the expected benefits delivered by the Action have been compared with the costs (i.e. the expected payments by the Welsh Government[62]). This enables both the NPSV and the BCR to be estimated. The benefits that are neither monetised nor quantified in this analysis, together with their likely significance, are summarised based on the available evidence.

For the remaining seven OAs and three CAs, sufficient evidence to estimate the monetary value of the expected benefits delivered by the Action has not been identified. Instead, a qualitative assessment of the available evidence is used to appraise the likely impact of these Actions. This is then used as the basis for indicating their likely value for money, along with an assessment of the level of confidence in the results.

The analysis draws on two general sources:

- Analysis undertaken by ERAMMP which has been used to support development of logic chains for each OA and CA[63];
- A report commissioned by the Welsh Government from Miller Research Ltd with the objectives of examining[64]:
    - The rationale, scope and targeting of interventions in the agricultural sector similar in theme and focus to the OAs and CAs envisaged under the PWF;
    - The potential effectiveness of such interventions, and key design considerations which influence the extent, distribution and durability of potential outcomes; and
    - Any lessons learned from previous interventions, highlighting any key evidence gaps or weaknesses and assessing the transferability – or otherwise - of the evidence to the specific SFS context within Wales.

These sources have been supplemented by more specific evidence for each OA and CA based on literature reviews focusing on evaluations and appraisals of similar schemes. Details of the evidence used can be found in Annex D.

[62] No significant other costs were identified.
[63] See, for example, Report 40 prepared by ERAMMP which develops logic chains to underpin economic valuation of the SFS.
[64] Miller Research (2025) Evidence review of proposed SFS Optional & Collaborative Themes, report to Welsh Government

Summary of key findings

The purpose of the value for money analysis is to refine the list of options to deliver the intended objectives for the SFS following shortlisting, and then appropriately assess the relevant costs, benefits and risks. In the following sections the two short-listed Options for the SFS are assessed with their performance considered against SFS (and SLM) objectives.

The two retained Options are:

- Business as Usual (BAU) based on continued provision of support to Welsh farms through the current BPS and existing RIS; and
- The Preferred Way Forward (PWF) for the SFS which comprises the 12 UAs envisaged as part of the Universal Layer (November 2024) and the 17 OAs and CAs initially proposed for the SFS.

For each Option, the assessment considers:

- Net Present Social Value (NPSV) - the value of all social and economic benefits, less all economic costs;
- Benefit-cost ratio (BCR) - a BCR over 1 means that the expected benefits are greater than costs;
- Performance against SFS objectives and risks;
- Distributional implications; and
- Affordability[65].

The focus of the analysis is on two key questions:

- Is the PWF (based on the SFS) preferable to the BAU based on (BPS & RIS) and does it provide adequate money?
- If so, what is the preferred initial Social Value Payment rate considering the trade-offs and potential dynamic, long-term benefits that early take-up of the SFS might provide?

Strategic context

It is important to recognise the significance of the strategic context for the SFS. It is a key programme which seeks to change the relationship between the Welsh Government, farming and the wider environment and society. This implies that the impacts of Welsh Government support could be either quite different from those of the past or have no obvious precedent in Wales. This, in turn, creates some analytical challenges, for example:

- How to simulate the transition from the existing BPS and RIS to the SFS;
- How to assess the nature and extent of additionality, especially how far any impacts can be attributed to payments under the SFS compared to the BPS and RIS (in the BAU);
- How to combine the results of separate analyses of the costs and benefits of the Universal Actions and the OAs/CAs (e.g. to avoid double counting); and
- How to ensure adequate consistency when combining results from a range of studies with different analytical approaches and assumptions, and given uncertainties.

It also means it will be essential to track the impacts of the SFS – both expected and unexpected – and adapt it as necessary based on the lessons learned.

Quality of evidence and implications

The key evidence sources:

- Modelling and analysis by an ADAS-led consortium;
- Modelling and analysis by ERAMMP - IMP;
- Optional and Collaborative Actions Evidence Review by Miller Research;
- Work by Eftec (as part of the ERAMMP consortium) to estimate the value of the natural capital benefits; and

[65] This is examined in more detail as part of the Financial Case but is considered here because it constraints the Social Value Payment rate that can be afforded.

- Officials' analysis building on the above and various ERAMMP reports, Welsh Government and other Official Statistics, and other evidence

Whilst the evidence base provides an invaluable foundation for the value for money analysis, some important limitations need to be acknowledged:

- The modelling has been limited to two different Social Value Payment rates, and to the Universal Layer only;
- It provides a partial and somewhat static assessment of the impact of the SFS;
- It is based primarily on the Scheme Outline published in November 2024;
- It does not fully reflect how decisions at a farm level around participation will be based on multiple factors besides impact on Farm Business Income, such as current farm practices, commercial relationships and attitude to innovation and change;
- The modelling does not account for the intended but indirect benefits from the completion of the Universal Actions;
- Some of the evidence of the benefits of OAs is either dated, based on limited sources or from other countries – which means it needs to be interpreted with caution in the context of the SFS; and
- Important gaps exist in the evidence.

All this means that significant uncertainties exist – and careful judgement is needed to interpret the results at the programme level.

Key drivers of the economic return
The overall BCR for different Options over the Transition Period and beyond depends on:

- How many and how quickly farms choose to join the schemes under each Option;
- How much of the Welsh Government's available budget is needed to administer each Option;
- What proportion of the available annual budget is absorbed by the Universal Layer and what proportion can be invested in the Optional & Collaborative Layers;
- What proportion of funding for the OAs and CAs is awarded on a discretionary basis, for example depending on the expected outcomes (and return);
- What are the expected relative monetised returns achieved from payments through the Universal, Optional and Collaborative Layers which depends, in part, on the extent to which the UAs, OAs and CAs lead to the desired outcomes; and
- How significant the gaps or weaknesses are in the evidence base.

Is the PWF (based on the SFS) preferable to the BAU based on (BPS & RIS) and does it offer an adequate return?
The assessment suggests that PWF is expected to be preferable to the BAU on value for money grounds over the Transition Period (2026 – 2029):

- The overall estimated BCR of the PWF Universal, Optional and Collaborative Layers taken together is 1.82 (with a Social Value Payment rate of £115) and 2.22 with a rate of £70 compared to 0.48 for the BAU;
- The Universal Layer is expected to generate higher returns than the BAU: the BCRs for the high Social Value Payment rate and the low Social Value Payment rate are 1.26 and 1.6 compared with 0.56 for the BAU; and
- The expected BCR of the Optional & Collaborative Layer is expected to be 5.02 compared to 0.74 for the BAU: the limitations of these estimates should be noted in interpreting the aggregated BCR figures.

Whilst not all potential costs and benefits of the SFS can be identified and monetised at this stage, the significance of the omitted benefits is expected to be greater meaning that the BCR of the PWF could be potentially underestimated.

In the medium to longer term, the BCR of the PWF is expected to increase with rising take up of OAs and CAs and as farmers become more efficient in meeting the Scheme Requirements and achieving the intended outcomes and benefits.

There are some significant uncertainties around potential effects which are important to recognise in interpreting the current estimates.

The PWF aligns more strongly with the SFS (and SLM) objectives.

What is the preferred initial Social Value Payment rate with the PWF?
The modelled BCRs with a Social Value Payment rate of £70 are greater than those with a rate of £115 but these results do not paint the full picture, with suggested distributional differences.

A high Social Value Payment rate positively affects the expected BCR of the PWF in several different ways which are not reflected in the modelled BCRs:

- It boosts Farm Business Income which is expected to incentivise the speed of take-up of the PWF – more farms are expected to join the PWF earlier if the rate is higher;
- Early adoption of the PWF is anticipated to bring multiple benefits over the Transition Period:
    - It encourages farmers to do more to realise the intended (but indirect) benefits of the Universal Actions sooner;
    - It provides more farmers with opportunities to realise commercial benefits that enhance economic resilience and sustainability of early adopters;
    - It brings forward the opportunities in the Optional and Collaborative Layers of the SFS, where additionality and value for money are expected to be better (than for the Universal Layer);
    - It means that environmental benefits start to be realised earlier; and
    - It is critical to the long-term success of the SFS because it obliges more farmers to adopt more sustainable farming practice.

A high Social Value Payment rate may also offer further dynamic benefits in the medium to longer term:

- More farms are potentially being willing to adopt and embed better, more efficient farming practices because of the Actions they take in the Transition Period; and
- More farms participate in the Optional and Collaborative Layers (which offer the highest return on investment) and, therefore, this builds a stronger pipeline of projects with a higher BCR.

Furthermore, evidence from Defra[66] suggests that:

"… payments to farmers may influence not just the presence of a feature or habitat or whether it is managed, but also the type, quality and timing of its management, and the attitudes and behaviour of the farmer and that rewards existing provision of public goods and may help to foster positive attitudes to the environment over time, which may enhance the long-term additionality of the scheme"

This effect would reduce the costs of the PWF and increase the expected BCR.

Finally, a higher Social Value Payment rate increases the cost of the PWF to the Welsh Government which risks breaching its affordability constraint.

Key conclusions
The PWF (SFS) is identified as the preferred option.

The analysis shows that:

- The expected take up of the PWF ramps up more quickly with the higher Social Value Payment rate which drives an increasing (but still uncertain) BCR in the medium to longer term if wider, dynamic benefits can be secured from accelerating take-up of the Universal Layer; and
- The highest Social Value Payment rate which is affordable across the Transition Period is £107 per hectare.

At the same time, given the strategic objectives of the SFS, the Welsh Government intends to manage it actively by undertaking:

- Regular/annual reviews to assess its impact on the attitudes and behaviour of farmers so that it can track the value for money being achieved; and

[66] Defra, 2012, Dynamic Deadweight in Environmental Stewardship: Towards a better understanding of the added benefits of the scheme, a report submitted by GHK in association with Land Use Consultants

- Further research to improve understanding of value for money

This will enable the Welsh Government to adjust the design of the SFS, including the payment methodology.

Key results for each Option

This part of the section draws together the key results of the analysis, notably the monetised and non-monetised estimates of the costs and benefits of both short-listed Options. It is structured in four parts:

- A comparison of the economic benefits and costs of the Universal Layer in the PWF with the BPS in the BAU;
- A comparison of the benefits and costs of the PWF OAs and CAs with the RIS in the BAU;
- A summary of the costs to the Welsh Government of administering the different Options; and
- An integrated analysis which aims to combine the results for the different elements of the PWF (i.e. the Universal, Optional and Collaborative Layers) and then compares them with the expected impacts of the BAU (i.e. the BPS and RIS): this is subject to relevant uncertainties.

Economic benefits and costs of PWF (Universal Layer) & BAU (BPS)

Economic benefits of PWF (Universal Layer) & BAU (BPS)

The economic benefits of the Universal Layer of the PWF (Universal Layer) and BAU (BPS) are estimated for full-time and part-time farmers participating in the PWF and BAU. They build on the IMP modelling and ADAS research.

Two broad groups of benefits are estimated:

- The change in gross value added (GVA) by Welsh farms which is driven by the change in Farm Business Income after adjusting for transfer payments; and
- The impact on the environment, in particular:
    - Reduced GHG emissions and increased carbon sequestration;
    - Improved air quality;
    - Improved water quality; and
    - Improved biodiversity[67].

As the IMP estimates are on a different basis to those of ADAS, they are presented separately.

IMP estimates

Table 18 shows the simulated impact of the PWF (Universal Layer) and BAU (BPS) on full-time farms only measured in terms of:

- The proportion of farms where the PWF offers an economic benefit compared to the baseline (i.e. with no Welsh Government funding) expected to participate in each scheme;
- Livestock;
- Land use;
- Temporary habitat;
- Hedgerow management; and
- The expected change in fertiliser use.

These changes drive the downstream environmental and economic modelled impacts.

All the results reflect the period following Transition. Their potential profile during the Transition Period from 2026 to 2029 and beyond is considered later in the section.

[67] The impact on recreation has not been included as the Actions within the Universal Layer are not expected to have an incremental impact compared to the BAU Option.

Uptake by number of farms and area
99% and 97% of model full-time farms are simulated to join the Universal Layer (as opposed to receiving no Welsh Government funding) with the high and low Social Value Payment rates, respectively. In both cases the vast majority of farms are simulated to join the PWF.

99.7% of the modelled land area is simulated to enter the Universal Layer with the high Social Value Payment rate compared to 99.1% with the low Social Value Payment rate.

Livestock changes
Under BAU, Grazing Livestock Units (GLUs) are estimated to decline by 2.8% overall after the Transition Period compared to the baseline largely due to a 9.0% fall in Dairy GLUs (due to the limits and requirements related to the CoAP regulations).

Under the PWF, the number of GLUs is estimated to fall by an additional 4.8% (high Social Value Payment rate) and 4.7% (low Social Value Payment rate). The largest reductions are seen in sheep (6% reduction with both Social value Payment rates) followed by dairy GLUs (4% reduction with both Social Value Payment rates) and beef (3% reduction). This reflects the larger areas of habitat on sheep farms which are subject to the Universal Action linked to Habitat Maintenance. The creation of temporary habitat on rotational grassland and arable influences stocking across all GLU categories. Differences in stock changes under the PWF with the two Social Value Payment rates are marginal (0.07% overall), reflecting similar levels of uptake.

Land use
Under BAU, there are very estimated to be small changes in total crop area (0.19% reduction) and the area of rotational grass (0.11% increase). No other changes in productive area are suggested.

In comparison, land use changes under the PWF with the two Social Value Payment rates are larger due to the requirements of the 10% Habitat Scheme Rule and Temporary Habitat Creation, but remain small as a proportion of the total modelled productive area[68].

Hedgerow management
There is an estimated overall increase of hedgerow area in the PWF of 192% with the high Social Value Payment rate and 190% with the low Social Value Payment rate. This is due to most hedgerows being assumed to be unmanaged in the baseline and, therefore, modelled as increasing in width to 3m by 2m from 1m by 1m[69]. A total of 373,891 samplings are cultivated with the high Social Value Payment rate compared with 370,728 with the low Social Value Payment rate. The difference between the two is minor, reflecting high uptake under both.

Nutrient inputs
Changes in nutrient inputs are driven by changes in stocking and land use. Under BAU, there is an overall 5.8% estimated reduction in nutrient inputs driven by a 14.5% reduction in N fertiliser and a 9% reduction in dairy excreta (which is linked to the reduction in dairy GLUs). Beef and sheep excreta are unaffected.

In comparison to BAU, the PWF with the two Social Value Payment rates suggests additional falls in nutrient inputs of 4.4% (with high rate) and 4.3% (with low rate). Reductions occur across all input categories. In line with the stocking reductions, the largest changes in inputs are seen in sheep excreta (6.2% reduction with both rates).

[68] Rotational grass reduces an additional 5% of land and crops an additional 0.7%.
[69] Hedgerows entering the Universal Layer undergo two key changes depending on the baseline condition: Increase in width to 3m by 2m from 1m by 1m if not managed in baseline, or from 2 by 2m if assumed to already be managed; and The cultivation of saplings in hedgerows every 50metres. Saplings are planted where the hedgerow is assumed unmanaged (and therefore in worse condition) in the baseline but assumed to be already present to cultivate within the hedgerow if managed at baseline.

Table 17: Estimated scheme participation and changes in land use and stocking and farm practice (IMP – full-time farms only)

Metric	PWF (Universal Layer): Social Value Payment rate - £115 per ha	PWF (Universal Layer): Social Value Payment rate - £70 per ha	BAU (BPS)
% of farms simulated/assumed to join scheme	99	97	100
Livestock (GLU)	894,806	895,402	939,993
Land use (ha)			
• Crop land	61,015	61,023	61,428
• Rotational grassland	108,528	108,762	114,582
• Permanent improved grassland	518,798	518,798	518,798
• Rough grazing	157,629	157,629	157,629
Temporary habitat created (ha)	16,019	15,673	-
Hedgerow management			
• Saplings cultivated (count)	373,891	370,728	-
• Area (m^2)	67,793,000	67,405,800	23,215,920
• Volume (m^3)	135,506,280	134,540,190	24,345,540
N input (kg N)	116,728,388	116,815,590	122,036,910

Farm economics

Table 19 summarises the simulated impact of the PWF and BAU Options on measures of farm economics following Transition based on assumptions used. It shows:

- The proportion of farms expected to participate under each Option;
- The expected payments received by participating farmers from the Welsh Government; and
- The expected change in Farm Business Income (a measure of profits) compared to the baseline[70].

Welsh Government payments to farmers

Under BAU, payments to full-time farmers for BPS are simulated to be £143.5m following Transition under the IMP[71].

Total simulated Welsh Government payments with the high Social Value Payment rate are 18% higher than in the BAU (£169m). They are 13% lower with the low Social Value Payment rate (£125m).

The difference in total payment between the PWF with the two Social Value Payment rates primarily reflects the additional 140 farms and 5,556ha simulated to join the Universal Layer with the high Social Value Payment rate applying to all participating farms.

Aggregate Farm Business Income

Under BAU, aggregate Farm Business Income is estimated to be around 13.6% less than in the baseline, mainly due to reduced Dairy GLUs in relation to the CoAP regulations, the costs of Nitrogen export these farms face because of Nitrogen application limits, and the application limits themselves. Farms which stock beef and sheep are not affected by these limits but do incur some of the additional costs of the regulations such as closed periods for spreading and record keeping.

Compared to BAU, aggregate simulated Farm Business Income increases a further 2.5% with a Social Value Payment rate of £115 per hectare. This reflects the higher total simulated Welsh Government payments (an extra £25m). In contrast, aggregate Farm Business Income is estimated to decrease by 12.1% with a Social

[70] The baseline assumes that the BPS is paid without any taper.

[71] The IMP models full time farms only and does not include payments or action on common land or the Young Farmer top-up. Simulated spend is, therefore, smaller than it would be if the full farm population, and associated land, was included and should not be taken as the full cost of the Universal Layer to the Welsh Government.

Value Payment rate of £70 per hectare. This reflects lower Welsh Government payments compared to BAU (£19m lower).

The low Social Value Payment rate (PWFb) leads to simulated aggregate Farm Business Income being lower by 14% (£44m) compared to the high Social Value Payment rate. Such estimates are subject to elements of uncertainty.

The profile of the change in Farm Business Income over the Transition Period from 2026 to 2029 and beyond is considered later in this section.

Table 18: Estimated changes in farm economics post Transition (Full-time farms, IMP)

Metric	PWF (Universal Layer): Social Value Payment rate - £115 per ha	PWF (Universal Layer): Social Value Payment rate - £70 per ha	BAU (BPS)
% of farms simulated to join scheme	99	97	100
Payments to farmers by Welsh Government (£m)	168.9	124.6	143.5
Farm Business Income (£m)[72]	306.4	262.9	298.9

Carbon & GHGs

A key aim of the SFS is to support GHG emissions reductions attributable to farming in Wales. The impact of the different Options has two main components which are considered separately:

- Changes in carbon stocks linked to non-organic soils, agricultural biomass and new woodland vegetation; and
- Changes in annual GHG emissions from:
    - Peat/wetland soils; and
    - Agricultural land management (livestock and fertiliser).

Table 20 summarises the IMP model results for the PWF (Universal Layer) and BAU (BPS) post Transition.

Agricultural GHG reductions, as opposed to increases in carbon stocks, deliver most of the expected carbon benefits in both BAU (BPS) and PWF. These reductions are driven by changes in livestock and N inputs.

For carbon stocks in soils and biomass, the expected change in the eight-year period from 2023 (the baseline year for the analysis) to 2030 is estimated to be around zero under BAU due to minimal land use change[73]. Under the PWF with both Social Value Payment rates, over the same period, carbon stocks are estimated to increase by 0.02% from the baseline associated with the Hedgerow Management Universal Action.

In the eight years to 2030, BAU sees a cumulative reduction of 5.53% from the baseline in agricultural GHGs due to reductions in livestock (dairy GLUs) and N fertiliser. Compared to BAU, the PWF sees a further reduction of 4.2% (with a Social Value Payment rate of £70 per hectare) to 4.3% (with a Social Value Payment rate of £115 per hectare) due to further reductions in livestock (beef, sheep dairy) and N inputs.

[72] This is expressed in 2023 prices and converted to 2025 prices later in the analysis

[73] The IMP analysis estimates the expected environmental impacts over different periods using 2023 as the base year.

Table 19: Estimated changes in GHGs stocks and emissions (Full-time farms, cumulative KtCO2eq, 2023-2030, IMP)

Impact	Cumulative change (2023- 2030)			Difference (2023-2030)	
	PWF (Universal Layer): Social Value Payment rate - £115 per ha	PWF (Universal Layer): Social Value Payment rate - £70 per ha	BAU (BPS)	PWF (Universal Layer): Social Value Payment rate - £115 per ha	PWF (Universal Layer): Social Value Payment rate - £70 per ha
Change in carbon stocks from land use change and forestry & harvested wood products (increases in emissions of carbon)	-92.34	-91.53	0.78	-93.11	-92.31
Additional emissions from wetlands	-0.81	-0.81	-0.81	0.01	0.01
Additional agricultural GHG flux (increases in emissions of carbon)	-3,112.0	-3,086.0	-1,796.1	-1,315	-1,290

Air quality

The SFS is also expected to improve air quality by reducing emissions of ammonia by the farming sector driven by changes in land management, including stocking and Nitrogen inputs. This, in turn, is expected to reduce concentrations of particulate matter ($PM_{2.5}$). Reduced exposure to $PM_{2.5}$ is then reflected in improved health outcomes which are measured in terms of (avoided) life years lost.

Table 21 summarises the IMP model results for the PWF (Universal Layer) and BAU (BPS) post Transition. Under BAU, ammonia emissions are estimated to fall by 6.8% compared to the baseline, driven by livestock reduction (primarily dairy) and N fertiliser inputs. Compared to BAU, the PWF is estimated to see an additional 3.7% (with the high Social Value Payment rate) and 3.6% (with the lower Social Value Payment rate) reduction in ammonia emissions reflecting additional reductions in livestock and N fertiliser.

Across both BAU and PWF Options, reduced $PM_{2.5}$ concentrations follow from reduced ammonia emissions. Under the PWF, there is an additional benefit from the expansion of hedgerow height and width under the Hedgerow Management Universal Action and the increase in hedgerows trees. The primary impact, however, is attributable to the reduction in livestock units and inputs.

Benefits from improvements in air quality are calculated in terms of avoided life years lost across the population. Under the BAU, the loss of 5.3 more life years is avoided due to $PM_{2.5}$. Compared to the BAU, the PWF shows additional reductions of approximately one third with negligible difference between the two Social Value Payment rates. The likely profile of this benefit over the Transition Period from 2026 to 2029 and beyond is considered later in the section.

Table 20: Estimated changes in air quality after Transition (Full-time farms, IMP)

PWF (Universal Layer)		BAU (BPS)
Social Value Payment rate - £115 per ha	**Social Value Payment rate - £70 per ha**	
• Additional 3.7% reduction in ammonia emissions • Additional reduction of 3.78 Life Years Lost	• Additional 3.6% reduction in ammonia emissions • Additional reduction of 3.72 Life Years Lost	• 6.8% reduction in ammonia emissions • Reduction of 5.3 years Life Years Lost in relation to PM2.5 exposure across the full population of Wales.

Water quality

Pollutant loads for N, P and sediment are influenced by changes in livestock, fertiliser and land use. The SFS is, therefore, also expected to support improved water quality by reducing pollutant loads of nitrogen (N), phosphorous (P) and sediment and so potentially improve water quality in Water Framework Directive (WFD)

catchments. Table 22 summarises the IMP model results for the PWF and BAU (BPS) Options after the Transition Period.

Compared to the baseline, BAU shows estimated reductions of 7% in both nitrate and phosphorous load. These changes reflect reductions in livestock units (primarily dairy), fertiliser inputs (N fertiliser and P fertiliser) and the impacts of CoAP. The reduction in sediment load is marginal reflecting minimal land use change.

Compared to BAU, the PWF is estimated to see further reductions in nitrate load (3.0%) and phosphorous load (1.7%) compared to BAU. These changes are driven by the additional reductions in livestock, N fertiliser and P fertiliser. Like BAU, there is no change in sediment load due to limited land use change.

Water quality pollutants (N, P, sediment) are aggregated to WFD sub-catchment scale to estimate total loading at that level. These are accumulated downstream, accounting for downstream links between the sub-catchments and non-agricultural pollutants and then converted to concentration which is then used to assign N drinking water status and WFD P status for each catchment[74].

Under BAU, no change is simulated in the number of catchments failing drinking water nitrate status. Under PWF, one catchment is projected to improve with both Social Value Payment rates.

Under BAU, there is a 10% reduction in the number of catchments with moderate WFD P status in the baseline, and an increase in catchments with good (2%) and high (3%) status. No catchments are simulated to decline in status. Improvements are linked to reduced dairy livestock units and N fertiliser inputs.

Compared to BAU, the PWF with both Social Value Payment rates sees fewer catchments reaching Good status (1% less than under BAU) but more moving to High status (an additional 1%). No catchments are simulated to decline. Improvements reflect the additional reductions in P load due to additional reductions in livestock and P fertiliser.

Their likely profile over the Transition Period from 2026 to 2029 and beyond is considered later in the section.

Table 21: Estimated changes in water quality after Transition (Full-time farms, IMP)

PWF (Universal Layer)		BAU (BPS)
Social Value Payment rate - £115 per ha	**Social Value Payment rate - £70 per ha**	
• Additional 3% reduction in Nitrate load and 1.7% additional reduction in Phosphorous load • No change in sediment load • One catchment simulated to improve (fail to pass) in drinking water Nitrate status • 10% reduction in catchments with moderate WFD P status, 1% increase in those with Good status, 4% increase in those with High status. No catchments decline in status	• Additional 3% reduction in Nitrate load and 1.7% additional reduction in Phosphorous load • No change in sediment load • One catchment simulated to improve (fail to pass) in drinking water Nitrate status • 10% reduction in catchments with moderate WFD P status, 1% increase in those with Good status, 4% increase in those with High status. No catchments decline in status	• 7% reduction in nitrate and phosphorous load • No change in sediment load • No change in number of catchments failing drinking water Nitrate status • 10% reduction in catchments with moderate WFD P status, 2% increase in those with Good status, 3% increase in those with High status. No catchments decline in status

Valuation of environmental impacts

The simulated environmental impacts have been monetised by IMP using approaches aligned to the Green Book guidance. The basis for the assessment is summarised in Table 23; further details are provided in Annex C

[74] Modelled change in status can occur with marginal water quality improvements if the baseline concentration was close to the status threshold.

Table 22: Physical measure for each benefit valued

Benefits	Units	Type of value
Air quality	Life years lost (LYL) each year	Reduction in costs of health impacts from air pollution (Jones et al. Modelling for ONS[75])
Water quality	Expected changes in WFD status due to changes in P and N	Benefit to society from higher quality freshwater environments (Updated values from National Water Environment Benefit Survey[76])
GHGs	Net change in atmospheric TCO2eq over 8 years	Benefit of reducing atmospheric GHG concentrations from non-traded sources (DESNZ, 2023)[77]

Table 24 summarises the estimated value of the environmental benefits post-Transition[78]. They estimate the cumulative net present value over an eight-year period for each Option.

Except for temporary habitat creation measures, all benefits are assumed to remain in place for the modelled period for the purposes of projecting the long-term impacts.

Modelled physical values for water quality are for a new long term annual average. The shorter the period over which benefits are valued, the less reasonable it is to assume that improvements in-stream water quality have occurred due to lags in the system (nutrient retention in soils and influence of groundwater in some catchments). This should be noted when considering the benefits over short as opposed to longer periods.

Under BAU, the simulated environmental benefits are estimated to total £483m. The PWF adds a further £376m of benefits over eight years (i.e. a total of £858m) with the high Social Value Payment rate and the low Social Value Payment rate yields additional benefits of £369m (a total of £851m) over the same period.

Most of the benefit is derived from reduced GHG emissions (£477m or 98.8%) with avoided GHG emissions from agriculture because of changes in livestock and inputs being the main contributor. Land use changes have a negligible impact as does hedgerow maintenance under the PWF.

Water quality benefits under the BAU are valued at £4.8m and are marginally higher under the PWF (£5.21m with both Social Value Payment rates) due to larger reductions in stocking and inputs.

Air quality benefits are estimated to make the smallest contribution. Under BAU, they are estimated to be £0.8m. Under PWF, they are valued at £1.9m with both Social Value Payment rates with the higher benefit being driven by increases in hedgerow area and the numbers of hedgerow trees, alongside additional stock reductions.

Table 23: Estimated environmental benefits (Full-time farms, £m, NPV, 2023-2030, 2023 prices, IMP)

Impact	PWF (Universal Layer): Social Value Payment rate - £115 per ha		PWF (Universal Layer): Social Value Payment rate - £70 per ha		BAU (BPS)	
	Physical change	NPV of benefits (£m, 8 years)	Physical change	NPV of benefits (£m, 8 years)	Physical change	NPV of benefits (£m, 8 years)
Impact on carbon stock and GHG emissions	Decrease of 3.205m tCO2e	851	Decrease of 3.178m tCO2e	844	Decrease of 1.796m tCO2e	477

[75] Jones, L., Vieno, M., Morton, D., Cryle, P., Holland, M., Carnell, E., Nemitz, E., Hall, J., Beck, R., Reis, S., Pritchard, N., Hayes, F., Mills, G., Koshy, A., Dickie, I. (2017). Developing Estimates for the Valuation of Air Pollution Removal in Ecosystem Accounts. Final report for the Office of National Statistics, July 2017.

[76] Paul J. Metcalfe, William Baker, Kevin Andrews, Giles Atkinson, Ian J. Bateman, Sarah Butler, Richard T. Carson, Jo East, Yves Gueron, Rob Sheldon, Kenneth Train (2012) An assessment of the nonmarket benefits of the Water Framework Directive for households in England and Wales

[77] DESNZ (2023) *Green Book* supplementary *guidance: valuation of energy use and greenhouse gas emissions for appraisal*, *GOV.UK*.

[78] These benefits are estimated at 2023 prices; they are converted later in the analysis to 2025 prices.

Impact	PWF (Universal Layer): Social Value Payment rate - £115 per ha		PWF (Universal Layer): Social Value Payment rate - £70 per ha		BAU (BPS)	
	Physical change	NPV of benefits (£m, 8 years)	Physical change	NPV of benefits (£m, 8 years)	Physical change	NPV of benefits (£m, 8 years)
Impact on water quality	25 Improve 0 Deteriorate	5.21	25 Improve 0 Deteriorate	5.21	21 Improve 0 Deteriorate	4.8
Impact on air quality	9.08 Life years lost	1.94	9.02 Life years lost	1.93	5.3 Life years lost	0.84
Total		**858.2**	**-**	**851.1**		**482.6**

ADAS-led consortium farm level estimates

Farm practice

Table 25 summarises the key results from the ADAS-led consortium modelling which estimates the change with the PWF compared to the current situation. As the analysis assumes 100% scheme uptake, the results for livestock reduction and land use are the same for both Social Value Payment rates. The model generates the results for all farms and just for full-time farms.

Table 24: Estimated scheme impact on farm practice under PWF ('000, ADAS)

	Full-time farms	Part-time farms	All farms
Reduction in livestock (GLUs)	63.4	2.2	65.6
Semi natural habitat maintained (ha)	231.9	32.7	264.6
Semi natural habitat created (ha)	22.7	4.9	27.6
Woodland maintained (ha)	51.0	14.9	65.9
Commons maintained (ha)	74.3	7.3	81.6
Total SFS area (ha)	**1,257.2**	**231.7**	**1,488.9**

Farm economics

Table 26 summarises the simulated impact of the PWF and BAU Options on farm economics following Transition, under the initial assumptions (impacts under sensitivity analysis are shown later and are important in interpreting the potential effects). It shows the payments to farmers from the Welsh Government and the expected change in Farm Business Income compared to the current situation (i.e. BAU). These payments reflect a transfer of resources from Welsh Government to recipient farmers.

Table 25: Estimated impacts on farm economics post Transition (ADAS)

Metric	PWF (Universal Layer): Social Value Payment rate - £115 per ha	PWF (Universal Layer): Social Value Payment rate - £70 per ha	BAU (BPS)
Payments to farmers by Welsh Government (£m)	£243.7m (all farms) £206.1m (full time farms)	£176.7m (all farms) £149.6m (full time farms)	£241.8m (all farms) £197.3m (full time farms)
Change in Farm Business Income (£m) [79]	• £79.3m (all farms) • £60.4m (full time farms)	• £146.3m (all farms) • £117.0m (full time farms)	

It is important to understand how different Social Value Payment rates affect Farm Business Income compared with if farmers were to remain in the BPS (see Table 27):

[79] This is expressed in 2023 prices and converted to 2025 prices later in the analysis

- Overall, with the assumed high Social Value Payment rate and assuming 100% uptake, the reduction in Farm Business Income across the farming sector is estimated to be £67m less than it would be with a low Social Value Payment rate[80];
- 98.3% of farms are estimated to see some reduction in their Farm Business Income with a Social Value Payment rate of £70 per hectare compared with 89.8% if the Social Value Payment rate is set at £115 per hectare; and
- For those farms which are estimated to see a lower Farm Business Income, the mean reduction is £9.8k per annum with the low Social Value Payment rate compared with £6.8k per annum with a high Social Value Payment rate: the median reductions are £3.9k per annum and £7.1k respectively.

Table 26: Estimated Impact of different assumed Social Value Payment rates on Farm Business Income in PWF

	Full time farms		All farms	
	Social Value Payment £70/ha	**Social Value Payment £115/ha**	**Social Value Payment £70/ha**	**Social Value Payment £115/ha**
% seeing reducing Farm Business Income	98.0%	85.1%	98.3%	89.8%
For whom the median reduction is (£'000)	-9.0	-5.1	-7.1	-3.9
For whom the mean reduction is (£'000)	-14.0	-10.1	-9.8	-6.8
% seeing gain in Farm Business Income	2.0%	14.9%	1.7%	10.2%
For whom the median gain is (£'000)	4.7	4.5	3.3	3.9
For whom the mean gain is (£'000)	17.4	11.3	13.4	10.1

Moreover, this impact is not uniform across all farm types (see Table 28)[81]:

- Specialist sheep farms in the SDA are estimated to benefit from an aggregate £24.0m increase in their Farm Business Income with a high Social Value Payment rate (compared to a low Social Value Payment rate) and the estimated increase for mixed grazing farms in the LFA is £17.6m;
- The difference in the proportion of farms which experience a reduction in their Farm Business Income if the Social Value Payment rate is set at £115 per hectare (rather than £70 per hectare) is greatest amongst specialist sheep farms in the SDA, specialist beef farms in the SDA and arable farms; and
- For those farms which see an increased Farm Business Income with a high Social Value Payment rate, the mean gain in Farm Business Income is £3k per farm, with the mean increase in Farm Business Income per farm ranging from £4.5k (LFA dairy) to £2k (lowland mixed).

Table 27: Estimated Impact of different Social Value Payment rates on Farm Business Income by farm type in PWF

Farm type	**Arable**	**LFA dairy**	**Lowland dairy**	**Lowland grazing**	**Lowland mixed/ other**	**LFA mixed grazing**	**Specialist beef SDA**	**Specialist sheep SDA**	**All farms**
Number of farms	**301**	**924**	**621**	**2,124**	**1,680**	**4,752**	**978**	**4,175**	**15,555**
Change in Farm Business Income @ £70 (£m)	-2.6	-20.3	-25.5	-16.2	-8.5	-34.9	-7.1	-31.2	-146.3

[80] This analysis can be viewed as a "worst case" because the Farm Business Income which is lost with a Social Value Payment rate at £115 includes all the stock removal from farm businesses and assumes all farms bear additional compliance costs which may not be the case.
[81] As above, this analysis also represents a "worst case",

Farm type	Arable	LFA dairy	Lowland dairy	Lowland grazing	Lowland mixed/ other	LFA mixed grazing	Specialist beef SDA	Specialist sheep SDA	All farms
Number of farms	**301**	**924**	**621**	**2,124**	**1,680**	**4,752**	**978**	**4,175**	**15,555**
Change in Farm Business Income @ £115 (£m)	-1.0	-15.2	-21.8	-10.3	-4.3	-17.3	-2.3	-7.2	-79.3
Difference (£m)	1.6	5.1	3.7	5.9	4.2	17.6	4.8	24.0	67.0
% seeing reduced Farm Business Income @£70	98.7	99.7	99.7	99.4%	97.1%	99.1%	97.6%	97.0%	98.3%
% seeing reduced Farm Business Income @£115	86.4	96.6	95.0	97.2%	91.6%	92.2%	85.2%	81.6%	86.4%
Difference (%)	12.3%	3.1%	4.7%	2.2%	5.5%	6.9%	12.4%	15.4%	11.9%
Of which mean reduction in Farm Business Income @£70 (£'000)	-9.0	-22.9	-41.3	-7.8	-5.4	-7.5	-7.6	-8.1	-9.8
Of which mean reduction in Farm Business Income @£115 (£'000)	-4.7	-18.4	-37.2	-5.3	-3.4	-4.5	-4.5	-4.7	-6.8
Difference (£'000)	-4.3	-4.5	-4.1	-2.5	-2.0	-3.0	-3.1	-3.4	-3.0

These differences in the impact of the two Social Value Payment rates on Farm Business Income will affect the incentive to take up the Universal layer of the SFS especially once allowance is made for the tapering of BPS payments. The analysis suggests that take-up of the SFS (Universal Layer) will be faster with the high Social Value Payment than the low Social Value Payment in the central case (see Table 29):

- In 2026, if BPS is tapered to 60%, the high Social Value Payment rate results in around 4,100 more farms entering the SFS than with the low Social Value Payment rate;
- In 2027, if BPS tapered to 40%, the high Social Value Payment rate leads to an additional 4,900 farms enter the SFS compared with the lower value Social Value Payment; and
- In 2028, if BPS is tapered to 20%, the high Social Value Payment means that about 2,300 more farms are part of the SFS.

Table 28: Estimated take-up of SFS under different Social Value Payment rates (central case)

Universal	Central case			
Take-up	**2026**	**2027**	**2028**	**2029**
PWF - high Social Value Payment (£115 per ha)				
SFS take up (% of farms)	42	69	83	98
Farms remaining in BPS (% of farms)	58	31	17	0
Farms in no Scheme (% of farms)	0	0	0	2
Number of farms in SFS	6,580	10,811	12,864	15,244
PWF - low Social Value Payment (£70 per ha)				
SFS take up (% of farms)	16	38	68	97
Farms Remaining in BPS (% of farms)	84	62	32	0
Farms in no Scheme (% of farms)	0	0	0	3
Number of farms in SFS	2,473	5,926	10,562	15,088

Further analysis suggests significant differences between farm types in the estimated take-up of the SFS (Universal Layer) with the high Social Value Payment compared to the low Social Value Payment (see Table 30) given different taper rates on BPS: as the taper increases, dairy and grazing farms are most affected by the high Social Value Payment rate compared with the low Social Value Payment rate.

Table 29: Estimated take-up of SFS under different Social Value Payment rates with BPS taper by farm type (% of farms, central case)

Farm type	Arable	LFA dairy	Lowland dairy	Lowland grazing	Lowland mixed/ other	LFA mixed grazing	Specialist beef SDA	Specialist sheep SDA	All farms
Number of farms	**301**	**924**	**621**	**2,124**	**1,680**	**4,752**	**978**	**4,175**	**15,555**
				BPS - 100%					
Low Social Value Payment (£70 per ha)	1.3%	0.3%	0.3%	0.6%	2.9%	0.9%	2.4%	3.0%	1.7%
High Social Value Payment (£115 per ha)	13.6%	3.4%	5.0%	2.8%	8.4%	7.8%	14.8%	18.4%	10.2%
Difference	12.3%	3.1%	4.7%	2.2%	5.5%	6.9%	12.4%	15.4%	8.5%
				BPS taper - 60% in 2026					
Low Social Value Payment (£70 per ha)	21.9%	7.4%	8.4%	4.5%	10.2%	13.0%	22.1%	28.4%	15.9%
High Social Value Payment (£115 per ha)	61.5%	34.1%	31.9%	26.8%	31.2%	41.4%	51.6%	55.3%	42.3%
Difference	39.5%	26.7%	23.5%	22.3%	21.0%	28.4%	29.6%	26.9%	26.4%
				BPS taper - 40% in 2027					
Low Social Value Payment (£70 per ha)	57.1%	29.7%	28.0%	22.3%	27.6%	36.4%	47.4%	52.2%	38.1%
High Social Value Payment (£115 per ha)	84.4%	54.1%	44.9%	60.2%	59.9%	73.0%	76.1%	78.7%	69.5%
Difference	27.2%	24.4%	16.9%	37.9%	32.3%	36.6%	28.7%	26.5%	31.4%
				BPS taper - 20 % in 2028					
Low Social Value Payment (£70 per ha)	83.4%	50.8%	41.9%	58.9%	58.5%	71.5%	74.5%	77.4%	67.9%
High Social Value Payment (£115 per ha)	90.0%	66.5%	58.5%	77.4%	78.0%	86.3%	89.3%	88.1%	82.7%
Difference	6.6%	15.7%	16.6%	18.5%	19.5%	14.9%	14.8%	10.7%	14.8%

Economic costs of PWF (Universal Layer) & BAU (BPS)

The economic costs of the Universal Layer of the PWF and the BAU (i.e. the BPS) are estimated for participating farmers. Two elements are included:

- The value of the time spent by farmers applying for financial support; and
- The value of the time spent by farmers fulfilling their obligations under each Option together with any other expenses incurred[82]: this element is only relevant to the PWF as farmers have no additional compliance obligations under BAU.

All costs associated with applications for support other than the Universal Layer of the PWF and BAU (BPS) are excluded.

[82] The assumptions which underpin the estimated costs are explained in Annex C.

Table 31 summarises the key annual costs at the end of the Transition Period (i.e. when participation in the SFS is assumed to have peaked). These costs are expressed at constant 2023 prices in net present value terms[83]. The expected profile of these costs over the Transition Period from 2026 to 2029 and beyond is considered later in this section.

Table 30: Expected costs of the PWF (Universal Layer) and BAU (BPS) Options for the farming sector after Transition (£m)

Cost element	PWF (Universal Layer)			
	PWF (Universal Layer): Social Value Payment rate - £115 per ha		PWF (Universal Layer): Social Value Payment rate - £70 per ha	
	All farms	Full-time farms	All farms	Full-time farms
Cost of application for farm support[84]	1.0	0.7	1.0	0.7
Cost of undertaking SFS compliance Actions (offset by SFS payment)[85]	33.4	22.2	33.4	22.2
Reduction in gross margin from undertaking SFS Actions	47.7	47.0	47.7	47.0
Total	82.1	69.9	82.1	69.9

Summary of costs and benefits of PWF (Universal Layer) & BAU (BPS)

The final part of this section draws together the available evidence to estimate:

- The net benefits (NPSV) are derived as the net present value of the social benefits less the net present value of the social costs; and
- The benefit cost ratio (BCR) which is derived as the ratio of the NPSV to the Welsh Government's payments to farmers.

It focuses on comparing the economic costs and benefits of:

- The PWF with the two Social Value Payment rates (with relevant agricultural pollution regulations); and
- BAU (i.e. BPS plus relevant agricultural pollution regulations).

Two economic benefits are considered:

- The estimated effects on gross value added by the farm sector; and
- The social value of the reduced GHG emissions (and increased carbon sequestration) and improved air and water quality.

To do this, the costs and benefits estimated by IMP have been adjusted in several ways:

- To extend them to include part-time farms and common land based on the land area;
- To profile each of them so that they build up in line with the expected take-up of each Option;
- To express the benefits on an annual basis rather than a cumulative basis; and
- To recognise that some benefits may recur, albeit on a diminishing basis, beyond the Transition Period (i.e. after Welsh Government payments are assumed to cease for the purposes of the Business Case[86]).

Table 32 summarises the estimated value of the payments to recipient farmers by the Welsh Government over the Transition Period under each of the three different Options. It shows:

- The assumed percentage of farms joining PWF (or remaining in the BPS) which is based on analysis by ADAS;
- The SFS and BPS payments which have been estimated based on the IMP modelling[87]; and

[83] Where necessary, they are converted later in the analysis to 2025 prices.
[84] These costs are estimated based on the costs reported in the Welsh Government's Explanatory Memorandum for the Agriculture (Wales) Bill, August 2023.
[85] The estimated costs come from modelling by ADAS.
[86] This adjustment is needed because the focus of the Business Case is on Welsh Government payments over the Transition Period: it does not imply that the SFS is expected to end then.
[87] These figures include an estimated allowance for payments to farmers using common land.

- The total value of Welsh Government payments under each Option which is the sum of the payments for BPS and SFS.

Table 31: Estimated take-up of Universal Layer based on Welsh Government payments to farmers (£m, Central case)

Impact on:	2026	2027	2028	2029
PWF (Universal Layer) - £115 per ha				
% of farms joining SFS (ha)	42%	69%	83%	98%
SFS payment (£m)	109.2	179.4	215.8	254.8
% of farms remaining in BPS (ha)	58%	31%	17%	0%
BPS payment (£m)	77.5	27.6	7.6	0.0
Total payment (£m)	186.7	207.0	223.3	254.8
PWF (Universal Layer) - £70 per ha				
% of farms joining SFS (ha)	16%	38%	68%	97%
SFS payment (£m)	30.7	72.9	130.4	186.0
% of farms remaining in BPS (ha)	84%	62%	32%	0%
BPS payment (£m)	112.3	55.2	14.3	0.0
Total payment (£m)	142.9	128.1	144.7	186.0
BAU (BPS)[88]				
% of farms joining BPS (ha)	100%	100%	100%	100%
Total payment (£m)	222.7	222.7	222.7	222.7

Table 33 summarises the estimated gross value added by all farms. These estimates have been extended from the estimates for full-time farms to include all land eligible for the Options and converted to 2025 prices using the GDP deflator.

Table 32: Estimated benefits (£m per annum post Transition, full-time & part-time farms & commons, Central case)

Impact on:	PWF (Universal Layer): Social Value Payment rate - £115 per ha	PWF (Universal Layer): Social Value Payment rate - £70 per ha	BAU (BPS)
Change in farm business income compared to no BPS excluding transfer payments	65.6	66.4	0.5
Gross value added as % of farm business income	151%	151%	151%
Farm gross value added	**99.1**	**100.3**	**0.8**

Table 34 summarises the estimated cumulative net present value of the expected benefits: it distinguishes the impact on gross value added from the environmental benefits. It builds on the IMP model results by adjusting for:

- The assumed rate of take up of the SFS used to estimate Welsh Government payments (see Table 34);
- The average annual value per hectare of each benefit over an eight-year period (which has been estimated based on the IMP modelling results)[89]; and

[88] These modelled estimates for the BPS are slightly less than current BPS payments by the Welsh Government.
[89] The IMP modelling produces estimates of the cumulative net present value of the environmental benefits of the different Options over an eight-year period from 2023-2030. These have been converted to average annual values on an undiscounted basis before being incorporated into the Business Case.

- A set of assumptions about how far each benefit is expected to recur after the Transition Period when Welsh Government payments within the scope of the Business Case are assumed to cease[90].

The biggest benefit is the estimated reduction on GHG emissions.

Table 33: Estimated benefits (£m, NPV, full-time & part-time farms & commons, 2025 prices, Central case)

Impact on:	PWF (Universal Layer): Social Value Payment rate - £115 per ha	PWF (Universal Layer): Social Value Payment rate - £70 per ha	BAU (BPS)
Farm gross value added	272.8	203.2	3.1
Carbon stock and GHG emissions	739.3	676.0	467.1
Water quality	5.0	4.9	4.7
Air quality	1.6	1.4	0.8
Species recovery	0.7	0.7	0.0
Total	**1,019.4**	**886.2**	**475.8**

Table 35 brings together the different components of the estimated costs and benefits for the different Options. The results show that the PWF with different Social Value Payment rates is expected to generate higher BCRs than the BAU (BPS). The BCR with the low Social Value Payment rate is 1.60 whereas the BCR with the high Social Value Payment rate is 1.28. The difference is largely because the higher Welsh Government payments are not offset by increased modelled benefits because there is no significant difference in the simulated behaviour of farmers. The BCR for the BAU is 0.56.

Table 34: Estimated value for money of PWF (Universal Layer) & BAU (BPS) (Central case)

	PWF (Universal Layer)– Social Value Payment rate = £115/ha	PWF (Universal Layer) – Social Value Payment rate = £70/ha	BAU (BPS)
Net benefits (NPV, £m)	1,019.4	886.2	475.8
Welsh Government payments (NPV, £m, 2026-2029)	795.9	552.7	846.7
BCR	**1.28**	**1.60**	**0.56**

The sensitivity of the results has been tested by considering reasonable "best" and reasonable "worst" cases around the central case presented above. The two key differences reflect assumptions about:

- The rate and level of take up of the SFS under the PWF with the two different Social Value Payment rates: the "best" case assumes immediate, full take up of the SFS whereas the "worst" case assumes a slower take up reflecting evidence about some of the potential barriers to adoption; and
- The unit value of the benefits of changes in GHG emissions: the "best" case uses the UK Government's recommended "high" social value of carbon whereas the "worst" cases applies the "low" social value of carbon.

Table 36 summarises the estimated BCRs for each Option under different assumptions. It shows that the PWF (Universal Layer) consistently generates higher returns (i.e. BCR) than the BAU (BPS). In the "best" case, with faster and higher take up of the SFS and a higher social value of carbon, the BCRs are 1.64 and 2.23 respectively whilst the BCR for the BAU is always less than 0.84.

Table 35: Estimated BCR of PWF (Universal Layer) & BAU (BPS)

	PWF – Social Value Payment rate = £115/ha	PWF – Social Value Payment rate = £70/ha	BAU (BPS)
Best case	1.64	2.23	0.84

[90] This Business Case only covers Welsh Government spending during the Transition Period – together with any commitments made – it assumes that no Welsh Government payments are made from 2030 onwards to sustain farm activities.

Central case	1.28	1.60	0.56
Lower case	0.76	0.91	0.26

Unmonetised costs & benefits of PWF (Universal Layer) & BAU (BPS)

The results in Table 37 need to be interpreted with caution because they do not reflect all the potential costs and benefits of the PWF.

First, the analysis above builds from the results of the IMP modelling which does not capture and monetise all the potential environmental impacts of the PWF (Universal Layer) and BAU. Table 37 summarises the estimated changes in biodiversity by 2040 as measured by the prevalence of bird and plant species under the PWF and BAU Options. Whilst it quantifies the simulated impact on biodiversity, the value is not monetised largely because of the variability of the appropriate value depending on the conditions.

Table 36: Estimated changes in biodiversity by 2040

	PWF (Universal Layer)	**BAU (BPS)**
Bird species	94% of modelled bird species exhibit no change from the baseline meaning that historic trends (of decline, stability or improvement) are unaffected Projected changes in the remaining 6% are smaller than the level of uncertainty in the modelling	99% of modelled bird species exhibit no change from the baseline meaning that historic trends (of decline, stability or improvement) are unaffected Projected changes in the remaining 1% are smaller than the level of uncertainty in the modelling
Plant species	11% of modelled habitat plots move into favourable potential vegetation height (92% are in unfavourable condition in the baseline and this reduces to 81% under PWF). Increases in plant species are seen due to increased habitat suitability for common dwarf shrubs and other heath and bog species: decreases are seen in species of grazed acid grassland. Hedgerows: Changes in soil and light regime over 20 years are projected to increase suitability for common woodland and woodland edge species and drive down species of improved and semi-improved grasslands.	Not modelled due to limited land use change

Second, some of the benefits included within the IMP analysis may be undervalued. For example, the impact on air quality only considers the value of the estimated life years lost which are avoided: it does not include other avoided health and wellbeing costs associated with poorer air quality (e.g. health care cost, loss of productivity and reduced wellbeing). Given the small scale of the estimated air quality benefits, this omission is likely to have a limited impact on the overall benefits of each Option.

Third, it is important to recognise and incorporate:

- The expected benefits of the PWF which will arise slowly and could accrue over the medium to long-term (i.e. beyond the Transition Period) depending on how participation in the SFS affects the attitudes and approaches of farmers following up their actions as part of the Universal Layer, for example benchmarking, CPD, soil testing, integrated pest management assessments and incoming animal biosecurity assessment and the mobility and body condition scoring and training for their herd or flock; and
- Some key benefits which will only arise through participation in the Optional Layer: the Universal Layer pays for the upfront costs of developing plans which will only bear fruit following further payments under the Optional Layer if they are taken up by farmers. Examples include: the Designated Site Management Plan and the Tree Planting and Hedgerow Creation Opportunity Plan.

Finally, the analysis excludes some potential impacts of the PWF notably:

- It does not consider any potential impacts on animal health, flood risk, nor on landscape quality which reflects in people's enjoyment of the countryside;

- It does not incorporate any risks to the agricultural supply chain;
- It is based on a largely static model which means that it does not fully consider the potential dynamic benefits of early/greater participation in the SFS, especially those which are not captured during the Transition Period nor does it reflect the potential longer-term benefits of getting more farms involved earlier at a whole farm level: for example, earlier access provides farmers with more opportunity to realise commercial benefits (e.g. access to trading carbon, meeting processor requirements on biodiversity etc.) and this will enhance their economic resilience and sustainability[91]; and
- It discounts any enabling effects which result from the Actions taken by farmers, although some of these will be linked to the impacts of the related OAs and CAs: for example, encouraging participation in the Universal Layer obligates some farmers to take actions which they have not previously chosen to do (e.g. soil testing to determine if additional inputs such as fertiliser are required): the expected level of take up of the SFS would be unlikely to be achieved through an individual intervention (i.e. one focused on just soil testing).

Economic costs and benefits of PWF Optional & Collaborative Layers and BAU (based on RIS)

As noted earlier, assessment of the economic costs and benefits of the initial Actions within the Optional and Collaborative Layers of the PWF started with the development of a logic chain for each Action which identifies the potential costs and benefits of the activities supported within the Action. Then, the feasibility of generating monetary estimates of each cost and benefit was assessed. This highlighted that it would only be possible to complete a monetised cost-benefit analysis for seven out of the 17 initial Actions.

The economic costs and benefits of the seven initial OAs and CAs have been assessed in two stages:

- Where possible, each OA and CA has been analysed separately to assess and monetise their economic costs and benefits; and
- The results for the individual OAs and CAs have been brought together (under specific assumptions) to determine the potential aggregate costs and benefits of the Optional & Collaborative Layers (compared to the BAU Option).

Details of the approach to, and results of, the appraisal of each OA and CA are presented in Annex D. This includes a summary of the underlying evidence base that has been drawn upon.

The qualitative analysis of the remaining ten Actions is summarised below with the details also in Annex D.

Economic costs and benefits of the PWF OAs and CAs and BAU (based on RIS)

Cost-benefit analyses of OAs

Table 38 summarises the economic benefits which have been quantified and monetised as part of the cost-benefit analysis of seven OAs. The key points to note are that:

- The scope of the benefits included in the analysis ranges across the OAs: the two most comprehensive assessments are those associated with implementing Designated Site Management Plans and converting to organic farming, but even these are subject to some limitations;
- No distinction is made between the PWF with the two Social Value Payment rates although differences in the rate (and level) of take up of the Universal Layer may affect the long-term benefits;
- As with the Universal Layer, reasonable "best "and "worst" cases have been analysed based on different assumptions about take-up, unit costs, unit benefits and the expected pattern of benefits; and
- It is important to distinguish the new activities that are expected to be supported under the PWF from any continuation of current activities which might continue to be supported as part of the Options.

Further details of the approach and underlying evidence is provided in Annex D.

[91] The IMP model results which have been used in the Business Case does not factor in any dynamic response because it was run with farm transitions set as "off". This means that the results reflect shorter term impacts, and do not take account of any longer-term changes in farm practice and/or re-structuring of the industry (e.g. changing farm types) which could occur.

Table 37: Estimated economic benefits of PWF OAs and BAU (£m, NPV, 2026-2029)

Action	Benefits included	PWF OAs and CAs		BAU (RIS)
		Best case	Worst case	
Create new woodland and agroforestry	• Carbon • Biodiversity • Air quality	470.1	131.4	7.9
Manage and enhance habitats	• Biodiversity	88.6	46.3	0.0
Implement SLM actions in Designated Site Management Plan	• Ecosystem services: provisioning services associated with biodiversity • Climate & water regulation • Sense of place • Charismatic species/non-charismatic species • Research and education	373.3	182.8	0.0
Restore or plant new hedgerows	• Carbon • Biodiversity • Air quality	23.6	9.8	7.2
Implement actions to improve soil health & introduce multispecies crop cover.	• Reduced diffuse pollution on water quality	0.0	0.0	0.0
Support organic farming (certified and conversion)	• Ecosystem services: Biological control of pests, Mineralisation of plant nutrients, Soil formation, Carbon accumulation, Nitrogen fixation, Soil fertility, Hydrological flow, Aesthetic & Pollination	27.9	5.2	0.0
Create temporary and permanent habitats	• Biodiversity	0.3	0.2	0.0
Total		**983.8**	**375.6**	**15.2**

In practice, it has not always been possible to find a reliable basis with which to estimate all the expected benefits of the OAs (as defined in the underlying logic chains), and some caution should be used in interpreting the estimates. Table 39 summarises those economic benefits for each Action which have been excluded when it has not been possible to provide robust estimates. The key points to note are that:

- Impacts on farm productivity are often excluded because the link between the Action and a farm's business economics is difficult to establish and generalise in a reliable way based on the available evidence; and
- The physical links between an Action and the environment is hard to establish in a robust way (e.g. the impact on GHG emission which can be readily valued if the physical impact could be established with confidence).

Further work will be needed in the future to address these gaps so that their potential significance can be better understood and used to inform Welsh Government decisions about evolution of the design of the SFS.

Table 38: Economic benefits of PWF OAs excluded from cost-benefit analysis

Action	Benefits excluded	
	Farm economics	**Environmental**
Create new woodland and agroforestry	• Increased shelter & other benefits for livestock	
Manage and enhance habitats	• Private value to farms of livestock	• Welfare improvements from improved recreation and landscape • Social value of reduced GHG emissions
Implement SLM actions in designated Site Management Plan	• Private value to farms of livestock	
Restore or plant new hedgerows	• Private benefits to farmer from improved pollination of mass-flowering crops and less pest damage	• Increased carbon sequestration and improved air quality from restored hedgerows • Improved welfare from enhanced landscape quality • Improved welfare improved water quality due to less soil erosion and run-off
Implement actions to improve soil health & introduce multispecies crop cover.	• More profitable/productive farm business (GVA) • Reduced fertiliser costs	• Social value of reduced GHG emissions • Welfare improvements from improved biodiversity, including improved species recovery • Other ecosystem services: biological control of pests; mineralisation of plant nutrients; soil formation; nitrogen fixation; soil fertility; hydrological flow; aesthetic; pollination
Support organic farming (certified and conversion)	• Impact on farm productivity	• Health impact of organic food
Create temporary and permanent habitats	• Private benefits to farmer from improved pollination and reduced fertilizers and pesticides costs	• Welfare improvements from improved recreation and landscape • Social value of reduced GHG emissions • Other ecosystem services: provisioning services associated with biodiversity; climate & water regulation; sense of place; charismatic species/non- charismatic species; and research and education

The primary cost to the Welsh Government of delivering the PWF OAs and the BAU (based on RIS) is the payment to farmers. Table 40 summarises the expected payments by the Welsh Government under each Action covered by cost-benefit analysis. This excludes the cost incurred by the Welsh Government in administering the support because this cost cannot easily be disentangled from the other costs of delivering the Options, either collectively or individually. It is, therefore, incorporated separately (see below). Also excluded is the cost to farmers of applying for support.

Table 39: Estimated Welsh Government payments to farmers of PWF OAs and BAU (£m, NPV, 2026-2029)[92][93]

	PWF OAs and CAs		**BAU**
	Best case	**Worst case**	
Create new woodland and agroforestry	82.8	98.3	10.6

[92] The payments shown in Table 21 reflect the expected costs of supporting farmers on the scale envisaged as part of the cost-benefit analysis of each Action: in practice, the scale of these payments may exceed the budget available in which case the Welsh Government will prioritise spending on those Actions expected to deliver the best value for money.

[93] Differences in the estimated Welsh Government payments reflect differences in the number of farmers supported and the amount of support each farmer receives. This explains why the payments in the "best" case are higher than those in the "worst" case.

	PWF OAs and CAs		BAU
	Best case	Worst case	
Manage and enhance habitats	9.3	11.3	0.0
Implement SLM actions in designated Site Management Plan	13.1	14.6	0.0
Restore or plant new hedgerows	24.4	11.7	9.6
Implement actions to improve soil health & introduce multispecies crop cover.	0.5	0.5	0.3
Support organic farming (certified and conversion)	1.8	1.1	0.0
Create temporary and permanent habitats	2.1	1.5	0.0
Total	**134.0**	**139.0**	**20.5**

Qualitative analyses

For the ten OAs and CAs where it has not been possible to complete a monetised cost-benefit analysis, a qualitative assessment has been undertaken.

Table 41 summarises the expected benefits of each Action based on the development of the logic chains. The focus of the benefits is on those expected to arise during the Transition Period, but it is important to note that each Action may also generate impacts that extend beyond this period. The potential significance of this is considered further below.

Table 40: Expected benefits of OAs and CAs subject to qualitative assessment

Action	Expected benefits	
	Farm economics	Environmental & other wider benefits
Manage existing trees and woodland	• Increased shelter & other benefits for livestock • Additional income from woodland including timber sales	• Welfare improvements from improved biodiversity, including improved species recovery (woodland birds), recreation and landscape
Implement higher standard farm biosecurity measures	• Improved productivity - feed conversion efficiency/ratio • Improved consumer confidence - welfare standards • Improved farm profitability	• Reduced damage costs of animal disease outbreaks • Reduced risks associated with antimicrobial resistance development
Broader and more advanced Continuing Professional Development (CPD)	• More resilient farms • Improved farm profitability/ productivity (GVA)	• Improved farmer welfare / wellbeing / mental health
Improve productivity, efficiency & performance	• Improved farm profitability/ productivity (GVA) • Reduced fertiliser costs	• Social value of reduced GHG emissions
Establish or adapt Options which help people engage with, and access, the natural environment		• Improved welfare associated with recreation • Avoided workforce productivity loss associated from avoided illness • Reduced NHS costs from inactivity and poor mental health
Improve water quality, flow, and usage, to include flood mitigation	• Improved farm profitability/ productivity (GVA)	• Welfare value for improvement in water body status • Avoided flood damage costs • Improved ecological communities can be valued in priority habitats • NHS/public health costs avoided
Improving air quality and lowering ammonia emissions	• Improved farm profitability/ productivity (GVA) due to more efficient use of fertiliser/ nutrients	• Improved ecological communities can be valued in priority habitats • Welfare from improved water body status (amenity, recreation)

Action	Expected benefits	
	Farm economics	**Environmental & other wider benefits**
Innovation and Research and Development	• Improved farm businesses profitability/ productivity (GVA)	
Landscape scale activities including commons and invasive non-native species		• Enhanced wellbeing of rural communities • Welfare benefits of environmental outcomes achieved at scale across a specific landscape
Market and supply chain support	• Increased diversification, exports & trade of agri-food. • More Welsh branded food products, and stronger local supply chains • Improved prices and turnover for farmers	• Improved carbon footprint through more efficient and resilient supply chains

Table 42 summarises the conclusion of the overall qualitative assessment of the expected value for money of each OA and CA. Also noted is the level of confidence in this assessment based on the comprehensiveness, relevance and quality of the available evidence. Further details of the underlying evidence are provided as part of Annex D.

Table 41: Summary of qualitative assessment of value for money of OAs and CAs where no cost -benefit analysis has been undertaken

Action	Benefits	Assessment of benefits relative to costs over 2026-29
Managing existing woodland	• GHG and air pollution benefits in Universal Layer • Additional biodiversity benefits may arise in the long term • May also be income from timber in long run	• Costs are relatively low as are likely benefits • Overall, initial low VFM but with VFM rising slowly over the longer term as biodiversity benefits accrue
Implement higher standard farm biosecurity measures	• Improved productivity • Improved consumer welfare from better biosecurity standards • Reduced risks of antimicrobial resistance development • Reduced costs of animal disease outbreaks	• Costs are relatively low (reflecting low take up) but farm level benefits, although low initially, could have immediate effect • Benefits over longer term could be significant, especially those associated with reduced costs • Overall, initial medium VFM (to reflect the immediacy of the farm level benefits)
Broader and more advanced Continuing Professional Development (CPD)	• Improved long term productivity and farm economic resilience from participation in/application of CPD • Enhanced farmer wellbeing	• Costs are relatively low, with the benefits being mostly depending on the application of the CPD on the farm • Significant uncertainties reflected in assessment of medium VFM
Sustainable production	• Reduced GHG emissions • Reduced costs and improved farm productivity	• Costs are relatively high, but the impact on benefits realisation is likely to be immediate and sustained • Reflected in the assessment of high VFM.
Establish or adapt Options which help people engage with, and access, the natural environment	• Improved access to countryside recreation including avoided workforce productivity losses associated from avoided illness, reduced NHS costs from inactivity and poor mental health • Welfare benefits of walking in the countryside	• Costs are relatively low, but each category of benefit is potentially significant relative to costs • The assessment is of high VFM.

Action	Benefits	Assessment of benefits relative to costs over 2026-29
Improve water quality, flow, and usage, to include flood mitigation	• Reduced costs and more efficient use of fertilisers • Improvements in quality of water bodies such as rivers and streams • Enhanced biodiversity and reduced costs from flooding incidents	• Costs are uncertain and depend on options taken up by farmers • Evidence of increase in value of improved water body quality is strong • Impacts of reduced pollutant are likely to be realised immediately, but changes to water quality arise more slowly, leading to a medium VFM assessment
Improving air quality and lowering ammonia emissions	• Reduced fertiliser costs using precision agricultural techniques • Improved quality of terrestrial habitats affected by air pollution	• Costs are uncertain and depend on actions taken up by farmers • Evidence of the impact and value of reduced air pollution on terrestrial habitats is strong • But changes will occur over a longer period leading to a medium VFM assessment
Innovation and Research and Development	• From application of R&D to agricultural practices and performance • Associated impact on farm productivity and profitability	• Costs are relatively low and the benefits uncertain and long term, leading to an initial low VFM assessment in the period 2026-29
Landscape scale activity	• Welfare benefits from better environmental outcomes achieved at scale across a specific landscape • Enhanced wellbeing of participative rural communities	• Costs are relatively high • Good evidence that new development phase of INRS has resulted in greater mobilisation and enthusiasm for project delivery across project areas • Also, evidence of impact of other collaborative projects in Designated Landscapes • Supports assessment of VFM as high.
Market and supply chain support	• Increased diversification, exports & trade of agri-food • More Welsh-branded food products • Stronger local supply chains • Reduced GHG emissions due to shorter supply chains • Better market returns for farmers.	• Costs are relatively high • But given quality and robustness of evaluation evidence of existing schemes, and clear impact these have on intended outcomes, assess this as good VFM

Summary of cost-benefit analysis of PWF Optional & Collaborative Layers & BAU Option

The final part of this section draws together the available evidence for the OAs and CAs for which cost-benefit analysis has been undertaken to estimate:

- The overall net benefits (NPSV) (i.e. the net present value of the social benefits less the net present value of the social costs); and
- The overall benefit cost ratio (BCR) which is derived as the ratio of the NPSV to the Welsh Government's payments to farmers.

This requires the results of the seven cost-benefit analyses for OAs to be combined so that they provide a basis for comparing the OAs and CAs with the UAs. This has been done by:

- Weighting the results of the cost-benefit analysis for each Action by the scale of activity as measured by the expected payments by the Welsh Government; and
- Constraining overall spending - as necessary - based on the available budget (for OAs and CAs): the available budget has been estimated as the residual after allowing for expected payments to farmers under the PWF (Universal Layer) or BAU (BPS) and Welsh Government administrative costs (which are derived from the Financial Case).

The results can then be interpreted as estimates of the expected overall costs and benefits of all initial OAs and CAs recognising that it is not currently feasible to undertake a reliable cost-benefit analysis for all OAs and CAs. In effect, this implies treating those OAs and CAs for which the economic costs and benefits have been estimated as representative of all initial OAs and CAs (and so caution should be exercised in interpreting these estimates).

Table 43 summarises the estimated incremental NPSV and the BCR for each of the Actions where cost-benefit analysis has been completed. This is based on comparing the PWF with the BAU on both a reasonable "best"- and "worst"-case basis. The key points to note are that:

- The overall BCR of the OAs is between 3.0 ("worst" case) and 8.5 ("best" case): this is considerably more than the expected benefits of the Universal Actions;
- Four of the seven OAs are estimated to deliver an expected incremental BCR more than 6;
- The two OAs where the incremental BCR is poorer are instances where potentially significant benefits have not been included for the reasons outlined above: they are also ones where the total payments by the Welsh Government are expected to be small; and
- The total benefit cost ratio is the total NPSV across the OAs divided by the total Welsh Government payments.

Table 42: Estimated value for money of PWF OAs

Action	NPSV (£m, NPV)		Benefit-cost ratio	
	Best case	Worst case	Best case	Worst case
Create new woodland and agroforestry	390.0	35.8	6.40	1.41
Manage and enhance habitats	79.3	34.9	9.52	4.09
Implement SLM actions in designated Site Management Plan	360.2	168.2	28.54	12.51
Restore or plant new hedgerows	1.5	0.4	1.10	1.21
Implement actions to improve soil health & introduce multispecies crop cover.	-0.2	-0.2	0.11	0.04
Support organic farming (certified and conversion)	26.1	4.1	15.50	4.76
Create temporary and permanent habitats	-1.8	-1.4	0.13	0.10
Total	**855.1**	**241.9**	**8.53**	**3.04**

As with the analysis of the costs and benefits of the Universal Layer in the PWF, it is important to acknowledge that not all the economic benefits (and costs) of the Optional and Collaborative Layer will be reflected in the results Table 43

Administrative costs of the PWF and BAU (i.e. BPS & RIS)

The administrative costs of the PWF and BAU (i.e. BPS & RIS) are the costs incurred by the Welsh Government (including RPW) and NRW: the expected costs of participating farmers are considered separately below.

Table 44 summarises the estimated costs in the period from 2026 to 2029[94]:

- The costs are expressed at constant 2025 prices in net present value terms;
- Any costs associated with support other than PWF and BAU are excluded wherever possible (e.g. regulations which impact farmers); and

[94] The costs are taken from the Financial Case and expressed on a constant price basis rather than a current price basis.

- All sunk costs are excluded (i.e. the costs expected to be incurred before 1 January 2026 in preparation for introduction of the SFS).

The ongoing costs of delivering the PWF and BAU are expected to be the same given that the development costs have already been incurred or committed (i.e. they are treated as sunk costs).

The assumptions which drive the estimated costs are explained in the Financial Case. It has not been possible to distinguish the administrative costs associated with the Universal Layer of the PWF from those of the Optional and Collaborative Layers. Similarly, the costs of the BAU cannot be separated between those linked to the BPS and the RIS.

Table 43: Expected administrative costs of PWF and BAU Options (£m, NPV, 2026-2029)

	2026	**2027**	**2028**	**2029**
Welsh Government				
Administration	40.8	31.6	31.7	32.1
Advice & guidance	24.1	29.8	29.3	28.9
NRW	1.6	1.2	1.1	1.1
Total	**66.5**	**62.6**	**62.2**	**62.1**

Integrated analysis of PWF and BAU Options

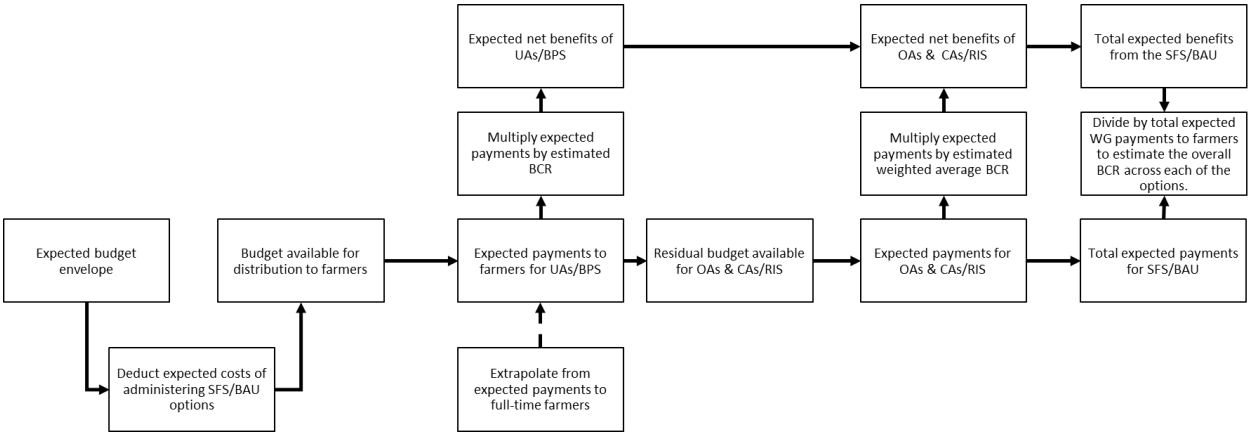
This final part of the analysis seeks to combine the results for the UAs in the PWF with those for the OAs and CAs to compare them with the equivalent results for the BAU (i.e. the BPS and RIS). This provides a basis for understanding an important element of the potential value for money assessment of the different Options over the Transition Period.

The key steps in estimating the overall BCRs of the PWF and BAU are illustrated in Figure 2. They involve:

- Estimating the budget available for distribution to farmers by deducting the expected costs to the Welsh Government of administering the PWF and BAU Options, including the expected costs of providing advice and guidance based on the supporting procurements outlined in the Financial Case[95];
- Estimating the expected payments to all farmers for the UAs and BPS in each year of the Transition Period by extrapolating the IMP results for full-time farmers across all farms and common land based on the area farmed;
- Estimating the expected net present value of the benefits of the PWF (Universal Layer) and BAU (BPS) by multiplying the present value of the payments by the respective estimated BCR for each Option;
- Deriving the potential budget available for the OAs and CAs and RIS as a residual of the Welsh Government budget less the administrative costs and payments to farmers under the PWF and the BAU and then estimating expected Welsh Government payments based on assumptions about the proportion of the available budget that is disbursed depending on the level and quality of demand from farmers to participate in the OAs and CAs and the expected outcomes;
- Estimating the expected net present value of the benefits of the OAs and CAs and RIS by multiplying the present value of the payments under each scenario by the relevant estimated weighed BCR for the OAs and CAs and BPS; and
- Adding together the expected net present value of the benefits from the UAs and OAs and CAs (and BPS and RIS) and dividing by the expected total Welsh Government payments to farmers to estimate the overall BCR across each of the Options.

[95] This is based on the costs included within the Financial Case converted to a constant price basis but excludes DRC.

Figure 2: Estimating the overall value for money of the Options



In recognition of some of the uncertainties, this analysis is presented as a central case and the two other scenarios described above which sit either side:

- A reasonable "best" case which involves:
  - Rapid take-up of the Universal Layer in the PWF;
  - A high social value of carbon;
  - The highest proportion of the available budget for the Optional and Collaborative Layers of the PWF being disbursed;
  - The highest BCR on the Optional and Collaborative Layers being realised;
- A reasonable "worst" case:
  - Slow take-up of the Universal Layer in the PWF;
  - A low social value of carbon;
  - Less of the available budget for the Optional and Collaborative Layers of the PWF being disbursed; and
  - The lowest BCR on the Optional and Collaborative Layers being realised.

This analysis can then be extended to consider how the value for money of the Options might evolve in the five-year period beyond the Transition Period. The Welsh Government envisages that an element of the funding in the PWF will be allocated away from the Universal Layer and to the Optional and Collaborative Layers within a budget which remains constant in real terms at 2029 levels. To illustrate the potential implications, it is assumed that the budget for the Universal Layer is reduced by 10% each year with the released resource being switched to the Optional and Collaborative Layers.

The key results of the analysis are summarised in Table 45.

- The PWF with both the high and low Social Value Payment rates is expected to deliver a higher return over the Transition Period than BAU (i.e. as measured by the BCR);
- The NPSV of the PWF over the Transition Period is expected to be between £1.4bn and £2.5bn with the high Social Value Payment rate and £1.6bn and £4.3bn with the low Social Value Payment rate: in contrast, the NPSV for the BAU Option is between £0.4bn and £0.9bn;
- In the central case, the projected BCRs of the PWF are 1.82 (with the high Social Value Payment) and 2.22 (with the low Social Value Payment): the BAU generates an estimated BCR of 0.48;
- The BCRs of the PWF in the five years beyond the Transition Period (i.e. 2030 to 2034) with different Social Value Payment rate are estimated to be 2.08 (high Social Value Payment) and 2.94 (low Social Value Payment); and
- The NPSV of the PWF in the five years after the Transition Period is estimated to be between £1.7bn and £3.9bn with the high Social Value Payment rate and £2.0bn and £5.3bn with the low Social Value Payment rate: in contrast, the NPSV for the BAU Option is between £0.3bn and £0.7bn.

Table 44: Estimated value for money of PWF and BAU

	NPSV (£m, NPV)			Benefit: cost ratio		
	Best case	**Central case**	**Worst case**	**Best case**	**Central case**	**Worst case**
Transition Period (2026-2029(						
PWF						
• High Social Value Payment rate (£115 per ha)	2,522.3	2,391.3	1,372	1.87	1.82	1.09
• Low Social Value Payment rate (£70 per ha)	4,334.5	2,458.8	1,625.6	3.24	2.22	1.34
BAU	851.9	614.8	360.8	0.67	0.48	0.28
Post Transition Period (2030-2034)						
PWF						
• High Social Value Payment rate (£115 per ha)	3,8893.1	2,845.7	1,720.0	2.79	2.08	1.35
• Low Social Value Payment rate (£70 per ha)	5,334.1	3,667.9	1,950.8	3.86	2.94	1.58
BAU	716.3	527.8	347.2	0.63	0.47	0.31

These estimated NPSVs and BCRs are based on some important assumptions which may not reflect all the significant uncertainties which impact on the results. Deviations from these assumptions could impact on the realised BCRs. As part of managing such uncertainties, an active programme monitoring and evaluation will be conducted.

Summary & conclusion

The focus of the value for money analysis in the Economic Case is on two key questions:

- Is the PWF (based on the SFS) preferable to the BAU based on (BPS & RIS) and does it provide an adequate return?
- If so, what is the preferred initial Social Value Payment rate considering the potential dynamic, long-term benefits that early take-up of the SFS might provide?

This final part draws together the earlier evidence to address each question in turn.

Is the PWF preferable to BAU and does it provide adequate value for money?

The analysis has considered the Universal Layer separately from the Optional and Collaborative Layers and then combined the results to provide an overall view of the two Options. The focus has been on the impacts during the Transition Period (i.e. 2026-2029 inclusive).

The analysis of the Universal Layer is based on modelling of the PWF (using two different assumed Social Value payment rates – a high rate of £115 per hectare and a low rate of £70 per hectare). The BAU is based on continuation of the BPS. The analysis of the Optional and Collaborative Layers is based on cost-benefit analyses of seven OAs where there is adequate evidence[96].

Overall, considering the Universal, Optional and Collaborative Layers together, the PWF with both the high and low Social Value Payment rates is expected to deliver a higher return over the Transition Period than BAU (i.e. as measured by the BCR). In the central case, the overall estimated BCR of the PWF Universal, Optional and Collaborative Layers taken together is 1.82 (with a Social Value Payment rate of £115) and 2.22 with a rate of £70 compared to 0.48 for the BAU[97].

[96] The gaps in the evidence for the other proposed Optional and CAs increases the dependence on assumptions to estimate the overall BCR of the SFS as a whole.

[97] The underlying results are presented in Table 27.

Moreover, the analysis – especially of the OAs and CAs - is expected to be more likely to underestimate the expected benefits more than overestimate the costs because of the range and likely significance of the omitted benefits.

Furthermore, looking beyond the Transition Period, the difference between the BCRs for the PWF and BAU is expected to grow as relatively more resource is allocated to the OAs and CAs (and less to the Universal Layer) and farmers become more efficient in meeting the Scheme Requirements and achieving the desired benefits.

The overall BCR for the different Options over the Transition Period depends on:

- How many and how quickly farms choose to join the schemes under each Option;
- How much of the Welsh Government's available budget is needed to administer each Option[98];
- What proportion of the available annual budget is absorbed by the Universal Layer;
- What proportion of the remaining annual budget can be invested in the Optional & Collaborative Layers;
- The proportion of funding for the OAs and CAs that is awarded on a discretionary basis, for example depending on the expected return and
- The expected relative returns achieved from payments through the Universal, Optional and Collaborative Layers.

It is, therefore, important to understand the expected returns from the Universal Layer separately from those across the Optional and Collaborative Layers.

Based on both Social Value Payment rates, the Universal Layer is expected to generate higher returns than the BAU[99]: in the central case, the Universal Layer is expected to generate higher returns than the BAU: the BCRs for the high Social Value Payment rate and the low Social Value Payment rate are 1.26 and 1.6 compared with 0.56 for the BAU[100].

In assessing the BCRs for the Universal Layer in the PWF, as explained above, it is important to note that:

- The expected benefits arise slowly and will accrue over the medium to long-term (i.e. beyond the Transition Period) depending on the attitudes and approaches of farmers following up their Actions as part of the Universal Layer[101]; and
- Some significant benefits will only arise through participation in the Optional Layer: the Universal Layer will pay for the initial costs of developing plans which only deliver real benefit when the actions defined within them are implemented, possibly with further support as part of the Optional Layer[102].

The BCR for the Optional & Collaborative Layers depends on how continued RIS support is treated as part of the BAU[103]: including only incremental activity supported by the PWF means that the expected BCR

of the Optional & Collaborative Layer is expected to be 5.02 compared to 0.74 for the BAU: the limitations of these estimates should be noted in interpreting the aggregated BCR figures.

The BCRs for the Optional and Collaborative Layers exclude several potential productivity and environmental benefits associated with the OAs and CAs which have been identified by an independent evidence review – see Table 46[104]. For example, the assessment of the Action to restore or plant new hedgerows excludes the benefits of improved carbon sequestration, better water and landscape quality and avoided costs of

[98] Payments to farmers is analysed as a residual.
[99] The BCRs for the Universal Layer should not be considered in isolation from the Optional & Collaborative Layers because they depend on each other as explained elsewhere.
[100] The underlying results are presented in Table 17.
[101] For example, evaluation of the Welsh Government's Knowledge Transfer, Innovation and Advisory Services Programme found that "the *support is leading to small scale, incremental changes over a period of time, often through introducing more professional approaches to business management and health and environmental improvements…. these marginal gains across many aspects of the business are, on aggregate, helping to create more viable and sustainable enterprises in the longer term".*
[102] This is one of the reasons why promoting early and large-scale adoption of the take-up of the Universal Layer is important: the more farmers that join, the more likely they are to take up the Optional and CAs.
[103] In two of the OAs, the results are potentially distorted significantly if existing RIS activities are included (Organics & SSSI). For this reason, only the incremental activities are included.
[104] Miller Research (2025) Evidence review of proposed SFS Optional & Collaborative Themes, report to Welsh Government

pollination. These cannot readily be valued and, therefore, are not included in the estimated BCRs. Whilst realisation of these benefits is an objective of the Action, it is difficult to gauge how big these might be[105].

The conclusion of the value for money analysis is clear: the PWF will deliver better value for money than the BAU and so is preferable. Taking into account the benefits which are not captured in the monetised BCR, the PWF is also judged to offer adequate value for money.

Table 46 summarises the assessment of the short-list of options against the key long-term objectives of the SFS and the CSFs. The key points to note are that:

- Only the PWF links farmer reward to delivery of all the economic, environmental and social objectives of the SFS whereas BAU has the poorest fit;
- At the rates modelled, the PWF is estimated to achieve very similar levels of participation by farmers; and
- The PWF will reduce GHG emissions more significantly than BAU.

Table 45: Summary assessment of short-list options

Option	PWF (High Social Value Payment rate)	PWF (Low Social Value Payment rate)	BAU
1. Broad participation by farmers			
2. Adoption of more sustainable farming practices			
3. Maintained/enhanced farm resilience			
4. Reduced GHG emissions			
4. At least 10% of farm managed for biodiversity			
5. Enhanced management of historical sites			

Collectively, the Universal, OAs and CAs are expected to contribute to the objectives for the SFS and the broader statutory SLM objectives. The risks associated with them are:

- If there is a poor level of uptake by SFS farmers;
- If the farmer does not translate Actions into changes in on farm practices and better environmental outcomes; and
- If support for advice, guidance and innovation has limited impact on farm productivity and efficiency.

These risks will be mitigated by payment levels that incentivise uptake whilst ensuring good value for money. There will be a comprehensive monitoring and evaluation strategy to help with this and underpin timely adjustments, where required.

What is the preferred initial Social Value Payment rate within the SFS?

The second key step is to determine the preferred initial Social Value Payment rate within the PWF which will deliver the best value for money. This means understanding the right balance between:

- Maximising the numbers of farms joining the SFS as quickly as possible and so capitalising on the potential dynamic benefits, in both the Transition Period and beyond;
- Ensuring that the cost of the SFS is affordable: the Welsh Government's intends that:
    - The budget for the Universal Layer should be limited to that of the current BPS (i.e. (£238m); and
    - The overall budget should be the same as that of existing farm support (£367m[106]).

[105] The risk of possible double counting of the benefits is recognised, but research by ERAMMP suggests that this risk is limited. See ERAMMP Report-40, 2020, SFS Economic Valuation: Logic Chains.
[106] The basis of the budget is explained more fully as part of the Financial Case.

As the starting point, the analysis draws on the evidence from modelling two Social Value Payment rates: a high rate (£115 per ha) and a low rate (£70 per ha). It is, however, also important to consider the implications if the Social Value Payment rate is set within this range or, indeed, above or below it.

At the same time, the wider implications of different Social Value Payment rates need to be assessed which means drawing on other evidence which has a bearing on the expected costs and benefits of different Social Value Payment rates: the model results illustrate some of the implications based of different rates based on a set of assumptions, but do not provide the full picture.

The analysis also needs to distinguish differences in the potential impacts over the Transition Period from more significant, but less certain, medium-longer-term impacts, for example in the following five-year period.

The available evidence is structured in three parts:

- A summary of the costs, benefits and affordability of the PWF if the Social Value Payment rate is set at either £115 per hectare (high) or £70 per hectare (low) over:
    - The Transition Period (from 2026 to 2026);
    - The medium-longer term (from 2030 to 2034);
- The implications for costs, benefits and affordability of the SFS if the Social Value Payment rate is set at either zero or above £115 per hectare; and
- A concluding section which examines what the evidence and analysis suggests should be the preferred Social Value Payment rate given the desire to maximise take up of the SFS within the available budget and also achieve value for money.

Costs, benefits and affordability of the SFS over the Transition Period

The estimated BCRs derived from the modelling of the PWF with different Social Value Payment rates suggest some important differences: the overall BCR for the PWF with the high Social Value Payment rate ranges from 1.09 (worst case) to 1.87 (best case) compared to 1.34 and 3.24 respectively with a low Social Value Payment rate. The estimated BCR for the Optional & Collaborative Layers in this analysis is assumed to be independent of the Social Value Payment rate (i.e. it does not reflect any positive linkages between farmers' behaviour in the Universal Layer and other Layers of the scheme), so the differences in these estimates are attributable to the Universal Layer.

These headline results, however, mask some potentially important differences in the dynamics which drive them and, therefore, how they should be interpreted and/or adjusted to provide a better indication of the likely return:

- Consideration needs to be given to how take-up of the SFS will differ depending on the Social Value Payment rate: key to this is understanding how Farm Business Income will be affected and how farms respond;
- The build-up of benefits needs to be compared, and the significance of early adoption gauged, not least in environmental terms;
- The direct and indirect impacts of changes in Farm Business Income need to be assessed; and
- The implication for affordability needs to be examined.

Take-up of the SFS

As explained above, the modelling by ADAS estimates the impact of different Social Value Payment rates on aggregate Farm Business Income compared with if farmers were to remain in the BPS: overall, with the high Social Value Payment rate (£115 per ha) and assuming 100% uptake, the reduction in Farm Business Income across the farming sector is £67m less than it would be with a low Social Value Payment rate (£70 per ha)[107]. Moreover, this impact is not uniform across all farm types. Specialist sheep farms in the SDA benefit from an

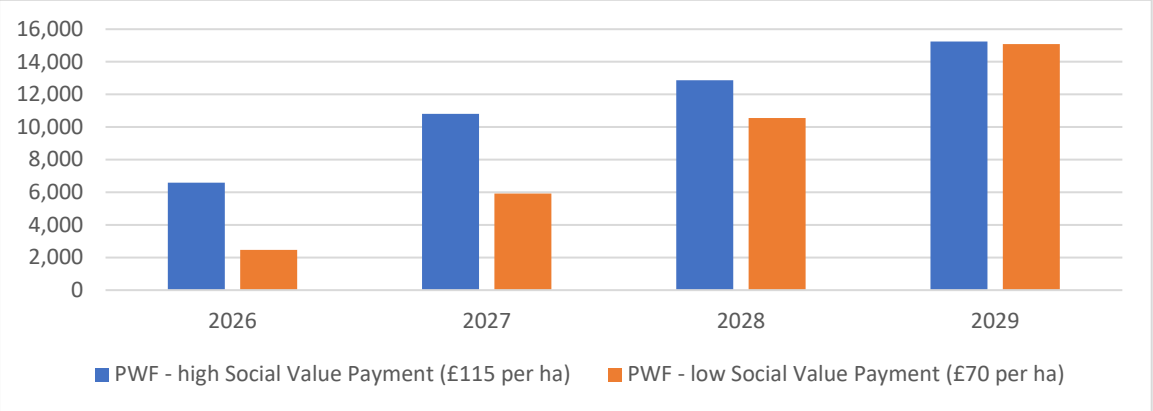
[107] This analysis can be viewed as a "worst case" because the Farm Business Income which is lost with a Social Value Payment rate at £115 includes all the stock removal from farm businesses and assumes all farms bear additional compliance costs which may not be the case.

estimated £24.0m increase in their Farm Business Income with a high Social Value Payment rate (compared to a low Social Value Payment rate) and the increase for mixed grazing farms in the LFA is £17.6m[108].

These differences in the impact of the two Social Value Payment rates on Farm Business Income will affect the incentive to take up the Universal layer of the SFS especially once allowance is made for the tapering of BPS payments. Figure 3 shows how the estimated take-up of the SFS (Universal Layer) is expected to be faster with the high Social Value Payment than the low Social Value Payment in the central case:

- In 2026, if BPS is tapered to 60%, around 4,100 more farms will have entered the SFS;
- In 2027, if BPS tapered to 40%, an additional 4,900 farms will have joined the SFS; and
- In 2028, if BPS is tapered to 20%, about 2,300 more farms will be part of the SFS.

Figure 3: Estimated take-up of SFS under different Social Value Payment rates (central case)



Implications of early take up of the SFS

A high Social Value Payment rate which incentivises (and delivers) earlier participation in the SFS also potentially offers other important indirect benefits:

- It means that the environmental benefits may be expected to start to be realised earlier.
- It provides farmers with more opportunity to realise commercial benefits: these benefits are not reflected in the modelled BCRs, but they will enhance the economic resilience and sustainability of early adopters.
- It encourages farmers to do more to realise the intended (but indirect) benefits of the Universal Actions.
- It brings forward the opportunities in the Optional and Collaborative Layers of the SFS, where additionality and value for money are expected to be better (than for the Universal Layer): this can be illustrated by two examples.
    - First, at present, many farmers only participate in BPS as evidence from Habitat Scheme Wales (HSW) illustrates despite HSW being open to all farms from 2024, only 2,041 farm businesses (13% of full-time farms) claimed HSW payments.[109]
    - Second, the benefits of the biosecurity Optional Action include reducing the risk of very significant damage costs associated with animal disease outbreaks: according to the National Audit Office[110], the cost to the Welsh Government of the 2001 outbreak of foot and mouth disease was £102 million with a further £90 million uncompensated costs estimated to agricultural and food chain industries and over 1 million animals on about 1,000 farms were slaughtered on because of infection, dangerous contact or welfare reasons.
- It is critical to the long-term success of the SFS because it requires more farmers to act in ways that they have not previously chosen to do (e.g. soil testing to determine if inputs such as fertiliser are actually required saving money for the farmer and reducing pollution): the expected take up of these Actions could

[108] These impacts on Farm Business Income come from the ADAS analysis and are expressed at 2023 prices

[109]Some farmers may believe that they cannot meet the conditions of the current HSW or that the incentive available is not attractive enough.

[110] National Audit Office, 2002, The 2001 Outbreak of Foot and Mouth Disease

be greater than it would be with a low Social Value Payment (and would also be unlikely to be achievable through individual interventions (i.e. one focused on just soil testing)).

- As the Universal Actions are completed and follow up practices hopefully adopted, farmers should be able to deliver the expected outcomes more efficiently and increase their capability and knowledge to achieve other improved outcomes: this will reduce their costs which could enable Universal Layer payment rates to be reduced.

Direct and indirect impacts of changes in Farm Business Income

A high Social Value Payment rate also provides farms with higher payments from the Welsh Government than they would receive with the low Social Value Payment rate (approximately £67m per annum), but the modelling does not attribute any benefit to this. In practice, however, it will:

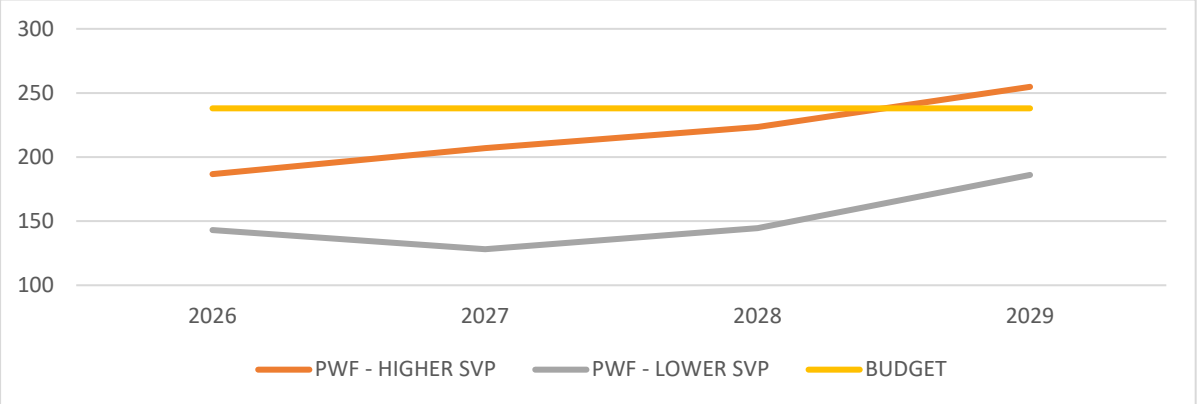
- Reduce the proportion of farms which suffer a fall in their Farm Business Income (compared to receiving BPS) and the mean and median size of this fall as well as increasing the proportion of farms which gain Farm Business Income – see Figure 4[111];
- Provide higher Farm Business Income (compared to the low Social Value Payment) which could potentially be invested in various ways, for example improved farming practices which further boost farm productivity and enhance environmental/social outcomes; and
- Have a positive impact on farms' resilience.

Affordability of the SFS

Different Social Value Payment rates vary in their overall costs and, hence, affordability.

With a Social Value Payment rate of £115 per hectare, faster take-up of the Universal Layer will mean that the Welsh Government's payments will increase more during the Transition Period than with the low Social Value Payment rate. In the central case, payments could exceed the Welsh Government's assumed budget for the Universal Layer by 2029 thereby making it unaffordable.

Figure 4: Projected Welsh Government payments under PWF (universal layer) with different Social Value Payment rates (£m, 2026-2029)



This also implies that initially relatively less resource will be available for the Optional and Collaborative Layers (which offer a higher return). This explains the difference during the Transition Period between the modelled BCRs of the PWF with the high and low Social Value Payment rate, although this does not fully capture the potential differences in the benefits. These are explored further below.

Longer term costs, benefits and affordability

In the longer term (beyond the Transition Period), depending on farmers' initial response to the Universal Layer, the Welsh Government expects to increase the share of its overall funding for the SFS which it allocates to the Optional and Collaborative Layers. This reflects a desire to put more emphasis on encouraging sustainable changes in farming practice and where BCRs are expected to be he higher. It may also be facilitated

[111] It is recognised that farm businesses may make other adjustments of their own accord.

if the cost to farmers of fulfilling the Universal Layer obligations falls. This means that the overall BCR of the PWF can be expected to increase steadily over time.

A high Social Value Payment rate which encourages earlier/greater participation in the SFS at the whole farm level during the Transition Period may generate further benefits which could accrue beyond this period (but which are not reflected in the model results). These benefits might arise from:

- More farms being willing to adopt and embed better, more efficient farming practices because of the Actions they take in the Transition Period, in part because they recognise that they are increasingly aligned to market/consumer requirements; and
- More farms being prepared to participate in the Optional and Collaborative Layers (which offer the highest return on investment) and, therefore, building a stronger pipeline of projects with a higher BCR.

In addition, a review of an agri-environmental scheme with habitat actions like the SFS[112] found that payments to farmers for maintenance of the farm's environmental assets "may influence not just the presence of a feature or habitat or whether it is managed, but also the type, quality and timing of its management, and the [longer-term] attitudes and behaviour of the farmer".

This implies that if the SFS can be made appealing to farmers by rewarding existing provision of social benefits, it may potentially foster more positive attitudes to the environment over time which, in turn, could improve additionality in the medium-longer term. Furthermore, in more vulnerable areas, it may improved farm resilience. One consequence of this would be to reduce the risk of possible abandonment and under-management of farms, thus avoiding adverse social impacts on rural communities which depend on farming.

The longer-term significance of this potential dynamic benefit can be illustrated by its potential impact on the expected BCR of the PWF over a five-year period beyond the Transition Period (i.e. from 2030 to 2034). Such benefits are subject to uncertainties around their scale and timing, and so will need to be considered as part of future evidence gathering.

As a baseline, before allowing for any dynamic benefits, it is assumed that the budget for the SFS overall remains at 2029 levels (in constant price terms) and 10% of each year's budget for the Universal Layer is switched to the Optional and Collaborative Layers. On this basis, the estimated BCRs of the PWF with different Social Value Payment rate are expected to increase from 1.82 to 2.08 (high Social Value Payment) and 2.22 to 2.94 (low Social Value Payment) between 2030 and 2034.

Then, it is possible to illustrate the potential significance of a high Social Value Payment rate if it gives rise to a combination of:

- A higher BCR from supporting Optional and Collaborative Layers relative to the low Social Value Payment (e.g. because the level of additionality is greater as farmers require less incentive to take-up the Actions); and
- More of the available budget being allocated to the Optional and Collaborative Layers because the quality of demand for support is stronger as farms are more familiar with the Actions and/or more willing to bring forward projects aligned to the objectives of the Actions.

On this basis, it is possible to illustrated how sensitive the respective BCRs potentially are to changes in each parameter. Table 47 shows how the gap between the BCR with a high Social Value Payment rate and the BCR with a low-rate changes as each parameter is changed. For example, an increase of 2 in the BCR on the Optional and Collaborative Layers, together with a 10% reduction in Welsh Government payments in support of these Layers, would see the BCR with a high Social Value Payment exceed that with a low Social Value Payment rate. The cells shaded green represent combinations which would push up the BCR with the high Social Value Payment Rate above that with a low rate.

[112] Defra, 2012, Dynamic Deadweight in Environmental Stewardship: Towards a better understanding of the added benefits of the scheme, a report submitted by GHK in association with Land Use Consultants

Table 46: Difference in BCRs between high and low Social Value Payment rates

		Reduction in % of Welsh Government payments allocated to Optional & Collaborative Layers (low Social Value Payment rate)					
		0	**-10%**	**-20%**	**-30%**	**-40%**	**-50%**
Increase in BCR on Optional & Collaborative Layers (high Social Value Payment rate)	**0**	-0.64	-0.54	-0.43	-0.31	-0.18	-0.04
	+1	-0.36	-0.26	-0.06	-0.04	0.09	0.24
	+2	-0.09	0.01	0.22	0.24	0.37	0.51
	+3	0.19	0.29	0.40	0.52	0.65	0.79
	+4	0.46	0.56	0.67	0.79	0.92	1.07

Realising these potential benefits of the PWF with a high Social Value Payment depends on:

- Building a better, more comprehensive understanding of the potential benefits (and costs) of the Actions which might be supported as part of the SFS; and
- Actively monitoring and evaluating the impacts of the SFS as it is implemented so that learnings can be fed back into improving its design to enhance the value for money: for example, it will be important to track the behavioural response of farmers to the incentives and obligations linked to the SFS.

How this will be done is explained as part of the Management Case.

What if the Social Value Payment rate was set at zero?

It is also useful to consider the implications of setting a Social Value Payment rate below the range covered by the modelling by IMP and ADAS: the extreme would be to set the Social Value Payment rate at £0 per hectare.

With a Social Value Payment Rate set at £0 per hectare, few, if any, farms would be likely to take up the SFS[113]. This would mean that the environmental benefits associated with the Universal Layer of the PWF would be largely foregone.

The main reason for this is that few farms would have the financial incentive to participate in the SFS because of the negative impact on Farm Business Income[114]. Table 48 summarises the implications for Farm Business Income if the Social Value Payment rate was set at £0 per hectare. Aggregate Farm Business Income would be reduced by £171.2m compared with if the Social Value Payment rate were £115/ha and £104.2m compared with paying Social Value Payment at £70/ha.

Table 47: Impact if Social Value Payment rate set at £0 per hectare on Farm Business Income (£ per annum, all farms)

	Social Value Payment @ £115/ha	**Social Value Payment @ £70/ha**	**Social Value Payment £0/ha**
Total SFS Universal Layer payment including Social Value Payment (£m)	243.7	176.7	
Total SFS Universal Layer payment with zero Social Value Payment (£m)			72.5
Less			
Current BPS payments (£m)	241.8	241.8	241.8
Gross margin reduction (£m)	47.7	47.7	47.7
Other compliance costs (£m)	33.4	33.4	33.4
Change in aggregate Farm Business Income (£m)	-79.2	-146.2	-250.4
Mean reduction per farm (£'000)	5.09	9.40	16.10

The loss in aggregate Farm Business Income would be highest for specialist sheep SDA farms (£69m), LFA mixed grazing farms (£62m) and lowland dairy farms (£31m).

[113] Although this has not been modelled like other Social Value Payment rates, the structure of payments, the expected costs and the income foregone from participation in the PWF suggest that there will be little incentive to participate.
[114] The impacts on farm Business Income are expressed at 2023 prices.

The mean loss in Farm Business Income per farm would be £16k with it being highest for lowland dairy (£50k) and LFA dairy (£31k) and lowest for lowland mixed farms (£9k).

With a zero Social Value Payment rate, the sustainability of many farms would be threatened because of their dependence on Welsh Government support:

- According to Welsh Government analysis of the latest Farm Business Survey for 2023-24 which has been used to estimate the profitability of 9,125 Welsh farms covering 1,259,000 ha, 76% of farm profits were derived from BPS payments; and
- Without BPS payments, the dairy sector would make the biggest profits along with cereal/general cropping farms but DA grazing, SDA beef and SDA sheep farms would make no profit, and the smallest farms (with output less than £250k) would make a loss.

What if the Social Value Payment rate was set above £115 per hectare?

Conversely, it is also useful to consider the implications of setting a high Social Value Payment rate than the range covered by the modelling by IMP and ADAS.

A Social Value Payment rate over £115 per hectare would exceed the budget available for the Universal Layer and thus would not be affordable. It would also reduce the funding which can be devoted to the Optional and Collaborative Layers, which offer potentially higher BCRs. This would reduce the expected BCR.

Furthermore, very limited (if any) additional environmental benefits should be anticipated because the IMP modelling is already based on nearly 100% take up of the PWF.

Table 49 shows that, if the Social Value Payment rate were set at £250 per hectare, aggregate Farm Business Income would be increased by £201m per annum compared with paying Social Value Payment at £115/ha.

Alternatively, setting the Social Value Payment rate at £168.2 per hectare would mean that the change in aggregate Farm Business Income would be zero, but it would require additional (transfer) payments by the Welsh Government of £79.2m per annum.

Table 48: Impact if Social Value Payment rate set above £115 per hectare on Farm Business Income (£m per annum, all farms)

	Social Value Payment rate @ £115/ha	**Social Value Payment rate @ 168.17/ha**	**Social Value Payment rate @ £250/ha**
Total SFS payment including Social Value Payment	243.7	322.89	444.7
Less			
Current payments	241.8	241.8	241.8
Gross margin reduction	47.7	47.7	47.7
Other compliance costs	33.4	33.4	33.4
Change in aggregate Farm Business Income	-79.2	-0.0	121.8
Mean reduction per farm (£'000)	5.09	9.40	16.10

In conclusion, setting a Social Value Payment rate above £115 per hectare would be unaffordable and would generate a lower expected BCR.

Conclusion – preferred Social Value Payment rate

The analysis above shows that:

- The expected speed of take up of the Universal layer of the PWF increases with the Social Value Payment rate;
- This then drives an increasing, higher BCR in the longer term if wider, dynamic benefits can be secured from accelerating take-up of the Universal Layer (although these are subject to uncertainty); and
- A Social Value Payment rate of £115 per hectare risks being unaffordable for the Welsh Government in the later years of the Transition Period.

It is possible to estimate the maximum social value payment rate which would be affordable over the Transition Period within the current set of assumptions. This rate is £107 per hectare.

Table 50 summarises the potential costs and benefits of the PWF with a Social Value Payment rate of £107 per hectare.

Table 49: Expected costs and benefits of the PWF with a Social Value Payment rate of £107 per hectare (£m, NPV)

	Transition Period (2026-2029)			**Beyond the Transition Period (2030-2034)**		
	Social value payment rate = £115 per hectare	**Social value payment rate = £107 per hectare**	**Social value payment rate = £70 per hectare**	**Social value payment rate = £115 per hectare**	**Social value payment rate = £107 per hectare**	**Social value payment rate = £70 per hectare**
NPSV of benefits	2,391.3	2,821.51	3,294.7	2,845.7	3,032.2	3,667.9
Payments to farmers by Welsh Government	1,310.4.4	1,294.3	1,273.9	1,370.3	1,368.1	1,350.2
BCR	1.82	2.18	2.59	2.08	2.22	2.72

The Welsh Government's intention is to manage the SFS actively. This means that it expected to undertake regular/annual reviews alongside on-going assessment to analyse its impact on the attitudes and behaviour of farmers (and delivered additional outcomes) so that it can track the value for money being achieved. The insights gained from this process will enable the Welsh Government to adjust the design of the SFS, including the payment methodology.

Other issues to note

Three other groups of issues should be noted in interpreting the Economic Case for the SFS:

- No formal weighting is applied to quantify distributional considerations beyond examination of potential impacts of payments for Farm Business Income: this is potentially relevant because key intended beneficiaries of the SFS are farmers some of which operate with relatively low farm incomes, rural communities: in practice, however, the limited differences in the impact of the PWF and BAU on farm economics in the short to medium term suggest that the additional distributional impacts will be modest.
- Linked to this, the focus of the analysis has been the impact of the PWF and BAU Options at the aggregate farm level: it is also important to recognise that the Options could affect local communities, for example by protecting social cohesion and maintaining local social capital, through increasing the security of food supply and benefitting the identity of Wales.
- As noted throughout the Economic Case, important limitations arise from weaknesses in the breadth and quality of the available evidence which make it difficult to provide robust estimates and establish with certainty:
    - The risks around possible double counting and attribution of impacts to the Options;
    - The potential take-up and likely costs of each Action;
    - What benefits associated with the Actions can be captured and monetised in a proportionate way;
    - The significance of costs and benefits which have not been considered;
    - The representativeness of the OAs and CAs which have been covered by cost-benefit analysis of all initial OAs and CAs; and
    - The dynamics of the transition to the SFS: much of the evidence reflects the expected state post-Transition when the BPS is not available.

COMMERCIAL CASE

Key question: Is the SFS commercially viable and attractive to the supply side?

The focus of the Commercial Case is on the preferred option carried forward from the Economic Case.

The Case sets out:

- The Welsh Government's procurement strategy as it applies to the SFS;
- The planned approach to procuring the key requirements of the SFS; and
- Arrangements for governance and oversight of procurement.

Procurement strategy

Procurement by the Welsh Government is governed by the Procurement Act 2023, the Social Partnership and Public Procurement (Wales) Act 2024, and the Health Service Procurement (Wales) Act 2024. The overwhelming majority of the Welsh Government's procurement is expected to be undertaken via the Procurement Regulations 2024.

In November 2024, Rural Affairs Wales launched a new 4-year Dynamic Purchasing System (DPS) for rural support.

The Rural Support DPS provides a framework contract where pre-qualified suppliers can bid for work tendered by Welsh Government for the services in each Category outlined. Unlike a standard framework, it is open for applications throughout its lifetime and provides a flexible framework to deliver the specialist services required by the organisation. The maximum value of the Rural Support DPS is £400m.

The DPS will facilitate procurement for the SFS as well as other major schemes and programmes within the Local Government, Climate Change and Rural Affairs Group. It is open for use by all Departments within the Welsh Government and some public bodies. It splits across three categories:

- Category 1 – Rural Support Programme and Project Support Services (including grant support services);
- Category 2 – Rural Support Advice and Technical Services; and
- Category 3 – Rural Support Engagement Services.

Applications from suppliers to join the DPS are considered on a rolling basis.

The Welsh Government will evaluate the effectiveness and efficiency of the DPS in 2027 to determine if a new framework should be introduced in 2028. Having regular review points in our procurement strategy will allow us to iterate and adjust to market needs and conditions.

Where the DPS is not suitable for the procurement needs of the SFS, officials will draw on other available opportunities through alternative Welsh Government frameworks and /or existing legislative powers.

Approach to procurement of SFS's key requirements

The principal commercial relationships arising from the design, delivery, implementation and monitoring of SFS relate to:

- RPW's existing contract for IT [and wider Welsh Government IT systems development];
- The Welsh Government's Farming Connect contract to provide advice and knowledge transfer to farmers and landowners; and
- Services to support monitoring and evaluation at a programme, action and activity level.
- Various policy development services necessary to create and evolve the scheme interventions.

To ensure efficiency and value for money, the procurement of these services may incorporate activities to support wider Welsh Government policy objectives (i.e. beyond SFS). These costs are embedded in the service provision so are included in *Table 51*. For example, Farming Connect will provide advice and support for

knowledge transfer and innovation to farmers on a range of relevant subjects to improve their performance and resilience. Whilst aligned to SLM objectives, this might not necessarily support SFS Actions. Similarly, RPW's IT will provide support for other non-SFS government financial interventions.

The Welsh Government's relationship with farmers and others participating in the Universal, OAs and CAs of the SFS are assumed not to constitute a commercial relationship (even though the support is provided in return for undertaking specified actions).

Furthermore, NRW's support for delivery of the SFS is not viewed as a commercial relationship as it is funded as grant in aid and its role and responsibilities are set out in its remit letter. Relevant service level targets and milestones will be agreed and monitored as part of routine due diligence checks. This assumes that:

- The policy team responsible for overseeing SFS will take the lead role in developing an appropriate SLA which includes delivery target/requirements; and
- The same policy team will be responsible for monitoring NRW's progress in delivering the agreed targets throughout the year, feeding issues and concerns back to the Welsh Government's sponsorship team.

Table 51 summarises the principal procurements currently envisaged as part of delivery of the SFS during the Transition Period. For each procurement, Table 51 shows:

- The broad requirement;
- An outline of the specification for the service streams and required outputs;
- The expected value of the procurement over the Transition Period from 2026 to 2029: these values are consistent with the budgets within the Financial Case; and
- The tool used to support the procurement.

Further details of the two main procurements: RPW's IT systems and Farming Connect are in Annex E.

Table 50: Summary of principal procurements envisaged as part of delivery of the SFS

Commercial requirement	Specification	Value (£m)	Acquisition tool
RPW IT	See Annex E	£16.4m/yr	Already procured
RPW IT: Farming Connect	Work to resource, develop, support and maintain the Farming Connect platform and its integration with the broader WG IT systems	£1.5m/yr	Already procured
Farming Connect - Knowledge and Innovation Transfer programme	Farming Connect is an all-Wales service to provide farms with a range of services tailored to their needs	£16.0 m/yr approximately	Rural Support DPS
Strategic Innovation Scheme (SIS)	The Strategic Innovation Scheme supports five key programmes of activity within agri-food, through advice and grant support, including: • Knowledge, Innovation and Technology for Success • Enterprise for Success • Skills for Success • Scale-up for Success • Clusters for Success	£15.0 m/yr approximately- only some of this will be directly connected to the SFS (and will come from the budget for CAs)	Rural Support DPS
Monitoring, reporting & evaluation	Services to support the gathering and analysis of data to inform and report on performance as required by the Act,	£0.2m	TBC

Commercial requirement	Specification	Value (£m)	Acquisition tool
	relating to SLM, SFS and wider powers of support		
Policy support	To be developed as required in response to the design and outputs from SFS (Universal, OAs and CAs)	TBC	Rural Support DPS
Carbon assessment	Support for the development of a tool to enable farmers and land managers to benchmark their greenhouse gas (GHG) emissions	TBC	TBC

The procurement to support monitoring, evaluation and reporting for the SFS will integrate outputs from the Environment and Rural Affairs Monitoring & Modelling Programme (ERAMMP)[115], with activity and other data to support the Impact and SLM reporting requirements under the Act. ERAMMP provides a wide range of evidence including monitoring through the national field survey, modelling for policy development and analysis supporting a range of initiatives, for example, Glastir and National Trends reporting; SFS; National Forest; Soil Carbon and informing monitoring and evaluating of the Sustainable Land Management Objectives. The award to the UK Centre for Ecology and Hydrology (UK CEH), as the lead for ERAMMP, ends on 31st October 2026.

The service providers supporting RPW were procured based on providing continued support for the delivery of SFS and the existing agricultural support offer (primarily BPS and RIS).

Risk apportionment

Overall, there are no known additional risks to the Welsh Government's commercial strategy at SFS level as existing procurement mechanisms will be used by organisations with the proven capability to deliver the services required to the desired standards. Specific procurements may present challenges, but risk apportionment is not a significant concern given the nature of what may need to be procured. Possible changes will be managed following the approach to change management set out in the Management Case.

Payment mechanisms

The SFS will pay for key services and outputs over its expected lifespan through:

- Procured payments for services; and
- Grant payments to farmers.

Procured payments

Payments for goods and services procured on behalf of Welsh Ministers in relation to the SFS will be governed under the authority of the Procurement Act 2023 and its regulations. They will be authorised pursuant to the authority of the Government of Wales Act 2006 (see sections 117 to 145) and the Agriculture (Wales) Act 2023 (see sections 8 to 20), as appropriate.

Grant payments

Grant payments made by RPW may be authorised by the Government of Wales Act 2006 (see sections 117 to 145) and the Agriculture (Wales) Act 2023 (see sections 8 to 20), as appropriate. RPW provides an online system managed by the Welsh Government to facilitate the application and management of rural grants and payment schemes for farmers and landowners in Wales. It allows users to apply for various schemes, manage

[115] ERAMMP is a pioneering scheme to develop a sustainable future for Wales. Led by UKCEH on behalf of the Welsh Government, it brings together a large consortium to ensure the ambitious programme has the right expertise and makes the best of existing activities from across the monitoring and modelling community.

their business information, and access support resources, including the BPS and land-based rural development payments. It will be used to pay farmers as part of the SFS.

Programme governance and oversight

The SFS will be regularly monitored, reported on and finally evaluated by the Programme Governance and Oversight Division of Rural Affairs Wales. Together with other internal (finance, Treasury and internal audit) and external partners (Audit Wales), the Division will provide portfolio management functions to more than £350m in projects, programmes and schemes administered from the Local Government, Climate Change and Rural Affairs MEG.

FINANCIAL CASE

Key question: Is the SFS affordable and fundable over time?

The focus of the Financial Case is on the affordability and fundability of the preferred option for the SFS. It considers expected Welsh Government expenditure in the Transition Period which has been defined as2026-27 fiscal year through to 2029-30[116].

The Case covers:

- The impact on the Welsh Government's income and expenditure account;
- The impact on the Welsh Government's balance sheet;
- A summary of the affordability of the SFS; and
- Stakeholder support.

Whilst the assessments of the SFS within the Economic and Financial Cases are related, notable differences exist. The economic appraisal focuses on values from the perspective of society and considers all social, economic, environmental costs (i.e. all effects on public welfare) whilst the financial appraisal focuses on affordability from the perspective of the Welsh Government. The key differences are summarised in Table 52.

Table 51: Comparison of scope and approach to economic and financial assessment of the SFS

	Economic assessment	**Financial assessment**
Focus:	Value for money - Net Present Social Value (NPSV)	Funding and affordability – cash flow and stock
Coverage:	UK society as a whole and distributional analysis where relevant	Relevant public organisation(s) budget
Relevant standards:	HM Treasury Green Book and supplementary guidance Discount rate applied	Public sector accounting rules and standing orders
Analysis:	• Real (relative base year) prices • Use of opportunity costs • Includes quantifiable welfare costs & benefits to society • Includes environmental costs & benefits • Excludes Exchequer 'transfer' payments • Excludes general inflation • Excludes sunk costs • Excludes depreciation, impairment and capital charges	• Current (nominal) prices • Benefits – cash releasing only • Includes capital and revenue costs • Includes transfer payments • Includes inflation

Impact on the Welsh Government's income and expenditure account

The budget for the SFS is summarised in Table 54. It is based on resource accounting and budgeting (RAB) principles and shows the resource costs over the Transition Period for the SFS.

Table 52: Projected annual budget for SFS (£m, current prices)

Cost element	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**2029-30**
Agriculture support (2833)	365.2	365.2	365.2	365.2	365.2
Rural Development Plan 2014-20 (2949)	1.5	1.5	1.5	1.5	1.5
RPW administration (2790)	3.8	3.8	3.8	3.8	3.8
Rural Payments Wales ICT (2789)	8.2	8.2	8.2	8.2	8.2

116 The Economic Case, in contrast, allows for the possibility that some8.2 economic costs and benefits may accrue over a longer period, up to 2050 and beyond.

Cost element	2025-26	2026-27	2027-28	2028-29	2029-30
Anticipated budget	378.7	378.7	378.7	378.7	378.7

In addition, Table 54 provides a cash flow statement showing how much is expected to be spent by the Welsh Government on:

- Administering the SFS and BPS (and RIS) over the Transition Period from 2026 to the end of 2029;
- Payments to farmers under the SFS and BPS as part of the tapering: the precise split between the two will depend on actual take-up of the SFS[117];
- Any other financial costs attributable to the SFS which are borne by the Welsh Government; and
- NRW's expected costs of establishing the SFS and then delivering it over the Transition Period;

Table 54 excludes the Departmental Running Costs (DRC) associated with delivery of the SFS[118]. In practice, these future costs cannot be readily apportioned between support for SFS and other responsibilities.

All the funding for the SFS is expected to be provided by the Welsh Government.

Table 53: Projected annual expenditure on SFS (£m, current prices)

Cost element	2025-26	2026-27	2027-28	2028-29	2029-30
Welsh Government	424.6	440.1	431.2	432.1	433.3
Administration[119]	33.0	42.1	33.2	34.0	35.0
• RPW staff costs	17.4	17.0	17.3	17.7	18.0
• IT costs	15.6	25.0	15.8	16.3	17.0
Advice and Guidance [120]	24.9	31.3	31.4	31.5	31.6
• Farming Connect[121]	11.3	11.0	11.0	11.0	11.0
• SFS targeted [122]	0.0	5.0	5.0	5.0	5.0
• Programme costs	13.6	13.6	13.6	13.6	13.6
• Additional Field &Technical advice	0.0	1.7	1.8	1.9	2.0
Payments to farmers/landowners[123]	340.8	333.7	334.0	334.0	333.9
Natural Resources Wales[124]					
Administration	1.0	1.6	1.2	1.2	1.2
• Part A NRW management plan delivery[125]	0.6	1.2	1.2	1.2	1.2
• Part B - Programme management / operational readiness[126]	0.4	0.4	0.0	0.0	0.0

[117] The model should include the contingencies needed to ensure that there is sufficient financial cover for risks and uncertainties.
[118] The DRC are part of recurring budgets that provide for the administrative operations of the Welsh civil service. Senior civil servants have a duty not to exceed the DRC DEL. If costs exceed the DRC in one account, they can only be covered with the agreement of the Welsh Treasury or the Minister to backfill those pressures with other Senedd approved funds that are unencumbered.
[119] Administrative expenditures have been converted to current prices using the Office for Budget Responsibility's latest estimate for the GDP deflator.
[120] Advice costs have been converted to current prices using the Office for Budget Responsibility's latest estimate for the GDP deflator.
[121] This covers the expected cost of the current Farming Connect contract – see the Commercial Case for further information. The actual costs may be higher or lower depending on contractual outcomes that have yet to be finalised/agreed.
[122] This is a placeholder to reflect potential procurement to support phased delivery of the SFS: it is based on constant £5m real spend from 2026-27 but may increase by the end of transition depending on demand.
[123] This reflects an assumed flat cash rollover based on the BPS & RIS budget allocation for 2025-26, minus the estimated programme and advisory costs
[124] The NRW Sponsorship Team manages and oversees agreed payments to NRW (e.g. SSSI, land management agreements and enforcement). In addition to its grant-in-aid, NRW costs for SFS include woodland verification (£1.3m per annum) and the National Peatland Action Programme (£1.35m CCES) and the LMA (included under the Nature Networks Programme (£0.6m))
[125] The costs from 2027-28 are subject to the outcome of a review of the SSSI pilots.
[126] Operational readiness is expected to be complete in 2025-26 but a contingency for potential costs for additional readiness activity during 2026-27 is included: this depends, in part on the outcome of the review of the current SSSI pilot.

The Business Case assumes that the Welsh Treasury will provide a minimum programme budget of £366m in cash terms in each fiscal year until 2029-30 for Rural Affairs programmes. This is effectively a flat cash roll-over over the life of the UK Government Comprehensive Spending Review with no anticipated uplifts for inflationary pressures. The allocation of this budget from year to year will be subject to annual approval of Welsh Ministers and the Senedd.

Officials currently estimate that the maximum budget provided for the Universal Payments (including the Basic Payment Scheme during the Transition Period) could be up to £238m each year, leaving £128m available for:

- OAs and CAs within the SFS including non-SFS support related to rural affairs (£98.6m);
- Other advice and support (£16.5m); and
- Programme administration costs related to the development, implementation, delivery and monitoring of funding programmes in Rural Affairs (£13.6m).

The proposed taper for those farmers who choose to remain in the BPS during the Transition Period will directly affect (increase) the budget available for the Optional and Collaborative Layers, assuming that the value of this taper will be retained for SFS. The full value of these BPS claims will be required for the SFS Universal Payment in the future, on the assumption that all farms will join the SFS.

Any unfunded pressures are currently managed through underspends within the broader Main Expenditure Groups (MEG) for Climate Change and Rural Affairs. It is assumed that this will continue during the Transition Period.

Impact on the Welsh Government's balance sheet

The expected investment in RPW's ICT systems will have balance sheet implications for the Welsh Government.

Using the straight-line method of amortisation over five years (which is the current approach to treating ICT expenditure by RPW), the implications for the Welsh Government balance sheet are summarised in Table 55. This shows that RPW is expected to invest £60.1m between 2025-6 and 2029-30. The residual value of this investment will be £40.4m in 2029-30.

Table 54: Projected impact on Welsh Government balance sheet (£m, current prices)

	2025-6	**2026-7**	**2027-8**	**2028-9**	**2029-30**	**2030-1**	**2031-2**	**2032-3**	**2033-4**
Investment in IT	15.53	18.01	8.59	8.80	9.15				
Cumulative investment in IT	15.53	33.54	42.13	50.93	60.08	60.08	60.08	60.08	60.08
Amortisation									
• 2025-6	3.11	3.11	3.11	3.11	3.11				
• 2026-7		3.60	3.60	3.60	3.60	3.60			
• 2027-8			1.72	1.72	1.72	1.72	1.72		
• 2028-9				1.76	1.76	1.76	1.76	1.76	
• 2029-30					1.83	1.83	1.83	1.83	1.83
Total amortisation	3.11	6.71	8.43	10.19	12.02	8.91	5.31	3.59	1.83
Total amortisation (cumulative)	3.11	9.81	18.24	28.42	40.44	49.35	54.66	58.25	60.08
Value of IT assets (net)	12.42	23.73	23.89	22.50	19.64	10.73	5.42	1.83	-

Affordability and funding of SFS

The SFS will need to operate within the funding envelope approved by Welsh Ministers and the Senedd on an annual basis. There will be a financial liability each year for multi annual commitments from the OAs and CAs, existing legacy RDP and existing RIS commitments, which will continue to be managed from the SFS budget.

As the SFS is demand led, there is never certainty that all allocated budgets will be spent in year, even with best efforts. Officials will regularly review expenditure and the projected outturn from the Universal Payment, BPS and annual and multi annual commitments from OAs and CAs. Action to mitigate the risk and increase expenditure include increasing the availability of schemes and programmes based on demand and outputs and operating within agreed overprogramming limits [up to 30%] to deliver against the available budget envelope each year.

Where budgets become tight due to significant demand or a reduction in allocated budgets, officials will adjust the availability of schemes and programmes within the SFS and broader Rural Affairs portfolio as appropriate, with Ministerial direction as necessary.

RPW's IT costs presented in Table 54 assume a 2-year implementation period for the SFS followed by 2-year steady state. The costs support the delivery of a Minimum Viable Product (MVP) in 2025-6, an enhanced IT offering in 2026-7 which provides full functionality and user features, and ongoing support and maintenance. If fundamental changes are required to the design of the SFS in subsequent years in the Transition Period, RPW's IT costs would increase in those years. Thereafter, the costs presented allow for no major IT changes after 2026-7. Any significant change in SFS design would have to be approved with associated RPW IT development and implementation cost.

There is also an added risk that, should these scheme change be identified and required at short notice, RPW IT development teams will have been downsized after 2026-7 and development capacity and capability will be limited, putting the delivery of scheme changes at risk.

Stakeholder support

Most stakeholders are supportive of a continued and preferably increased budget for SFS in recognition of the scale of investment needed to ensure the agricultural industry can meet the challenges and opportunities of significant issues such as the climate and nature emergency. Their views on the allocation of this funding to the different Actions (Universal, Optional and Collaborative) differ.

No external funding is required or involved in the delivery of SFS, although individual payment rates typically only contribute between 40% and 60% of the capital item/activity costs. It also provides the opportunity for additional funding to be accessible to farmers and landowners through commercial opportunities, including alternative funding sources such as green finance[127].

Some stakeholders are expected to continue to provide direct support to their membership, at no cost to the Welsh Government, enabling their members to gain the maximum benefit from SFS. This includes for example supporting the application process and or promoting certain Actions which align to their organisational priorities.

[127] See, for example, the Welsh Government's summary of responses to its Consultation on draft Sustainable Investment Principles published January 2025.

MANAGEMENT CASE

Key question: Can the SFS be delivered successfully?

The focus of the Management Case is on the preferred option. It considers:

- The approach to management of the SFS as a programme, including its governance;
- The plan for change management;
- The approach to benefit realisation;
- How the risks associated with the SFS will be managed; and
- Plans for assurance and evaluation of the SFS as a programme.

Programme management

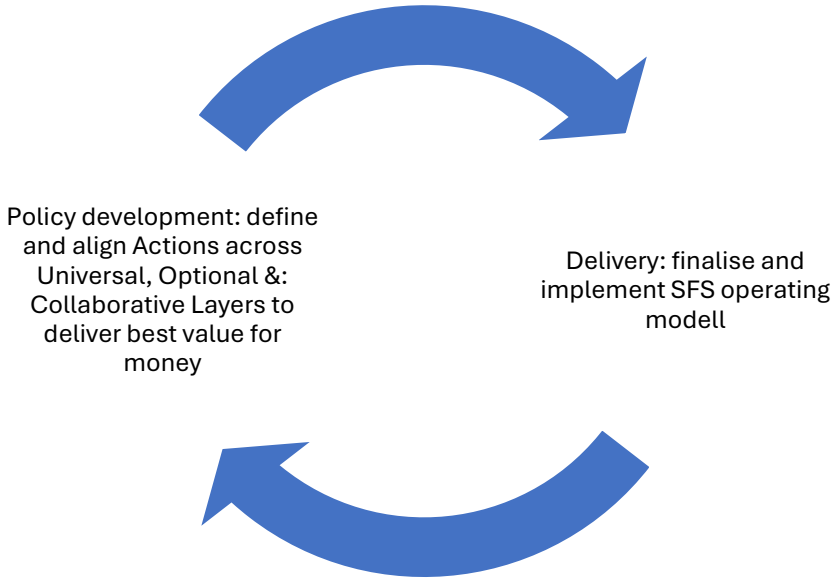
The SFS will be introduced through a 4-year Transition Period starting on 1st January 2026, running through to 31st December 2029. This is part of the first five-year Mult Annual Support Plan period as set out in the Agriculture (Wales) Act 2023 [the "Act"]. This period will cover the tapering and eventual closure of the existing BPS and RIS and further development of the SFS, especially the support be delivered as part of the OAs and CAs.

Figure 5 illustrates the overall approach to management of the SFS which is based on two steps:

- **Policy development**: the design of the SFS for launch at the start of January 2026 is now largely confirmed, it is expected to need to evolve further in response to feedback from its initial operation based on monitoring and evaluation of activity as well as changing market conditions and regulations;
- **Delivery**: this will involve finalising the SFS operating model, including appropriate end to end processes and data sharing with third parties.

Each step is explained further below.

Figure 5: SFS delivery framework



Policy design

As noted, a key feature of the SFS is the need for continued evolution of how its funding is used to maximise effectiveness in delivering the SLM objectives and improve value for money. This will involve regular consideration of which Actions should be:

- Introduced to address policy needs;
- Refined and adapted to improve their value for money and/or effectiveness; and
- Stopped, if they provide insufficient value for money and/or are ineffective in delivering the SFS's policy objectives.

To support this need, application of the 'ROAMEF cycle' will be embedded in the approach to managing the SFS (see Figure 6)[128]. Each stage of the cycle builds on the previous one to create a logical approach to the development and refinement of the SFS based on.

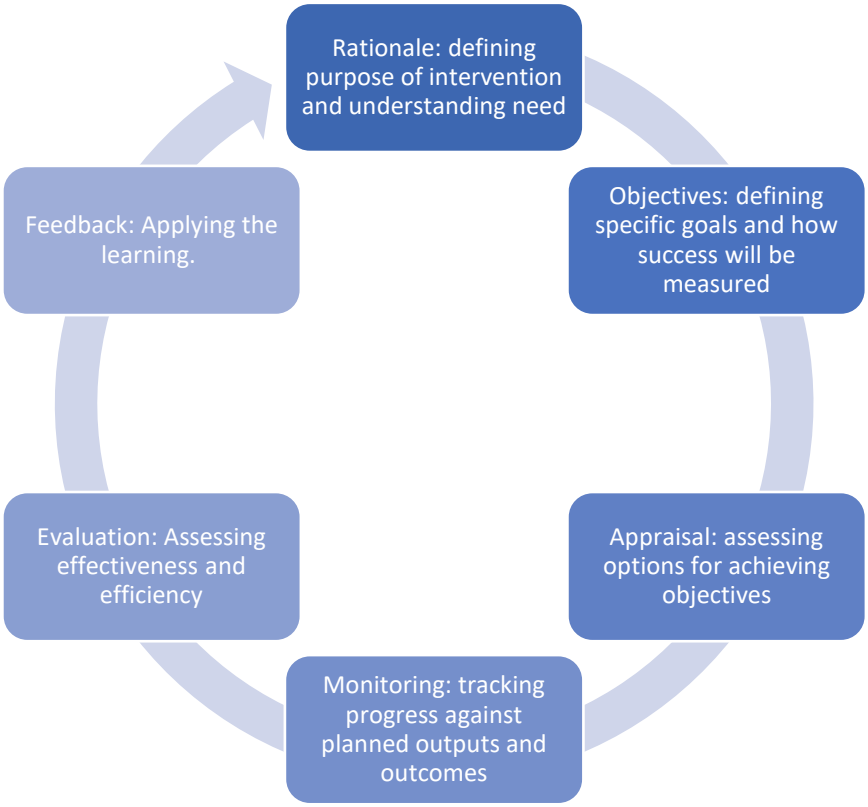
1. Rationale: Defining the purpose of each potential Action within the SFS and understanding why it is needed will help to establish what problem each Action within the SFS aims to address.
2. Objectives: Establishing clear objectives which outline what the SFS Action is intended to achieve, including defining specific goals and specifying how success will be measured.
3. Appraisal: Assessing the various options for achieving the defined objectives for each Action to determine which represents the best value for money based on considering the likely feasibility, effectiveness and potential impact of different approaches.
4. Monitoring: Ongoing monitoring of each Action during implementation to track progress against the planned outputs and outcomes (defined in Step 2) and so ensuring that the SFS remains on track to achieve its objectives within the available budget.
5. Evaluation: Periodically evaluating the effectiveness and efficiency of the different parts of the SFS based, in part, on stakeholder feedback and analysing whether the intended benefits are being realised in a way which represents good value for money.
6. Feedback: Applying the learning from monitoring and evaluation by ensuring that the insights gained inform future development of the SFS and improve practices.

As part of the ongoing management of the SFS, the intention is to:

- Establish an agreed process for developing and approving changes to SFS;
- Build an evidence base that can be used to inform the cost-benefit analysis which is integral to understanding the potential value for money of SFS Actions; and
- Establish appropriate capacity and capability for policy design, including business case development.

[128] The ROAMEF cycle is a performance management model presented in the HM Treasury Green Book..

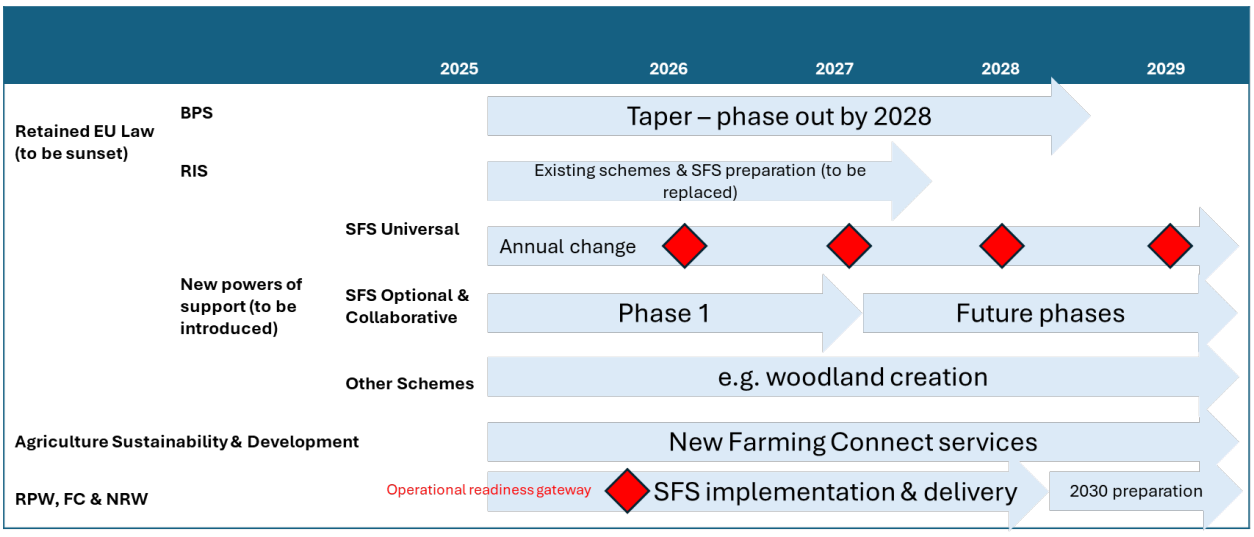
Figure 6: SFS policy development framework



Delivery

Figure 7 illustrates the key workstreams envisaged to deliver the SFS during the Transition Period. It includes an 18-month period from July 2025 to January 2027 during which the Universal Layer and the Year 1 OAs and CAs will be introduced to replace the BPS and RIS. This will be followed by a 3-year period during which further OAs and CAs will be introduced and the initial design refined as appropriate. This timescale for introducing the SFS is relatively short due to the parallel running of SFS and BPS which has been enabled by extensive industry engagement and early development of operational processes and IT systems.

Figure 7: SFS transition workstreams



Day to day implementation of the SFS will be led by Rural Payments Wales (RPW). It will use an agile methodology to develop the business processes and IT systems required to deliver the SFS objectives during the Transition Period. The delivery road map is summarised in Table 56.

Table 55: SFS delivery road map

Year 1 (2026)	**Year 2 (2027)**	**Year 3 (2028)**	**Year 4 (2029)**
SFS/BPS Annual Claims	SFS/BPS Annual Claims	SFS/BPS Annual Claims	SFS/BPS Annual Claims
Universal Layer /MVP SFS dashboard	Universal Layer /Refined dashboard	Universal Layer /Refined dashboard	Universal Layer /Final dashboard
Start BPS tapering	Ongoing BPS tapering	Final year of BPS	No BPS
RPW & Farming Connect system integration New Farming Connect contract start Basic data sharing with Farm Assurance Schemes	Integration between RPW and MSW / EID Cymru CTS[129] Farm Level Carbon Baseline New in-field mapping technology	Integration and Data Sharing arrangements with external suppliers and supply chain Integration and Data Sharing arrangements with external suppliers and supply chain	SFS Mobile 'Companion' App. Additional digital channel to RPW online
Designated site plans, and start Schedule of Works (SoW) Woodland Opportunity and Hedgerow Plans	Ongoing Designated site plans & SoW	Ongoing Designated site plans & SoW	Ongoing Designated site plans & SoW
Initial Optional and Collaborative SFS Common Land support.	Further Optional and Collaborative.	Further Optional and Collaborative	Further Optional and Collaborative
	On farm site assessments for areas of sensitive Habitat.	Ongoing	Ongoing

RPW's implementation plan focuses on delivery of a minimum viable product (MVP) for the PWF in Year 1 to support the go-live and delivery of the Universal Layer offer and the Year 1 OAs and CAs. This will also allow time for all three SFS Layers to be refined or developed further during the 4-year Transition Period as part of a continuous improvement cycle.

Delivery of the SFS will be largely based on existing systems which have operated effectively and efficiently: they underpin RPW's long standing, proven record of delivering rural grants and subsidy programmes under the EU's CAP. They are also trusted by users and other stakeholders.

RPW is updating systems such as the Land Parcel Identification System and data strategies to set out the operational approach, principles and long-term ambitions for supporting the delivery of SFS and wider SLM objectives. This will provide farmers, land managers and other stakeholders with a clear understanding of the progress and improved efficiency and opportunity expected in the future, whilst still providing an effective system from the beginning.

Monitoring and Reporting arrangements

The Welsh Government Programme Governance and Oversight Division (PGOD) is responsible for the monitoring, reporting and evaluation of all schemes funded within Rural Affairs Wales through two lenses:

- The legal requirements of the Act, including the SLM duties and the legal reporting requirements in relation to agriculture funding; and

[129] The scheme requirements in relation to carbon baseline at the Universal Layer and productivity actions in the Optional Layer, necessitate the need to receive and process large amounts of livestock data for the farm business. To reduce the burden on participants in the scheme, we will implement 'data sharing' interfaces between RPW and the Cattle Tracing System (CTS), managed by British Cattle Movement Services, and Electronic Identification Database (EID), managed by Hybu Cig Cymru. This will allow Welsh Government to receive all cattle and sheep data directly from the data processer, as required.

- The targets and indicators of the SFS itself.

PGOD will develop an evidence base to support the design and refinement of future SFS support. This will be informed by robust, continuous monitoring combined with monthly reporting of the SFS and evaluation of its components (circa every 5 years). The approach will be designed to provide Welsh Ministers and senior officials with regular opportunities to ensure that the SFS iterates to remain effective, efficient and value for money while being able to identify and resolve problems with early warning. The expectation is for a more in-depth review of the Scheme mid-way through the Transition Period in advance of the statutory SLM and Impact reports in 2030 to support the positive evolution of the Scheme.

Agriculture (Wales) Act 2023 Requirements

Under the Act, Welsh Ministers have a statutory duty to monitor, report and evaluate progress on the contribution towards achieving SLM objectives of any support given by the Welsh Government. Monitoring enables the Welsh Government to be accountable for its performance against the SLM objectives. It provides Senedd Members and the public with appropriate transparency so that they can track achievements.

The Act sets out a clear monitoring and reporting framework which is applicable to the SFS. It includes a set of overarching activities to assess and report on impact and value for money. It contains five levels of reporting:

- **The Multi-annual Support Plan** which is a five year forward plan setting out how Welsh Ministers intend to provide support during the plan period to contribute to achieving the SLM objectives[130]. It describes each scheme in, or expected to come into, operation during the period (for example, the SFS) and any support intended to be provided which is not under a scheme.
- A set of **SLM targets and indicators** will be defined and published by 31st December 2025 which will be used to assess progress against the SLM objectives. These targets and indicators will also be applicable to the SFS.
- **An Annual Report** to provide transparency that relevant support is being provided by the Welsh Government to the agricultural sector. Beyond providing information on the amount of support provided, the Annual Report will capture where support may have been withdrawn or recouped. The first Annual Report will cover the period from 17th October 2023 to 31st March 2025 (with publication due no later than 31st March 2026). Following this, all reporting periods will cover fiscal years.
- **An Impact Report** will be prepared every five years by the Welsh Government which will evaluate all the support provided under the Act. This will include an assessment of the impact and effectiveness of the Act. The scope of the Impact Report will include the SFS but will not necessarily be limited to it. The Impact Report will assess the way in which, and the extent to which, the support provided through a scheme or otherwise:
    - Has achieved its purposes;
    - Has contributed towards achieving the SLM objectives.
- **A Sustainable Land Management Report** will be produced every five years to assess the effectiveness of the actions taken by Welsh Ministers in accordance with the duty to achieve the SLM objectives. It will assess cumulative progress towards achieving the SLM objectives (since the SLM duty came into force) as well as progress made during the reporting period. It will also evaluate progress against the SLM indicators and targets and set out whether each target has been achieved. The report may also capture other matters, such as key priorities, risks and opportunities in relation to achieving the SLM objectives, and the effect that the progress made towards achieving those objectives has on wider Welsh Government goals. The first reporting period started on 17th October 2023 and is due to end on 31st December 2025. Subsequent reports will be on a rolling five-year period.

The SFS is intended to be the primary, but not the only mechanism of support provided by the Welsh Government to meet the SLM objectives. Its impact will be tracked through an effective monitoring and evaluation programme which incorporates performance and management data from RPW, NRW and other service providers. This information will support statutory reporting requirements as well as SFS development.

[130] Welsh Government, Multi-Annual Support Plan Agriculture 2025-2029, 2024

The Sustainable Farming Scheme

In addition to the monitoring and reporting requirements of the Act, the SFS will also have its own monitoring, reporting and evaluation framework so that the effectiveness and value for money of the scheme itself can be assessed. The approach will be consistent with HM Treasury guidance[131].

Working with relevant policy teams and RPW, PGOD will regularly monitor the component parts of the SFS to provide monthly dashboard reporting to the SFS Strategic Oversight Board and the Rural Affairs Portfolio Board. The aim will be to assess overall performance against key delivery milestones, spending targets, benefit outturn and a review of relevant risks, issues and benefit registers with recommendations to senior officials.

The outputs of this regular monitoring and reporting, together with regular modelling and data collection activities by the Environment and Rural Affairs Monitoring & Modelling Programme (ERAMMP), will provide senior officials and Welsh Ministers critical information to understand the processes, the impacts and the value for money of the Actions that form the SFS. They will also provide officials with evidence with which to explore the value for money of potential policy and scheme changes to improve impact in relation to target, indicator and benefit realisation for both the SFS and SLM legal requirements. A summary of this analysis is expected to be published alongside the Annual report to evidence the progress being made through the UAs, OAs and CAs.

At the conclusion of regular SFS delivery cycles, which we envisage will be every five years (but with an interim review mid-way through the Transition Period), an ex-post evaluation will be undertaken against the SFS delivery cycle for the previous five years to assess the effectiveness and impact of the Scheme; learn lessons from what worked well, what didn't and why; identify recommendations for future planning, policies, strategies and scheme designs; and, provide evidenced-based transparency to stakeholders that demonstrates the achievements of the SFS and the impact value of the funding that was allocated. This will tie in with the approach to change control.

PGOD, together with the Knowledge and Advisory Service (KAS) of the Welsh Government, will contract an independent evaluator to conduct the required ex-post evaluation Officials will look to time the publication of the ex-post evaluation concurrently with the publication of the Impact Report required by the Act.

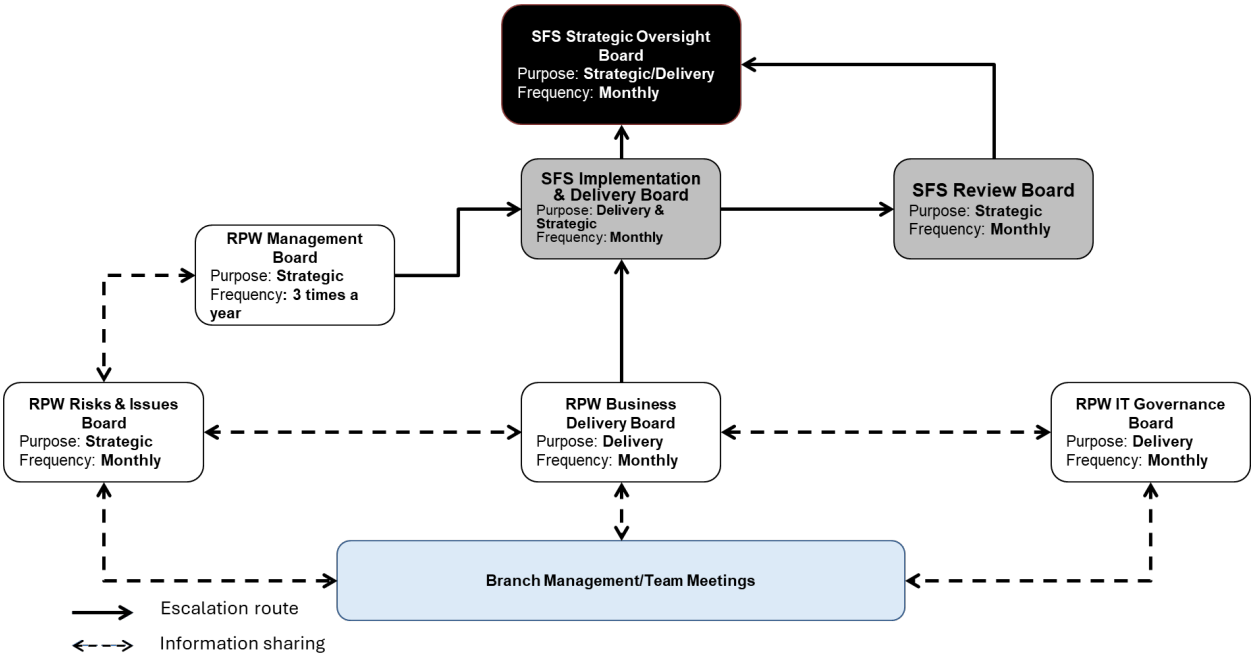
SFS governance arrangements

Figure 8 shows the proposed governance structure for delivery of the SFS. It is designed to:

- Ensure decisions are made in a timely way at the appropriate project level;
- Provide strategic leadership and direction;
- Foster a culture of accountability and transparency; and
- Provide oversight and guidance to improve the potential for success.

[131] HM Treasury, The Green Book, 2022 and The Magenta Book: Central Government guidance on evaluation, March 2020

Figure 8: SFS governance structure



The current Agriculture Change Board will become the SFS Strategic Oversight Board which will provide a formal internal engagement forum for policy, operational and programme monitoring officials to focus on:

- SFS scheme policy;
- SFS implementation and delivery;
- Budget management; and
- SLM and SFS programme monitoring, reporting and evaluation.

The Board will be chaired by the Programme Sponsor and will consist of Senior Management from Climate Change, Rural Affairs and Office of the Chief Veterinary Officer. It will benefit from input from key internal stakeholder such as Welsh Treasury, as appropriate, as well as key external representatives such as NRW.

Existing RPW governance structures will be re-purposed to focus on the operational implementation of SFS so that key business milestones, dependencies and activities can be actively managed, and any risks or issues are identified, monitored and escalated to maximise the likelihood of successful delivery of the SFS. This structure and process will be established in the RPW Governance Plan (see Annex G).

RPW will work with other key delivery partners, in particular NRW and the Farming Connect contractor(s), to deliver a seamless service to SFS applicants.

Membership and Terms of Reference for key governance structures will be widely drawn in recognition of the partnership working required to deliver the SFS to provide maximum benefit. Reporting and escalation routes will be identified early to ensure that issues and resolution chains are in place to reduce any adverse impact on SFS delivery.

Draft Terms and References for each Board can be found in Annex G. They will be reviewed regularly and will be updated to reflect any changes in the SFS during 2025 before delivery starts in 2026 and future enhancements during the programme period e.g. RPW Delivery Board may become the SFS Delivery Board once the scheme is fully implemented.

Key roles and responsibilities

The approach to development and delivery of SFS will incorporate good practice. It will maintain the internal and external stakeholder engagement which has been present during the recent policy development that has shaped the SFS. This engagement and feedback will be supported by an SFS Review Group (internal) which will continue to maintain those internal stakeholder relationships and gather insights and intelligence from other

groups to inform, along with monitoring and evaluation reports, any future changes for recommendation to the SFS Strategic Oversight Group. It will supplement existing engagement on related policy, support and regulations.

The Director for Rural Affairs will be the programme sponsor and accounting officer for the budget. The Director, along with the Programme SRO (the Head of Agriculture Division), will be accountable for delivery of the SFS and for ensuring that it meets its objectives and delivers the expected benefits. They will lead and champion the programme. They will also be empowered to direct the programme and take key decisions, for example, on the allocation of resources.

PGOD has overall accountability for delivery of the SLM objectives in addition to oversight of all programmes, projects and schemes, including strategic budget and programme management matters. The Division holds exclusive authority over:

- Funding decisions within and out with SFS (as they relate to the agriculture budget);
- The frameworks used to allocate funding;
- The monitoring, reporting and evaluation of programmes, projects and schemes, including the SFS; and
- Ministerial advice on budgeting and SLM.

Agriculture Division will be responsible for the continued development of SFS related policy, including engaging with stakeholders to develop the SFS in partnership. It will integrate this work with its existing responsibility for wider, agricultural policy, such as the pathway to net zero, market support and intervention during periods of volatility. It will also ensure effective internal and external collaboration to provide an integrated Welsh Government position which considers the economic environmental and social priorities for the SFS and alignment with SLM objectives.

Programme plan

Implementation of the SFS from Day 1 of the Transition Period will be based on an ambitious, collaborative approach that will deliver in parallel both:

- The final policy scheme requirements and support; and
- The required business processes and IT systems to deliver the Universal Layer of the scheme by 1 January 2026 and support future onboarding of Optional and Collaborative layers thereafter.

The overarching programme plan for the 4-year Transition Period will be used to track progress with activities, deliverables and milestones that together with the regular monitoring, reporting and evaluation activities undertaken by PGOD will ensure deliver performance. Any risks and issues will be tracked via the existing RPW governance boards referenced above and in more detail in the risk management section below. Escalation will be via the SFS Strategic Oversight Group, the SRO and the Welsh Government Sponsor (the Director for Rural Affairs).

External support requirements

RPW has designed a Target Operating Model to provide the structure, capacity and capability required to deliver the SFS on a day-to-day basis. It will integrate resources from other parts of Welsh Government, statutory bodies such as NRW and externally procured service providers.

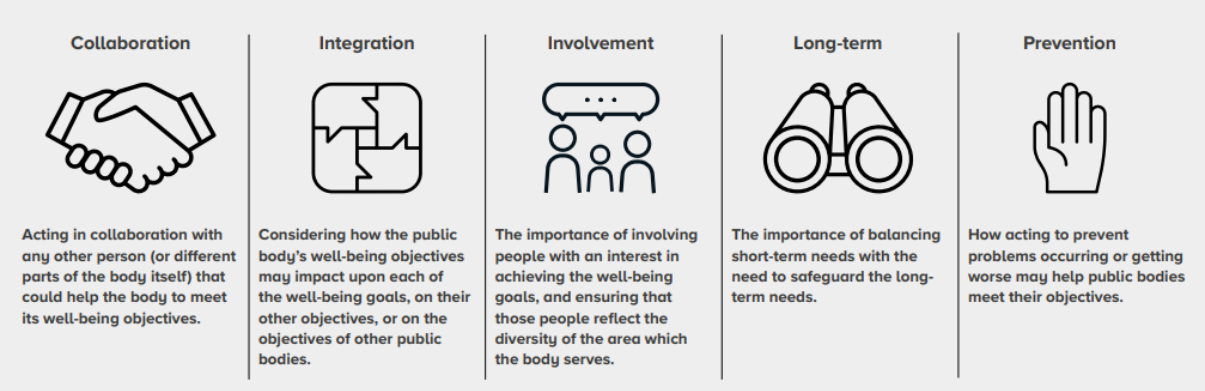
The actual technical and resource requirements, which have been established based on the current SFS design, will depend on factors such as the take up of the UAs, OAs and CAs. It is recognised that there may be periods of intense activity, for example during application periods and on farm assessments as part of the OAs, where customer demand exceeds capacity. If required, the Dynamic Procurement Service (DPS) will be used to supplement existing resources at peak times.

External stakeholder engagement

Public bodies need to make sure that their decisions consider the impact they could have on people living their lives in Wales in the future. There are five things that public bodies need to think about to show that they have applied the sustainable development principle of the Well Being and Future Generations Act (see Figure 9). By

doing this, they can work together better, avoid repeating past mistakes and tackle some of the long-term challenges we are facing.

Figure 9: Ways of working to apply sustainable development principle



As set out in the Strategic Case, the Welsh Government, in implementing the Agriculture (Wales) Act 2023 and developing the SFS, has engaged widely and effectively with stakeholders, including the public. This engagement through consultation and co-design has enabled the Welsh Government to understand and respond to the needs of farmers, farming unions and other organisations such as environmental NGOs and the wider public in developing its proposals for the SFS.

The structure deployed, with operational groups (e.g. Officials Group, Trees and Hedges Stakeholder Delivery Group and RPW User Group) supporting more strategic conversations (Ministerial Roundtable), has been an efficient and effective way of developing the SFS. It has helped to build consensus given often differing stakeholder ambitions and objectives. This formal structure has been supported by ad hoc, more in-depth engagement.

This approach, which is consistent with the five ways of working in Figure 9, is intended to be the foundation for future engagement with stakeholders. Whilst the various groups will need to evolve in response to the changing needs of the SFS, they currently remain broadly fit for purpose. Officials will review and update their Terms of Reference in advance of the SFS's introduction in 2026.

Change management

Change management strategy

As noted in the Strategic Case, the design of the SFS is expected to evolve and adapt over time, both in response to changing policy needs and evidence from monitoring and evaluation of the effectiveness and value for money of its support. In addition, well planned internal changes may enable improvements in the efficiency and effectiveness of the business processes used to deliver the SFS. This will be part of a continuous improvement cycle.

The ability to manage change successfully will be a critical determinant of how successful the SFS will be. This is true both during the Transition Period and beyond. The change management strategy for the SFS, therefore, is designed to enable the systems, processes and people working on the SFS across the Welsh Government to adapt quickly and flexibly.

Change management framework

Ultimate responsibility for the managing the delivery of change within the SFS will lie with the SFS Strategic Oversight Board.

Given the complexity of the context within which the SFS will operate (e.g. to address the climate change and nature emergencies), as well as the need to continue to align with other Welsh Government initiatives, consideration of all options for change needs to align with the Welsh Government's longer-term strategy for initiatives.

Change management plans

To manage operational change effectively throughout the SFS Transition Period, the following key strategies have been established:

- An overarching control plan which sets out the high-level controls that RPW will put in place to administer and validate the SFS and includes the work of delivery partners and contracted service providers which is explained more in the commercial case.
- A Target Operating Model (TOM): Work commenced on this in 2024, and a formal staff consultation period closed on 28th March 2025. The final TOM structure to support implementation and delivery of SFS was agreed in May 2025.
- An overarching change control strategy setting out governance, roles and responsibilities and timings to manage ongoing change effectively and deliver continuous improvement.
- Repurposing of SFS Programme Delivery Board into an SFS Review Group which can identify and recommend changes to the SFS Oversight Group for approval in line with the Change Control process.

Benefits realisation

Whilst ultimate responsibility for SFS benefits realisation lies with the SRO, benefit management will be led by PGOD.

SFS benefits realisation strategy

Both the objectives and the expected benefits of the SFS are set out in the Strategic Case which also explains how they align with the overarching objectives of SLM.

The expected benefits and the potential economic costs of the SFS have been appraised as part of the Economic Case following guidance in the Green Book[132]. This analysis has covered the Universal, Optional and Collaborative Layers of the SFS.

The appraisal of the Universal layer by IMP and ADAS has assessed the potential impact of all 15 UAs together as a package; it does not distinguish the contribution of individual Actions.

The appraisal of the OAs and CAs has considered the 17 planned Year 1 Actions separately. Each has been supported by the development of a logic chain which describes the expected relationship between the activities which farmers and landowners are expected to undertake to fulfil their obligations under the SFS and the resulting outputs, outcomes and, ultimately, the impacts and benefits.

It has not been possible, however, to monetise and, in some cases, quantify all the costs and benefits of the planned OAs and CAs. Furthermore, as noted in the Strategic Case, the nature and scope of the OAs and CAs will potentially need to evolve in the future, especially beyond the Transition Period. This will create a need for adequate evidence to support decisions that affect benefit realisation. Officials will continue to develop this evidence base to strengthen future policy decisions and support reporting of benefits.

Nonetheless, based on the work done as part of the value for money analysis in the Economic Case, the priority benefits of the SFS can be identified. These are the benefits which will be the initial focus of benefits management.

For each priority benefit, work has been undertaken to identify:

- The activities required to initiate the benefits;
- The required changes in farming/land management practice – and/or wider behavioural change - required to deliver the benefit;
- The expected outputs and outcomes which can be tracked as part of monitoring delivery of the expected benefits; and

[132] HM Treasure, The Green Book, 2022

- Appropriate indicators to support tracking of benefit realisation: further work is needed to refine these indicators, including aligning them as necessary with those being developed by the Welsh Government to track delivery of its SLM objectives.

SFS benefits realisation framework

This mapping provides the framework for managing benefits realisation.

Further work will be undertaken led by PGOD to:

- Define/refine the appropriate metrics and key performance indicators (KPIs) for tracking delivery of each of the priority benefits;
- Plan how the metrics will be measured and monitored, including establishing an appropriate baseline/counterfactual for each benefit;
- Ensure that the metrics selected can be measured in way which provides an unambiguous basis for assessing performance: this will involve:
    - Consideration of all inter-related metrics (e.g.by using driver trees);
    - Avoidance, to the extent possible, of any assumptions with the chosen metric (e.g. not using economic multipliers to monetise non-financial benefits; not netting off any baselines);
    - Using proxy measures only where no ideal metric exists and where the approach can be justified; and
- Agree how the measures, KPIs and baseline will be collected.

It is also important to be clear who is responsible/accountable for the actual realisation of each benefit as part of the SFS. This includes:

- Evidencing senior level commitment to benefits realisation;
- Establishing an appropriate governance model for continued oversight and monitoring of the benefits realised; and
- A plan for post implementation reviews, including specified review points.

Finally, the approach to SFS risk management includes consideration of the issues associated with benefits realisation.

Benefits register

The benefits register, which can be found at Annex F, defines the benefits currently expected to arise from the SFS. All the benefits identified in the Strategic Case and appraised in the Economic Case are included. The benefits register will be regularly reviewed as part of planned approach to benefit realisation.

Risk management

Risk management for the SFS is based on an approach which involves:

- Defining a risk management strategy which supports proactive and effective risk management;
- Establishing a risk management framework within which risks are identified, mitigated and managed;
- Embedding risk management fully into business processes to ensure that it is applied consistently, with escalation to capture as appropriate; and
- Senior management leadership, support, ownership of risk management.

Risk management strategy

The planned strategy for the proactive and effective management of risks associated with the SFS programme involves:

- Identifying possible risks in advance and establishing mechanisms to minimise their likelihood of materialising with adverse impacts;
- Applying processes to monitor risks and access reliable, up-to-date information about risks;
- The appropriate balance of control to mitigate against the adverse consequences of risks, if they materialise; and

- Decision making processes supported by a framework for risk analysis and evaluation.

Risk management framework

The planned approach to risk mitigation includes:

- **Consultation with affected parties**: the design of the SFS has been – and will continue to be – developed based on extensive consultation with key stakeholders to identify the policy requirements and consider how best they might be addressed;
- **Pilot studies**: development of the SFS has involved learning from experience and piloting some proposed Actions to test how best their requirements can be met and any potential adverse consequences (i.e. bad outcomes) avoided, or to increase the benefits of good outcomes;
- **Design flexibility**: since future demand for SFS support is uncertain, implementation plans for the SFS are designed to be flexible so that they can accommodate the possible need for future changes: this will be achieved by establishing a series of review points at which elements of the SFS can be changed or stopped;
- **Procurement and contractual intervention** to transfer risk to other parties and maintained through good contractual relationships, both informal and formal; and
- Using RPW's established technology where possible to reduce risk.

By managing risks in these ways, the expected benefits of the SFS are increased and/or its costs are lowered.

Risk management outline plan

Throughout policy development for the SFS, the Welsh Government has considered the potential risks associated with farm support change programmes.

Whilst identification of programme level risks might occur at any point in the governance landscape, escalation of significant programme level risks will be to the SFS Strategic Oversight Board, with this integrated into the wider Rural Affairs (the budget holder) and Welsh Government risk management system. By extending the existing governance structure to its delivery partners, all major strategic and delivery risks will be managed and mitigated.

Operationally, RPW staff and delivery partners will identify and dynamically manage and mitigate risks daily. RPW's governance framework includes the identification, evaluation, assessment and capture of risks where appropriate.

Operational Risks will be raised and assessed in a controlled manner so that potential mitigations can be adequately considered. All decisions will then be recorded at the monthly RPW Risks and Issues Board:

Contingency plans

RPW is the existing delivery body for farm support in Wales. During the SFS Transition Period to the end of 2029, a period of 'dual running' will exist as existing farm support schemes (i.e. BPS and RIS) run alongside the SFS. This together, with the use of SAF as the application process for both, will provide a 'ready-made' contingency if implementation of SFS in 2026 is delayed due to internal or external events, such as significant disruption from an exotic disease outbreak. Farmers will still be able to apply for support in 2026 as they have previously used existing application methods.

RPW has existing business continuity and disaster recovery plans to minimise disruption in the event of local or global impacts to services. These plans have been reviewed and refined following Brexit and the Covid 19 pandemic. They will now be extended to take account of the partnership working approach to SFS, for example, the role of NRW in developing Designated Site management plans.

Programme assurance

The SFS is using the Gateway Review process to provide independent assurance. The latest Gateway Review on Business Case development was undertaken and all actions completed in May 2025.

Further operational readiness Gateway Reviews are planned for September 2025 and immediately before the SFS is launched in January 2026.

Following launch of the SFS, an Internal Audit Services audit review of operational processes, controls and SFS payment calculations is planned for Autumn 2026 before the advance payments are released.

Additionally, the newly formed Assurance Panel is undertaking a deep dive into SFS Governance and Risks during July 2025.

RPW intends to continue to rely on the scheme level assurance mechanisms used to administer CAP schemes including:

- On-the-spot-checks (i.e. farm inspections);
- The LPIS Quality Assurance process; and
- Review of irregularities and fraud.

A. THE VALUE OF AGRICULTURE IN WALES

Introduction

This Annex provides an overview of the historic and current contribution of farming to Wales. It summarises:

- The pattern of land use;
- The characteristics of farms;
- The economic role of farming in terms of farm business income (FBI), value added and employment and food production and security;
- The role of farming in greenhouse gas emissions, including carbon sequestration;
- The impact of farming on air quality;
- The role of farming in providing ecosystem services; and
- Other social impacts of farming.

Land use

Wales's agricultural sector is largely grassland and livestock based with significant geographic variation depending on topographic, soil and climatic conditions which affects the suitability of land for individual livestock types.

In June 2024, the total amount of land on holdings was 1,775,200 hectares with a further 180,300 hectares of common rough grazing. Land used for agricultural purposes accounted for around 90% of Wales' total land area. Permanent grassland accounted for two-thirds (62%) of the land on farms in Wales; the remaining land comprised new grassland (9%), rough grazing (14%), arable crops (6%) and other land (9%)[133].

Table 1 shows key characteristics of the farm population in Wales in 2024. It also shows the distribution of this population by farm type. Key points to note include:

- 1,315 dairy farms provided 42% of standard output but were 5% of the total number of farms;
- 61% of farms were designated as micro-farms and they accounted for 16% of land on farms and 5% of standard output;
- The 4,100 farms grazing on Significantly Disadvantaged Areas (17% of the total) covered 43% of land area and provided 19% of standard output.

Table 56: Characteristics of Welsh farms (June 2024)[134]

Farm type	Farms	Land on farms ('000 hectares)	Cattle ('000 head)	Sheep ('000 head)	Standard output (€ millions)
Dairy	1,315	180	501	206	831
Significantly Disadvantaged Area (SDA) graze	4,100	608	232	5,732	373
Disadvantaged Area (DA) graze	1,795	166	156	1,138	142
Low graze	1,048	88	104	471	86
Arable/mixed	899	126	50	353	177
Specialists	399	36	8	104	247
Micro	14,759	221	40	746	101
All farms	24,315	1,424	1,091	8,752	1,957
	% of total				
Dairy	5%	13%	46%	2%	42%
SDA graze	17%	43%	21%	66%	19%
DA graze	7%	12%	14%	13%	7%

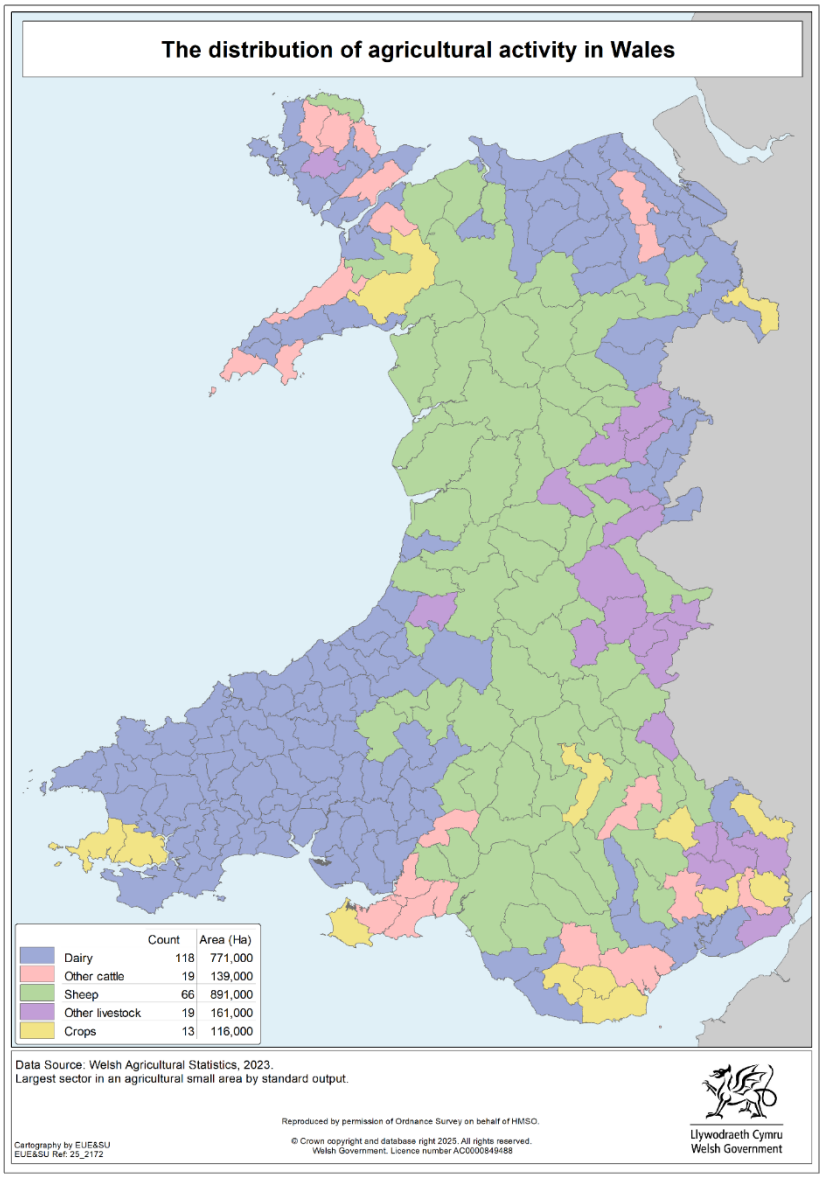
[133] Other land consists of farm woodland, buildings and land not used for agricultural purposes. See Welsh Government, Survey of agriculture and horticulture: June 2024

[134] Welsh Government, Survey of agriculture and horticulture, June 2024

Farm type	Farms	Land on farms ('000 hectares)	Cattle ('000 head)	Sheep ('000 head)	Standard output (€ millions)
Low graze	4%	6%	10%	5%	4%
Arable/mixed	4%	9%	5%	4%	9%
Specialists	2%	3%	1%	1%	13%
Micro	61%	16%	4%	9%	5%
All farms	100%	100%	100%	100%	100%

Figure 1 illustrates the geographical distribution of agriculture activity across Wales.

Figure 10: Geographical distribution of agricultural activity in Wales by standard output (2023)135



The Welsh Government's latest survey of agriculture and horticulture[136] estimates the number of livestock in Wales in 2024:

[135] Welsh Agricultural Statistics
[136] Welsh Government, Survey of agriculture and horticulture: June 2024

- The total number of cattle and calves was 1,089,800;
- The number of dairy females aged 2+ years that had calved[137] was 251,300; and
- The size of the beef herd using an equivalent definition was 140,700.

Since 2004, the size of the dairy herd has increased by 3% whereas the size of the beef herd has fallen by 33% (see Table 2)[138].

Table 57: Cattle by type by year (2004-2024)[139]

Cattle type	2004	2014	2024
Male under 1 year	169,860	131,953	129,124
Beef female under 1 year	135,184	101,274	113,824
Dairy female under 1 year	56,776	71,781	77,828
Male aged 1-2 years	126,901	97,693	95,559
Beef female aged 1-2 years	105,143	83,090	94,875
Dairy female aged 1-2 years	59,121	66,960	77,233
Male aged 2+ years	47,601	45,908	34,682
Beef Female 2+ no offspring	51,858	46,433	37,939
Dairy Female 2+ no offspring	58,616	55,572	36,800
Beef Female 2+ w/offspring	210,699	167,799	140,659
Dairy Female 2+ w/offspring	244,776	234,305	251,313
Total cattle & calves	**1,266,535**	**1,102,768**	**1,089,836**

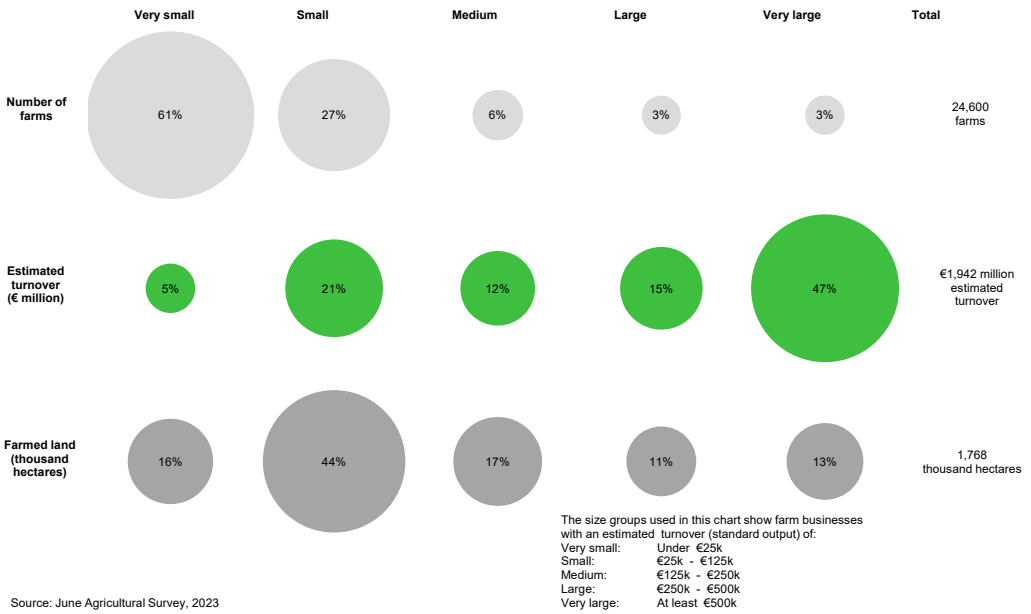
The number of sheep and lambs in Wales grew during the 1970s and peaked at 11.8 million in 1999. It then dropped in the subsequent decade, in part due to the operation of the EU CAP when support based on the number of livestock kept where phased out. Numbers then began to rise again for several years but for the last 10 or so years have fluctuated up and down. However, the figure around 8.7 million seen in the last 2 years is the lowest level since 2011

Economic role of farming

Figure 2 shows a breakdown of the results of the Welsh Agricultural Survey in June 2023. It shows the number of farms, their estimated turnover and land farmed by size of farm (based on estimated turnover). Whilst the largest farms accounted for 47% of total turnover, they were only 3% of farms. In contrast, the smallest farms were 61% of the total and produced 5% of turnover on 16% of farmed land.

[137] This is generally accepted as a measure of the dairy herd
[138] The source is the Cattle Tracing System (CTS) which is managed by the British Cattle Movement Service (BCMS)
[139] Welsh Government, Survey of agriculture and horticulture, June 2024

Figure 11: Share of farms, business turnover and farmed land by economic size of farm across Wales (2023) [140]



Labour on agricultural holdings Wales

Table 3 shows the change in farm labour between 1998 and 2023. Overall, total labour declined by 11,708 (18.9%) to 50, 244.

Table 58: Farm labour in Wales (1998 – 2023)[141]

	All principal farmers, directors, business partners and their spouses		Total regular and casual workers	Total labour
	Full-time	Part-time		
1998	25,784	19,558	16,610	61,952
2023	18,014	20,228	12,002	50,244
Change 1998-2023	-7,770	670	-4,608	-11,708
% change 1998-2023	-30.1%	3.4%	-27.7%	-18.9%
Average year on year change	-311	27	-184	-468
Average % year on year change	-1.2%	0.1%	-1.1%	-0.8%

Food production and food security

Food security is a growing concern, influenced by economic, environmental and political factors.

Approximately 20% of people in Wales experienced food shortages between 2021 and 2022, indicating a significant portion of the population facing food insecurity[142]. Younger people (aged 16–34) are most exposed to low food security[143].

Concerns about food security have been shaped by:

- Economic challenges: Rising food prices, inflation and changes in agricultural subsidies have strained household budgets, making it difficult for many to afford sufficient, nutritious food.

[140] Welsh Government, Agricultural survey, 2023
[141] Welsh Government, Agricultural survey, various years
[142] Our Food 1200
[143] Food Standards Agency, Food Security in Wales, 2018

- Climate change: Extreme weather events, such as floods and droughts, have disrupted food production and supply chains, leading to reduced availability and higher prices[144].
- Political and trade issues: Post-Brexit trade barriers and global conflicts have affected food imports, contributing to supply chain disruptions and increased costs[145].

Net greenhouse gas emissions

The Welsh Government is targeting a 63% reduction in greenhouse gas (GHG) emissions by 2030 and achieving net-zero emissions by 2050.

GHG emissions in Wales have decreased by 36% since 1990 although progress has plateaued recently, with no significant change between 2021 and 2022. The industrial sector is the largest emitter, but other major contributors include agriculture[146].

A 2023 analysis found that GHG emissions and carbon sequestration from agriculture account for approximately 14% of Wales's total GHG emissions, with livestock farming being the predominant source. Methane (CH_4) from enteric fermentation in cattle and sheep contributes about 61% of agricultural emissions[147]. Nitrous oxide (N_2O) emissions come from manure management and fertiliser application. Carbon dioxide (CO_2) is emitted using machinery and energy consumption on farms.

Agricultural emissions peaked this century at 6.1 $MtCO_2e$ in 2004; in 2022, they were 5.6 $MtCO_2e$ in 2019[148].

Carbon sequestration in Wales agriculture focuses on:

- Woodland creation: as of March 2024, Wales has 0.4 million tonnes of CO_2 projected to be sequestered through validated Woodland Carbon Code projects[149]; and
- Soil and peatland management: while soil and peatland carbon capture contribute to mitigation, their potential is limited to 5–10% of the total needed at the UK level[150].

Impact of farming on air quality

The agricultural sector adversely impacts air quality in Wales, primarily through emissions of ammonia (NH_3) and other pollutants which affect human health and the environment.

Agriculture is responsible for approximately 93% of ammonia emissions in Wales[151] with major sources including livestock waste, slurry spreading and fertiliser application. Ammonia contributes to the formation of fine particulate matter ($PM_{2.5}$), which poses health risks such as respiratory and cardiovascular diseases[152]. The particulate matter can travel afar, contributing to air pollution background levels in urban areas. Agricultural activities also emit nitrogen oxides (NO_x) and non-methane volatile organic compounds (NMVOCs)[153].

Ammonia and nitrogen pollution from agriculture adversely affect approximately 56% of Wales's land area, harming sensitive habitats like ancient woodlands, bogs and heathlands[154]. Excess nitrogen deposition also leads to eutrophication and acidification which alters plant communities and reduces biodiversity.

Wales is bound by international and domestic law to reduce its ammonia emissions. The National Emission Ceilings Regulations 2018 set a target reduction of 16% by 2030 from 2005 levels.[155] The Welsh Government introduced the Water Resources (Control of Agricultural Pollution) (Wales) Regulations 2021 to address

[144] Our Food 1200
[145] Our Food 1200
[146] Welsh Government, Wellbeing of Wales, 2024
[147] Wales Centre for Public Policy, How could Wales feed itself in 2035? Evidence Pack, 2023
[148] Welsh Government, Emissions of greenhouse gases by year, Accessed June 2025
[149] Forest Research, Forest Statistics, 2024
[150] ERAMMP Short Report-01, The opportunities and limitations of carbon capture in soil and peatlands, 2023
[151] Farming Connect, Air pollution: The role of agriculture in Wales, 2020
[152] Farming Connect, Air pollution: The role of agriculture in Wales, 2020
[153] Farming Connect, Air pollution: The role of agriculture in Wales, 2020
[154] NRW, The Second State of Natural Resources Report (SoNaRR2020) Assessment of the achievement of sustainable management of natural resources: Air Quality, 2021
[155] The National Emission Ceilings Regulations 2018

agricultural pollution[156]. The Clean Air Plan for Wales also focuses on reducing emissions from agriculture, including ammonia, through strengthened controls and support for sustainable practices.

In Wales, the area of land adversely impacted by ammonia increased by approximately 18% between 2010 and 2021[157]. Evidence from Defra confirms that ammonia pollution continues to be a significant issue[158].

Ammonia emissions in Wales have increased by 8% since 2005, with agricultural practices being the biggest source of emissions (93%)[159] The biggest polluting sector is cattle: manure management (livestock housing, manure storage and outdoor concrete yards) and its land application make 70% of all NH_3 emissions[160]. In Wales ammonia loss during manure management stages is responsible for 46% of all agricultural ammonia emissions: 40% is from cattle and 6% from other species[161].

Role of farming in providing ecosystem services

This part of the Annex summarises the available evidence on the role of farming in Wales in providing ecosystem services.

Ecosystem services encompass the benefits that natural environments provide to people. They are integral to Wales's well-being, economy and biodiversity. They fall into four groups:

- Provisioning services:
  - Food and timber: Wales's agricultural land supply livestock products and crops, while forests provide timber.
  - Freshwater: rivers and reservoirs offer drinking water and support agriculture.
- Regulating services:
  - Climate regulation: peatlands and forests are carbon sinks which aid climate change mitigation.
  - Flood control: wetlands and woodlands absorb rainfall, reducing flood risks.
  - Water purification: natural ecosystems filter pollutants, maintaining water quality.
- Cultural services:
  - Recreation and tourism: National Parks and coastal areas attract visitors, supporting local economies.
  - Cultural heritage: landscapes hold historical and spiritual significance.
- Supporting services:
  - Biodiversity: diverse habitats support a wide range of species, ensuring ecosystem resilience.
  - Soil formation and nutrient cycling: natural processes maintain soil health which is key for agriculture.

The ONS estimates the value of ecosystem services in Wales (see Table 4). It does this on two bases: the annual value of the services and the value of the assets that provide ecosystem services[162]. The total value of

[156] The Control of Agricultural Pollution Regulations target poor practice in agriculture which presents a risk of pollution. They aim to protect water and air quality by reducing losses of pollutants from nutrients across the whole of Wales. While the primary intention is to reduce water pollution, the approach also supports reduced atmospheric emissions. The Regulations seek to avoid pollution swapping and prevent or minimise increased losses of nutrients to the environment because of measures primarily focussed on reducing losses of nitrogen.
[157] Welsh Government, Statutory review of the Control of Agricultural Pollution Regulations: 2025 review, 2025
[158] Defra, Air Pollution Trends Report 2023, 2024
[159] National Atmospheric Emissions Inventory, Air Pollutant Inventories for England, Scotland, Wales and Northern Ireland: 2005-2022, 2024
[160] National Atmospheric Emissions Inventory, Air Pollutant Inventories for England, Scotland, Wales and Northern Ireland: 2005-2022, 2024
[161] National Atmospheric Emissions Inventory, Air Pollutant Inventories for England, Scotland, Wales and Northern Ireland: 2005-2022, 2024
[162] This is based on the expected stream of services from, or stock of, a natural resource in terms of the future expected supply and use over a reasonably predictable time horizon.

Welsh assets providing ecosystem services was estimated to be £95.7bn in 2022[163]. The annual value of the services was estimated at £2.5bn in 2022.

Table 59: The value of ecosystem services in Wales (2022, £m, 2023 prices)[164]

Service	Annual value (£m)	Asset value (£m)
Agricultural biomass provisioning	522.0	11,346
Coal provisioning	-171.5	-1,968
Fish provisioning	1.5	49
Minerals and metals provisioning	61.3	856
Oil and gas provisioning	0.0	0
Renewable electricity provisioning	40.4	1,419
Timber provisioning	52.0	1,332
Wood fuel provisioning	12.5	397
Water provisioning	272.2	7,226
Air pollution regulating	120.3	5,657
Greenhouse gas regulating	238.7	12,297
Noise regulating	1.3	72
Urban heat regulating	30.8	602
Recreation (health benefits)	322.7	23,967
Recreation and aesthetic (house prices)	184.5	5,532
Recreation and tourism (expenditure)	788.8	26,965
All services	**2,477.5**	**95,748**

Provisioning services

The key outputs of the agricultural sector are summarised above.

Regulating services

Water quality

NRW commissioned a review of nutrients in water bodies across Wales to develop a national scale understanding of baseline nutrient water quality and assess potential risks[165]. It covers both nitrates and phosphates and considered the following types of water body:

- Groundwater;
- Surface water (rivers);
- Lakes; and
- Transitional and Coastal (TraC) waters.

The focus was the risk posed by land based, diffuse nutrient pollution on the classification show in Table 5[166].

Table 60: Surface and ground water nitrate and phosphate risk score classification

Score	Potential nitrate risk	Potential phosphate risk
1 - 3	Low – low risk that surface water nitrate concentration may exceed 11.3 mg/l threshold and land uses are considered unlikely to be a significant diffuse source	Low – low risk that surface water phosphate concentration may exceed 0.1 mg/l threshold and land uses are considered unlikely to be a significant diffuse source
4 - 6	Medium	Medium

[163] ONS note that this value should not be considered as a simple indicator of environmental sustainability or ecological health, because it is partly influenced by economic factors like oil and gas prices.
[164] Office for National Statistics, UK natural capital accounts
[165] NRW, Nutrient review, 2023
[166] Modelling of nitrogen and phosphorus loading was also used to identify the significance of agricultural land uses to nutrient input to water catchments.

Score	Potential nitrate risk	Potential phosphate risk
7 - 8	High – considered to be high risk that surface water nitrate concentration may exceed 11.3 mg/l threshold, and diffuse agricultural and/or urban land uses may be a significant contributing source.	High – considered to be high risk that surface water phosphate concentration may exceed 0.1 mg/l threshold, and diffuse agricultural and/or urban land uses may be a significant contributing source.

Figure 3 and Figure 4 show how the risk varies geographically with both water and nutrient type. It illustrates shows that more areas are at higher risk from phosphate pollution than from nitrate pollution.

Figure 12: Surface water nitrate risk (left) and phosphate risk (right)

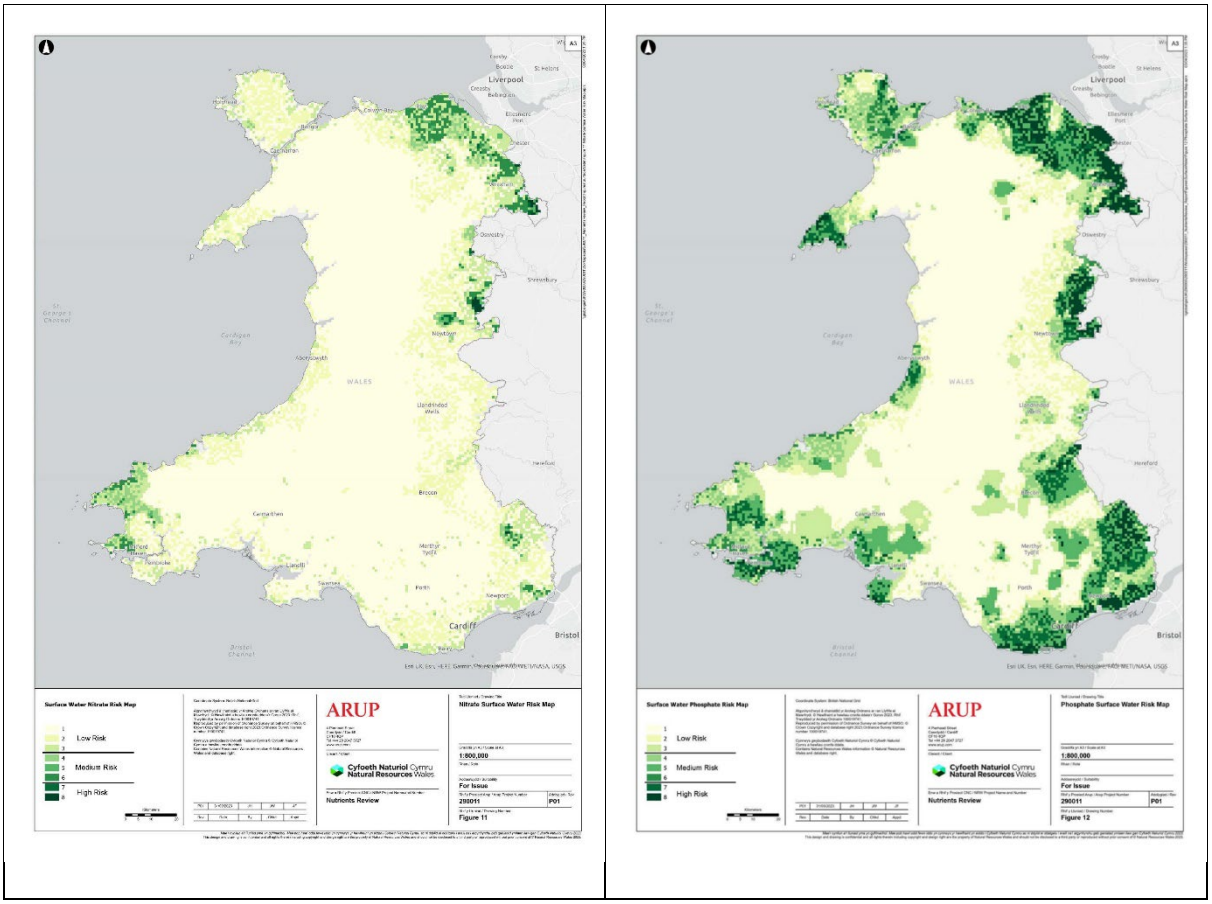
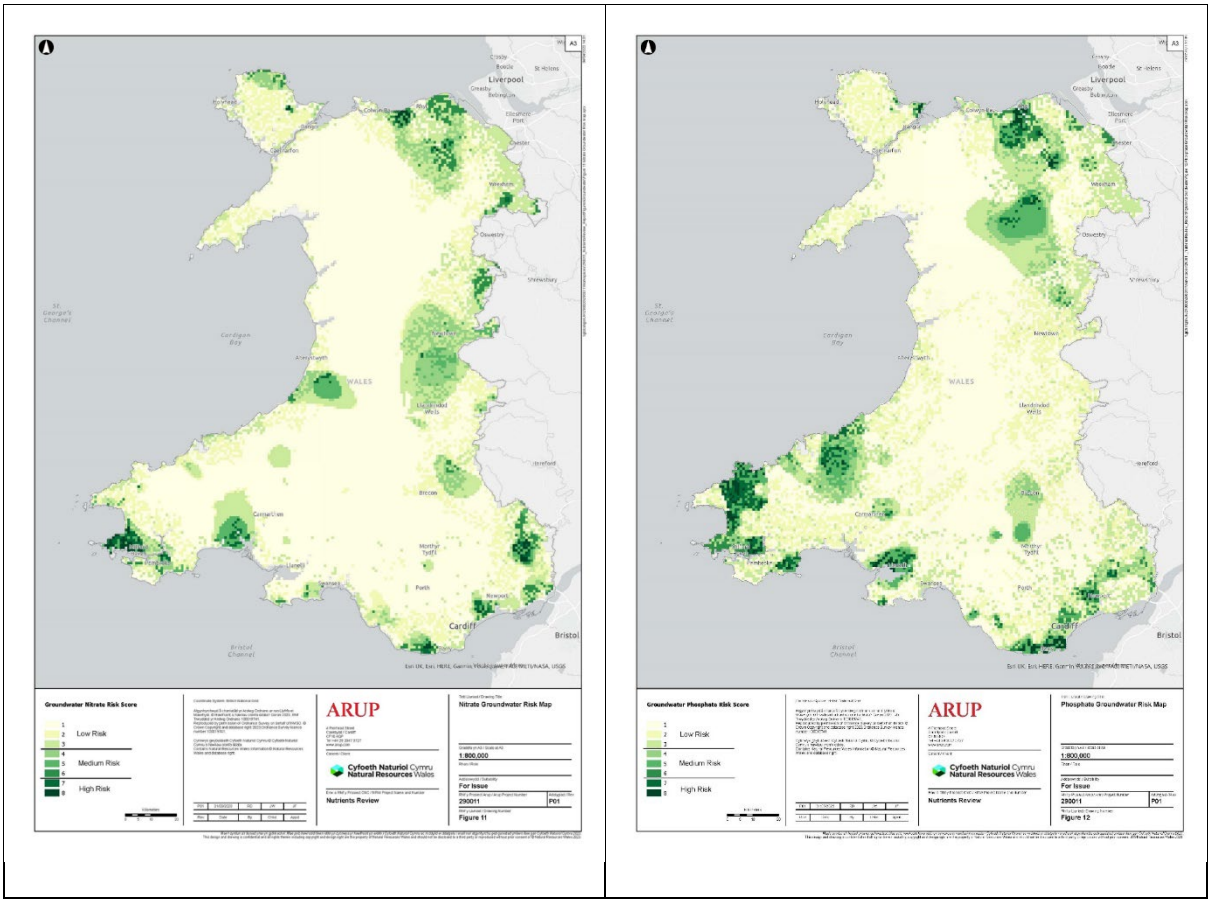


Figure 13: Ground water nitrate risk (left) and phosphate risk (right)



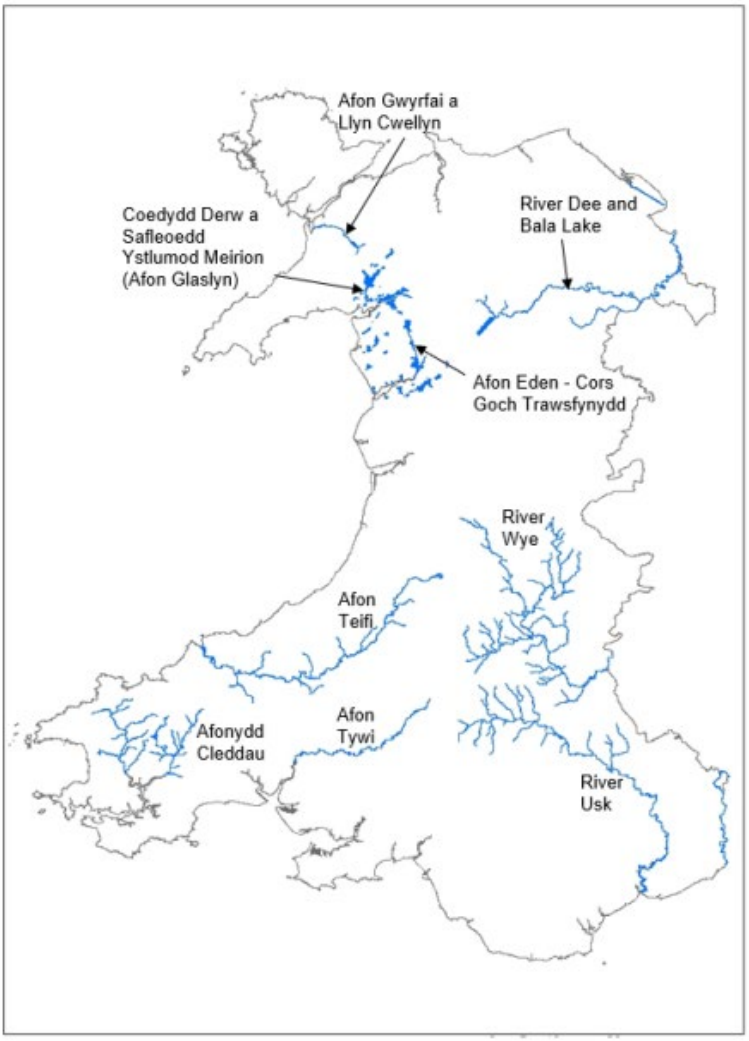
Every three years the status of all water bodies in Wales is classified according to the requirements of the Water Framework Directive Regulations[167]. Results are also reported in River Basin Management Plans every six years. If the status of a water body is neither good nor or better, then an investigation is conducted to establish the causes[168]. NRW published an updated Water Framework Directive Regulations interim classification (alongside the water quality compliance assessment for the Special Area of Conservation (SAC) Rivers) in March 2025[169].

[167] The Water Environment (Water Framework Directive) (England and Wales) Regulations 2017

[168] There are nine river Special Areas of Conservation (SACs) in Wales – the Cleddau, Eden, Gwyrfai, Teifi, Tywi, Glaslyn, Dee, Usk and Wye. Each river is designated for several species and habitats protected under the Habitats Regulations. Each feature has Conservation Objectives which are part of the NRW Core Management Plans for the SAC: NRW cite water quality targets which need to be met if the feature is to be classified as in favourable condition.

[169] NRW, Assessment of water quality in Wales 2024.

Figure 14: The nine river Special Areas of Conservation (SACs) in Wales



In 2021, the SAC rivers compliance assessment report showed that five out of nine SAC rivers failed to meet the phosphorus targets (Usk, Wye, Dee, Cleddau & Teifi) [170]. Overall, 39% of the 107 water bodies assessed met the targets and 61% failed. Table 6 summarises the status of each river SAC.

Table 61: Summary of overall status of Welsh SACs in relation to phosphorus targets (Number of water bodies)

SAC Name	Passing	Failing (Episodic)	Failing (Consistent)	Not assessed
River Dee & Llyn Tegid	5	2	1	1
Afon Gwyrfai a Llyn Cwellyn	2	0	0	0
Meirionnydd Oakwoods	3	0	0	0
Afon Eden – Cors Goch Trawsfynydd	3	0	0	0
Afon Tieifi	8	8	0	2
Afonydd Cleddau	5	5	5	4
Afon Tywi	2	0	0	1
River Usk	2	7	8	6
River Wye	14	11	17	3
Total	**42**	**33**	**31**	**18**

[170] NRW, Compliance Assessment of Welsh River SACs Against Phosphorus Targets, 2022

In 2022, NRW updated some of the targets, made some minor changes to the water bodies and reassessed data against any new targets. One additional water body failed after the reassessment[171].

In 2024, the compliance assessment for other water quality attributes in SAC rivers showed several failures of water quality indicators such as dissolved oxygen and biochemical oxygen demand[172]. NRW's updated assessment in 2025 showed that the most target failures were the Afonydd Cleddau, River Usk, River Wye and Afon Teifi[173]. These results are consistent with issues related to organic pollution and nutrient enrichment.

Additional water quality modelling and analysis by Dŵr Cymru Welsh Water[174] using Source Apportionment Geographical Information System (SAGIS) shows most of the phosphorus load failing from rural land use, including agriculture[175.]

NRW's collates data on substantiated pollution incidents from agricultural sources shows that the number has not fallen since collection started in 2001. The biggest contributor was the dairy sector, linked to inappropriate management of slurry.

Cultural services

Recreation and tourism

Welsh agriculture plays an important role supporting recreation and tourism across Wales. With over 80% of the country's land used for agriculture, farmers provide access to the countryside and help to maintain the landscapes that attract both residents and visitors.

Welsh farmers facilitate extensive public access to the countryside, contributing to:

- 16,000 miles of footpaths;
- 3,000 miles of bridleways;
- 1,200 miles of cycle networks; and
- 460,000 hectares of open access land.

This infrastructure supports a wide range of recreational activities, including walking, cycling and horseback riding, promoting physical and mental well-being among the population[176].

Agritourism is growing, with many farms offering:

- Farm stays and holiday cottages, providing authentic rural experiences; and
- Interactive activities, such as animal feeding and farm tours, appealing to families and educational groups.

This has diversified farm income and strengthened the connection between urban visitors and rural life.

Farmers are stewards of the Welsh landscape. They help to maintain scenic vistas, which are integral to Wales's appeal for outdoor enthusiasts, and conservation efforts, preserving biodiversity and natural habitats.

Amenity and landscape

Farming and agriculture contribute to amenity and landscape value of Wales by:

- Shaping the iconic scenery: around 80% of Wales is used for agriculture which defines much of the patchwork fields, stone walls and open hills that are synonymous with the Welsh countryside and contribute to its visual and cultural character;
- Supporting tourism: agricultural landscapes attract tourists. Farm stays, open farms and local produce markets offer authentic rural experiences that tie recreation to farming heritage;
- Enhancing well-being;

[171] NRW, Update to phosphorus targets for water bodies in Special Area of Conservation (SAC) rivers in Wales, 2023
[172] NRW, Assessment of water quality in Wales in 2024, 2025
[173] NRW, Assessment of water quality in Wales in 2024, 2025
[174] Welsh Water, Understanding the sources of phosphorus in our rivers, 2023
[175] SAGIS is designed for informing wastewater planning decisions and hits application to agricultural and land management has been criticised.
176 NFU Cymru, Farming – Bringing Wales together,

- Supporting biodiversity: hedgerows, meadows and field margins support birds, insects and plants, adding both ecological and aesthetic value; and
- Enabling public access: farmers maintain 16,000+ miles of public rights of way, bridleways and cycle paths and open access land, especially in upland areas.

Together, these support walking, hiking, cycling, and equestrian activities, promoting recreation and mental well-being.

Culture

Farming and agriculture are deeply woven into the fabric of Welsh culture. They influence everything from language and identity to festivals, food and the landscape itself:

- A historic way of life: Farming has shaped Welsh society for millennia, especially in rural and upland areas where small family farms, often passed down through generations, are central to community identity. For example, hill farming, particularly sheep farming, is a symbol of national resilience, independence and connection to the land.
- Language and identity: Agriculture supports the Welsh language, especially in rural communities where it is most widely spoken. Farming helps sustain Welsh-speaking schools, chapels and village life, particularly in areas like Gwynedd, Carmarthenshire and Ceredigion.
- Food culture: Traditional Welsh foods —like cawl, laverbread, Welsh lamb, Bara Brith, and Caerphilly cheese—come directly from farming and increasing emphasis on local produce and farmers' markets has helped reconnect people with Welsh food heritage and support rural economies.
- Festivals and events: The Royal Welsh Show, one of the largest agricultural events in Europe, is a major cultural gathering, celebrating farming, food, crafts and rural life. Local agricultural shows are community highlights across Wales, bringing together families, livestock, produce, music and traditional crafts.
- Crafts: Traditional skills such as wool spinning, hedge laying, dry stone walling and sheepdog trialling are tied to agricultural life and are celebrated as part of Welsh heritage. Artistic expressions often draw from the land—poetry, folk music, painting, and modern storytelling frequently reference rural life and farming.
- National Identity: Sheep are the most iconic symbol of Welsh agriculture, often appearing in tourism branding whilst red kites, rolling hills and stone barns—all parts of the farming environment—are instantly recognisable as "Welsh."

Supporting services

Biodiversity

Biodiversity in Wales is experiencing significant challenges, with numerous species and habitats under threat:

- A 2019 report found approximately 18% (one in six) of species assessed in Wales are threatened with extinction, including the fen orchid, water vole, and sand lizard[177];
- Since 1994, monitored land and freshwater species have declined by an average of 20% with moths having experienced a particularly steep decline of 43%[178]; and
- The distribution of 42% of flowering plant species and 44% of bryophytes (mosses and liverworts) has decreased across Wales[179].

The key threats are:

- Agricultural practices, where intensive farming methods have led to habitat loss and degradation;
- Climate change which alters habitats and affects species' survival rates;
- Water and air pollution which continues to impact ecosystems negatively; and
- The spread of non-native species disrupts local ecosystems.

[177] State of Nature Wales, 2023
[178] State of Nature Wales, 2023
[179] State of Nature Wales, 2023

Pollination

Pollination is a vital ecological process which underpins biodiversity and agricultural productivity. Wales hosts a diverse array of pollinators, including honey bees, bumble bees, solitary bees, butterflies, moths, hoverflies and certain beetles. These species are essential for the reproduction of many wild plants and crops.

Pollinators make an important contribution to the ecosystem and economy. They are responsible for fertilising numerous crops, including fruits, vegetables and nuts which directly impacts food availability. By enabling plant reproduction, pollinators also support diverse habitats that sustain various wildlife species. The contribution of pollinators to UK food production is valued at £690m annually: if this needed to be done by humans, it would cost an estimated £1.8 billion every year[180].

Pollinator populations in Wales have declined due to:

- Habitat loss: intensive agriculture and urban development have destroyed and fragmented habitats and Wales has lost approximately 97% of its wildflower meadows since the 1930s;
- Pesticide use: application of agrochemicals can detract from pollinator health, affecting their survival and reproduction;
- Climate change: altered weather patterns can disrupt the relationship between pollinator activity and plant flowering times; and
- Diseases and parasites: pollinators are susceptible to various diseases and parasitic infections.

Soil health

Soil health in Wales is also under pressure due to intensive agriculture, climate change and land management practices. While some soils remain in good condition, many have seen declines in organic matter, biodiversity and structure[181]:

- **Soil compaction:** Approximately 40% of Welsh soils are potentially vulnerable to compaction, primarily due to heavy machinery use and livestock trampling. This compaction can reduce water infiltration and root growth, affecting crop yields and increasing run-off[182].
- **Soil erosion:** While the dominance of permanent grassland offers some protection, about 7% of Welsh land is susceptible to high erosion rates, especially during intense rainfall events[183]. This is a particular risk in upland areas and sloped agricultural fields.
- **Nutrient imbalances:** Many Welsh farms exhibit suboptimal levels of soil pH and key macronutrients like phosphorus, potassium, and magnesium, leading to reduced grass yields[184].
- **Soil organic carbon (SOC):** Critical for fertility and carbon storage. Many Welsh soils have lower-than-ideal organic matter levels. Topsoil carbon levels in improved grassland and arable land have remained stable in recent years. However, there is limited data on deeper soil layers and the long-term impacts of climate change on SOC.
- **Soil biodiversity:** There is limited evidence on trends in soil biodiversity in Wales. However, changes are related to land use change, loss of organic matter, extreme weather events, and land management intensity[185].

Wales contains significant peatland areas (e.g. parts of Snowdonia and the Brecon Beacons), which are vital carbon sinks, but many are degraded, drained for agriculture or drying out, releasing carbon rather than storing it.

Intensive livestock farming, especially dairy and sheep, has led to nutrient imbalances and potential run-off of nitrogen and phosphorus, affecting water quality. Over-application of slurry and fertilizers can degrade soil structure and microbial health.

[180] Natural Resources Wales, Love pollinators (accessed July 2025)
[181] Welsh Government, Welsh Soil Evidence Review, 2022
[182] Welsh Government, Welsh Soil Evidence Review, 2022
[183] Welsh Government, Welsh Soil Evidence Review, 2022
[184] Welsh Government, Farming Connect sampling highlights opportunities to improve soil health on Welsh farms, December 20204
[185] Welsh Government, Welsh Soil Evidence Review, 2022

Other social impacts of farming

The final part of the Annex summarises other social impacts linked to farming.

Health of farmers and agricultural workers

The physical and mental health of farmers and agricultural workers in Wales is a significant issue. Recent evidence from England and Wales highlights the challenges:

- **Mental health**: A significant proportion of farmers report experience mental health problems. For instance, a study found that 31% of respondents reported issues with anxiety or depression[186]. Contributory factors include financial pressures, long working hours, isolation and the unpredictability of farming due to weather and market conditions.
- **Physical health:** The physical demands of farming lead to a high incidence of musculoskeletal issues. One study found that 52% of respondents reported problems with pain or discomfort[187]. Furthermore, agriculture remains one of the most hazardous industries, accounting for a disproportionate number of workplace fatalities and injuries relative to its workforce size[188].

Welsh language impact of agriculture

The agriculture sector (measured as primary producers, including fishing and forestry) is a small sector in terms of the number of workers involved. Data from the 2021 Census show that it accounts for under 2% of all workers but 5% of Welsh speaking workers[189]. It has the highest share of Welsh speaking workers of all sectors in Wales at 43% compared with 16.6% across all sectors. Just under a quarter of the 1,909 local areas (LSOAs) in Wales have at least 10 agriculture sector workers. In Gwynedd all the LSOAs with at least 10 agriculture sector workers have a majority who can speak Welsh. In Monmouthshire all the LSOAs with at least 10 agriculture sector workers have Welsh speaking rates below the all-sector average. In Powys the LSOAs show Welsh speaking rates across the range from very low to very high[190].

One of the risks to rural communities is any change to the structure and make-up of the agricultural and land-based industries. This could lead to a change in community structures and social networks, with migration to and from rural areas potentially increasing as opportunities and challenges emerge. This movement of people could have more of an impact in areas where it changes the balance between Welsh and English speaking, thereby changing the way in which day to day communication takes place.

Resource efficiency

Managing resource efficiency in Welsh farming is a growing priority, driven by environmental goals and economic pressures. While progress has been made, significant challenges remain in areas such as energy use, water management and emissions reduction.

Agriculture accounts for around 14% of Wales's greenhouse gas emissions[191], partly due to energy-intensive practices and inefficient machinery. Efforts to improve energy efficiency include adopting renewable energy sources and modernising equipment.

Water efficiency is also an issue: initiatives have been taken to promote rainwater harvesting, improve irrigation techniques and enhance nutrient management by reducing water use and prevent pollution.

The adoption of precision agriculture technologies, such as satellite-based monitoring and AI-driven advisory systems, is on the rise. These tools help farmers optimise resource use, monitor crop health and make informed decisions, contributing to overall efficiency.

[186] Wheeler & Lobley, Health-related quality of life within agriculture in England and Wales: results from an EQ-5D-3L self-report questionnaire, 2022
[187] Wheeler & Lobley, Health-related quality of life within agriculture in England and Wales: results from an EQ-5D-3L self-report questionnaire, 2022
[188] Health & Safety Executive, Work-related fatal injuries reportable under RIDDOR, 2024
[189] Welsh Government analysis of data obtained from the 2021 Census of Population
[190] Welsh Government analysis of data obtained from the 2021 Census of Population
[191] Welsh Government, Emissions of greenhouse gases by year, Accessed June 2025

B. EVIDENCE FROM EVALUATIONS OF PREVIOUS SCHEMES TO SUPPORT AGRICULTURE IN WALES

This Annex summarises the key findings from four recent evaluations of Welsh Government initiatives to support the agricultural sector and rural communities:

- An evaluation of Glastir;
- An evaluation of the Rural Development Programme for Wales (2014-2022);
- An evaluation of Farming Connect; and
- The third Farm Practice Survey.

Evaluation of Glastir

Glastir was evaluated by the Environment and Rural Affairs Monitoring and Modelling Programme (ERAMMP). Its latest report provides evidence on the status and change for a range of habitats and natural (and some selected cultural) resources[192]. These 'National Trends' provide a baseline for Sustainable Land Management (SLM) and the SFS monitoring and evaluation.

ERAMMP methodology

The methods used to capture National Trends and Glastir management options outcomes included a repeat of a nationally representative integrated National Field Survey (NFS) first delivered in 2013-16, use of satellite and aerial imagery, a repeat of the ADAS Farmer Practice Survey and greenhouse gas modelling. Where data are available, the status and trends of National Trends are reported for both the long term (up to 45 years) and the short term (last 10 years). The impact of Glastir management options is reported for the time Glastir was active (from 2012 onwards). The overall approach recognises that landscapes and natural resources can be slow to respond to management interventions and that an inter-connected, whole systems approach is needed.

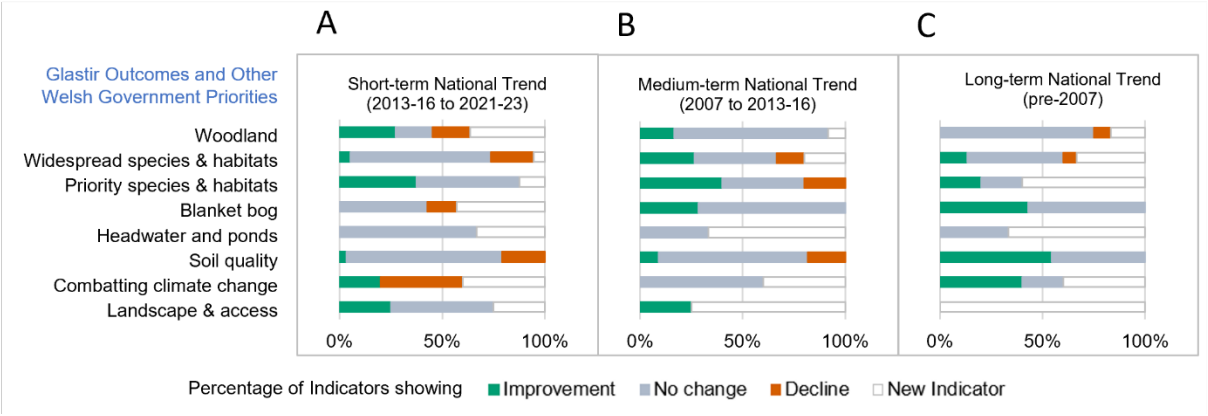
Key findings include:

- In 2021, woodland was estimated to cover 23,700 ha (16.9%) of Wales, 7% more than in 2010: this implies a new planting rate of 2,200 ha per year with Glastir funding.
- The length of hedgerows increased by 4% with a 9% increase in both width and height giving a new total of 52,700km in 2021.
- Expansion of urban cover (at 28,200 ha) was greater than woodland so that urban represented 6% of Wales in 2021. This was primarily due to the conversion of improved grassland.
- There was a 5% loss of the most productive agricultural land (Arable and Improved Grassland) up to 2021.
- No change in the area of semi-natural land was detected.
- The impact of the woodland and urban cover changes will have been important for landscape visual quality at the local scale as well as impacting on many other services and benefits.
- Overall, 6.8% of Wales changed land use between 2010 and 2021.

A suite of indicators of habitat condition and other Glastir Outcome and WG priorities were used to track trends of time over the long, medium and short term.

[192] ERAMMP, Report 104, Wales National Trends and Glastir Evaluation, 2024

Figure 15: % of total counts which are improving (green), stable (grey), declining (red) or new (white) at the national scale

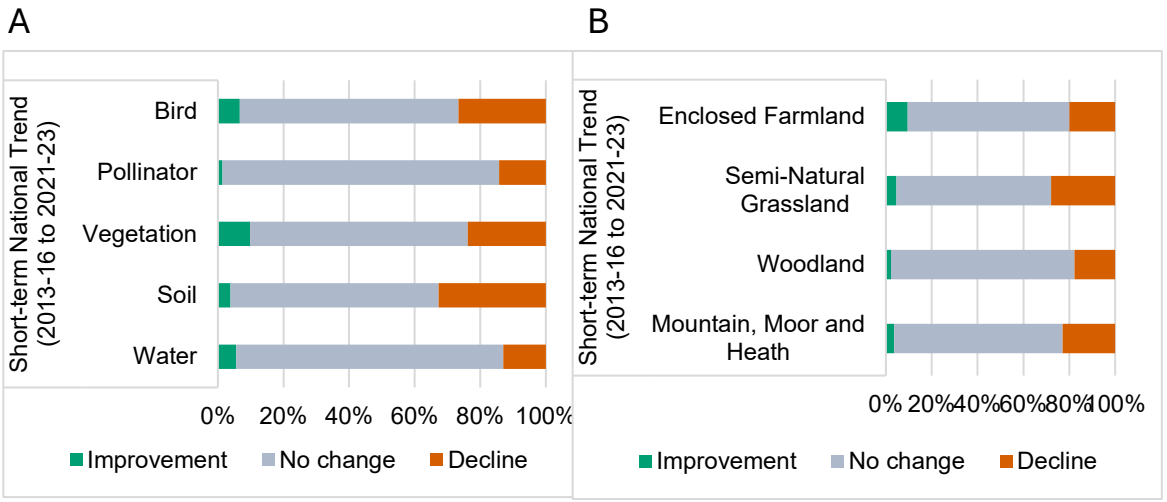


Whilst most indicators suggest no change or stability, the number of indicators in decline has steadily increased. Further action may be required to increase the resilience and sustainability of Wales' natural resources given the ongoing land use management pressures and the risks posed by climate change, chemical pollution and biosecurity.

A similar pattern was observed for five Natural Resources and four Asset Classes: most indicators suggested no change or stability but with more indicators in decline than improving.

ERAMMP experts were asked to weight indicators based on their importance and provide an overall assessment of the status of 19 habitats and features. The conclusions were that 12 (63%) habitats and features were in a state 'Of Concern or Declining' whilst six were stable (32%) and one was improving (Hedgerows). This compares to the previous assessment reported in 2017 when four (31%) were 'Of Concern or 'Declining'.

Figure 16: % of total counts which are improving (green) stable (grey) or declining (red) at the national scale



Indications of stability or improvement	Indicators of concern
• Improvement in hedgerow condition of 4-20% depending on the condition indicator • An increase in positive plant indicator richness for Improved Grassland • A decrease in the number of negative plant indicators in Semi-Improved Grassland • Stability in the vegetation condition of Woodland and Dwarf Shrub Heath • No change in the national topsoil carbon concentration (WFG Indicator No. 13) • No change in area of Semi-Natural Land (WFG Indicator No.43) • No change in the condition of Historic Environment Assets with 54% in excellent or sound condition • 80% of Headwaters remain in Good Ecological Condition however, the remainder are continuing to decline • Number of significantly or severely modified Streamsides has reduced from 43% to 30% • 54% of Historic Environmental Assets are in Excellent or Sound condition	• 8% reduction in plant species richness across all habitats • 13-35% decrease in bird indicators particularly for Arable and Grassland species • 23-75% decrease in pollinator indicators depending on the Broad Habitat • 6-32% increase in soil compaction • 4% of soils in Wales eroded or disturbed • 8% loss in topsoil carbon concentration in the Arable and Horticulture habitat • Doubling of soils exceeding leaching thresholds for phosphorus in Arable and Horticulture soils from 4% to 8% of sites and a three-fold increase in Improved Grassland from 5% to 17% of sites • 72% of Improved Grassland sites remain with soil acidity levels below production thresholds • 66% of Headwater streams have invasive invertebrates • 46% of Ponds now in poor or very poor condition increasing from 37% • Two-fold increase in the number of Ponds with invasive species from 9% to 19% • 50% of Public Rights of Way remain blocked and not signed

Glastir provided additional support as part of the Welsh Government Rural Communities – Rural Development Programme for environmental services to improve the land and environment. It comprised a family of related schemes to deliver outcomes at a farm, forest and landscape level including:

- Glastir Entry;
- Glastir Advanced;
- Glastir Commons;
- Glastir Organics;
- Glastir Small Grants;
- Glastir Woodland Creation; and
- Glastir Woodland Restoration.

The objectives of Glastir were:

- Combating climate change;
- Improving water quality and managing water resources;
- Improving soil quality and management;
- Maintaining and enhancing biodiversity;
- Managing landscapes and historic environments; and
- Improving public access to the countryside.

Additional outcomes (following the Welsh Audit Office request to broaden the scheme outcomes):

- Improving numbers of farms undertaking action concerning climate change;
- Improving diversification and efficiency of farms; and
- Improving profitability and wider sustainability.

Overall, 40% of agricultural land (38% of Wales) participated in the Glastir scheme of which one quarter had specific management actions applied to specific land parcels to improve the status of the natural environment.

It was anticipated that a significant number of participants from previous agri-environment schemes would join the Glastir scheme: 54% of the land in the Tir Gofal and/or Tir Cynnal schemes entered the Glastir scheme.

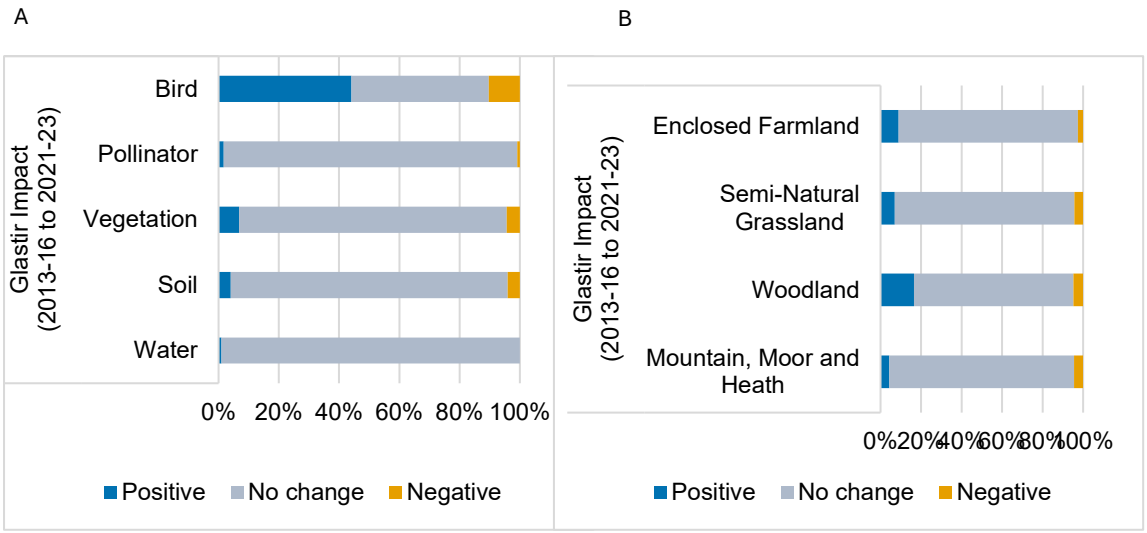
Of more than 700 options offered in the Glastir scheme, five options represented 62% of land area in scheme: four options related to maintaining and/or limiting stock numbers in pasture and open country and the fifth was for Glastir Organic interventions.

The impact of the Glastir land management options was evaluated by comparing it to land not in the scheme.

The summary results are aggregated from many analyses of Glastir management option 'bundles' which captured the impact of the options prioritised for analysis by WG and for which there was sufficient uptake by land managers to enable analysis.

Overall, the impact of Glastir management options suggests no detectable change (see Figure 8 where grey represents no change, blue implies modest improvement and orange indicates a negative impact.

Figure 17: % of total counts of indicators at national scale for land within Glastir scheme for five Natural resources and four Asset Classes over the short-term (2013-16 to 2021-23)

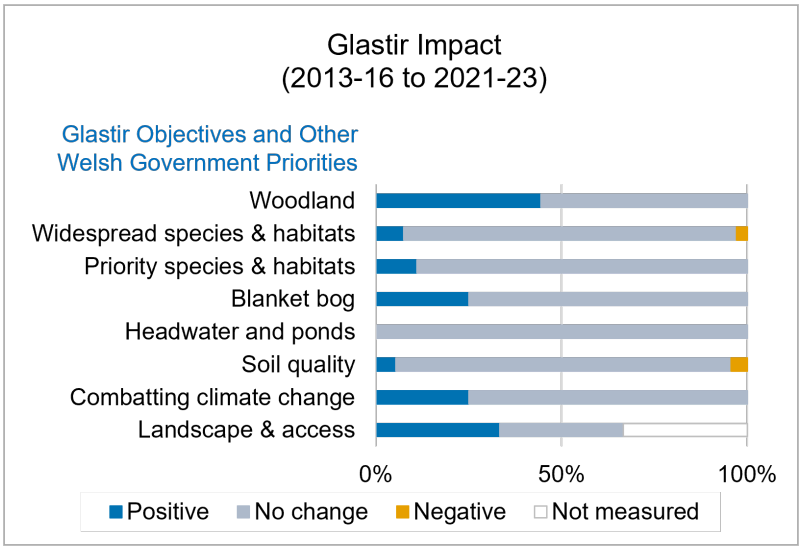


For natural resources (A), birds are the most responsive relative to pollinators, vegetation, soil and water although this more positive outcome is not repeated in the National Trend data potentially reflecting the mobility of birds to exploit local patches of new or improved habitat without necessarily resulting in a net increase in abundance nationally.

Within the four major asset classes (B), most change is reported for enclosed farmland and woodland which is likely to be due to a requirement for Glastir management options which create habitat (e.g. field margins) or fundamentally changes a key driver (e.g. stock exclusion from woodland rather than reducing stock levels). This contrasts with many options for semi-natural grassland and mountain, moor and heath, where maintaining current extensive practices from past AES schemes rather than encouraging transformative change, was most common. The ADAS Farmer Practice Survey found that only 31% of farm managers self-reported a change in stock numbers or fertiliser use due to Glastir payments suggesting maintenance was the priority for the more widespread grassland and upland habitats. This compares to 61% reporting change in a previous survey for Tir Gofal and Tir Cynnal. This has resulted in very little change in environmental condition over the 10-year period on land where Glastir management options were present.

Indicators have also been used to report directly on outcomes for the six Glastir environmental and cultural objectives (and some additional priorities of interest to WG) (see Figure 9).

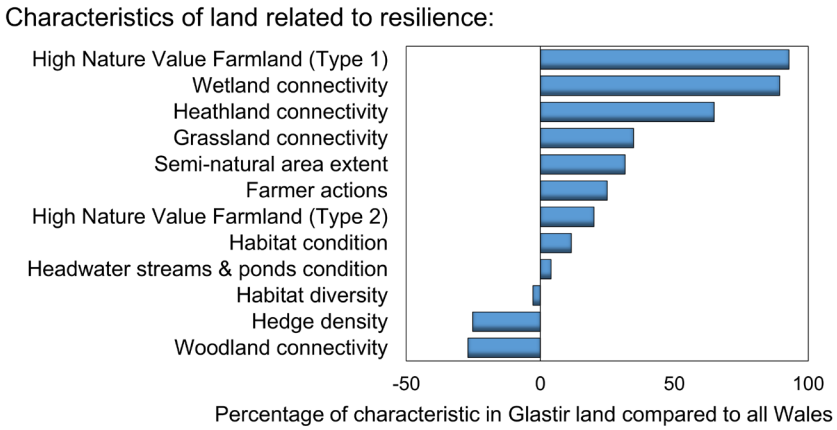
Figure 18: % of total counts of indicators at national scale for six Glastir environmental objectives and some additional WG priorities over short term (2013-16 to 2021-23)



Expert assessment weighted these individual indicators by their importance for the six Glastir environmental and cultural objectives. All were assessed as having had a 'Low' impact for the six Glastir environmental outcomes. When assessed for their impact on national trends, all were assessed as having 'Low' impact.

The asset classes and broad habitats reported combine spatially across Wales to create a rich variety of landscapes. In 2017, GMEP amalgamated a range of landscape and farm management indicators captured from the NFS, satellite information and the FPS to analyse whether land which entered the Glastir scheme (but was not yet subject to Glastir management options) had more characteristics which were thought to confer resilience, compared to land outside of the scheme. This was found to be the case for most indicators (see Figure 10).

Figure 19: Comparison of land in Glastir with national mean metrics of resilience (bars to the right of the central '0' line indicates a more positive value for that characteristic)



The most recent data from the NFS and FPS suggest a mixed picture of change with some gains in resilience characteristics by land in scheme including:

- An increase in semi-natural land area, but no change in habitat diversity (which is declining at the national scale);
- A 3.5% increase in grassland connectivity but no change in woodland, heathland and wetland connectivity at a national scale;
- An increase in hedgerow length, and a minority of land managers (25-40%) in scheme making some improvements to increase diversification and efficiency.

The conclusion is that the higher initial status of resilience of land in scheme has been maintained with some areas improving.

Climate change mitigation was one of the six Glastir environmental objectives. From 2010 to 2021 there was:

- An increase in emissions from agriculture reported in the Agriculture GHG Inventory for Wales of 0.33 Mt CO_2eq/yr to 5.7Mt CO_2eq/yr; and
- A reduction in the sink within the land use, land use change and forestry sector of 0.02Mt C to -0.7Mt CO_2eq/yr.

A significant gap, therefore, remains between the two inventories of 5 Mt CO_2eq/yr in 2021. This needs to be closed if the land-based sector is to achieve Net Zero as a whole. The main expected contribution of Glastir to a reduction in GHG emissions was to change stock numbers, fertiliser use, new woodland planting and peatland restoration.

Overall, the evaluation results suggest a limited contribution by the Glastir management options to GHG emission reductions between 2010 and 2023:

- No change in stock numbers in response to Glastir payments and no consistent trend in sheep and lamb, cattle and calves for all of Wales with +5% increase in sheep and lamb and -2% in cattle and calves in the WG Survey of Agriculture and Horticulture, 2023;
- No change in fertiliser use due to Glastir payments: fertiliser use industry wide has fallen by 25% since 2010 in England and Wales due to costs but Glastir has not accelerated this trend;
- Whilst there has been significant creation of new woodland (+7%) and hedgerow creation (+4%) since 2010, Glastir was responsible for just 1% and < 0.1% respectively and they will be contributing little to increasing the carbon sink until they are more mature, although the potential for a small increase carbon is established for the longer term; and
- Wales has an area of 82,000 of peatland (4% of Wales): a review of all reported peatland restoration activities across Wales suggests that 9,000 ha of peatland restoration had occurred with the majority most likely delivered since 2010: Glastir contributed funding for 992 ha (11%) of this restoration.

Looking forward, the results from the ADAS Farmer Practice Survey indicate how prepared the agriculture sector is for future climate change, the need for greater diversification and efficiency and improved profitability and sustainability.

- More farms are undertaking action concerning climate change: 49% of all respondents had taken no action to adapt to climate change threats: between 9 and 40% of farms had acted to mitigate specific climate change threats in the past three years (with the average number of actions being one out of a possible six). The dairy sector was most active and Glastir payments contributed an additional 0.3 actions.
- Improving diversification and efficiency of farms: There was a small increase in the number of actions per farm to improve the farm business e.g. 9% more acted on ‘diversification’ in scheme for farms in the Glastir Entry and Advanced schemes.
- Improving profitability and wider sustainability: Between 25-40% in Glastir Entry or Advanced schemes agreed they had made improvements which had increased business resilience, environmental motivation, acquisition of sustainable skills and personal health and welfare because of scheme participation.

Overall, these results suggest that some progress has been made, and early adopters are changing practices, however, there is significant room for improvement if the agricultural sector is to prepare for the projected challenges of more climate extremes and increasing uncertainty and volatility in many global markets.

Moreover, many challenges lie ahead if the nature and climate crises alongside the four SLM objectives. At best, current management actions, including those delivered by Glastir, are holding habitats and natural resource stable but in many cases, these are at historically low levels. There are further signs of this stability being lost with early indications of an onset of decline starting to show in the data. There is limited evidence of improvement in our natural resources as originally specified in the Glastir objectives.

Evaluation of the Knowledge Transfer, Innovation and Advisory Services Programme[193]

The qualitative evidence gathered for the evaluation of Farming Connect demonstrates how it led to improved farming practices. There are also examples of a smaller number of farmers making more significant changes. The key factors which influenced implementation were mindsets, inspiration and confidence, capacity and capability and access to/prioritisation of finance.

Farming Connect made most difference in influencing farmers' personal development, particularly in strengthening confidence and ambition and creating the "foundations" for change. Alongside improved technical skills, this has influenced business management and decision-making processes, which have in turn reduced costs, improved productivity and business resilience and led to enhanced standards for the environment and animal welfare.

Evidence that cost reductions and productivity gains resulted in higher profitability and turnover, and in job creation, is limited. Whilst beneficiaries appear to be diversifying and adopting elements of good practice which are new to the firm, there is no evidence of farmers adopting more radical processes/technologies that are new to the sector.

The [most] important influences on impact were a combination of support and/or engagement in more intensive aspects of Farming Connect and the Development Officer.

The added value of Farming Connect was assessed as strong. In most instances, outcomes would not have been achieved or would have taken longer, been smaller in scale and lower quality; few other factors were found to have contributed towards achieving these results (except for those receiving grants which allowed for implementation).

A higher proportion of farmers with a clear ambition and a business plan and benchmarking in place, self-reported that they had implemented "reasonable change" which was attributed to Farming Connect. Whilst the sample sizes were too small to assess statistical significance, this indicates a relationship between having a clear direction of travel, with a base for measuring progress, and the implementation of new approaches.

Table 62: Business characteristics and extent to which changes have been implemented because of Farming Connect in Phase 2

	% of respondents with … that have implemented "reasonable" change because of Farming Connect	% of respondents without … that have implemented "reasonable change" because of Farming Connect
Clear ambition	79%	30%
Business Plan	73%	58%
Benchmarking	86%	20%
Nutrient Management Plan	76%	42%
Animal Health Plan	85%	30%

Outcomes and impacts

There is widespread and consistently positive evidence of the substantial impact that Farming Connect has had in changing mindsets and attitudes, boosting confidence and raising farmers' ambition. Many of the activities play a role in boosting confidence to try something new and in raising ambition.

There were also small number of examples where confidence had been gained by Farming Connect confirming that beneficiaries' practices were appropriate.

Whilst these outcomes are important and notwithstanding evidence to segment the sector (recognising that part of the sector is unlikely to adapt), some external stakeholders were concerned that – if this was the only impact of Farming Connect for some - it was not enough to deliver the degree of change needed in the sector.

[193] Hindle, R., Pates, R., and Barber, J. (2021). Evaluation of the Knowledge Transfer, Innovation and Advisory Services Programme. Cardiff: Welsh Government, GSR report number 41/2021

Farming Connect activities helped develop and strengthen networks between farmers, both during and after support. This was achieved though peer-to-peer and group activities but was also evident in other activities such as Management Exchange.

There is evidence of a self-sustaining legacy effect, where networks are maintained after Farming Connect support ends and farmers continue to exchange knowledge and good practice.

In the case studies, beneficiaries also described how participation in Farming Connect activities had "broadened horizons" and introduced new ideas, from experts in the field and/or discussions with peers. Most ideas focused on small-scale changes that were new to the farms, such as changes to crop planting density and animal feeding strategies, metabolic profiling of ewes and soil management regimes.

Consultations with beneficiaries and delivery staff provided multiple examples of how Farming Connect had strengthened and professionalised business management practices, particularly through more evidence-based and confident decision-making and introducing new processes to manage the business such as electronic monitoring and better accounts management

There was evidence that the Advisory Service is increasing farmers' trust and willingness to engage in external advice and, in some cases, their willingness to pay for this.

Farming Connect appears to have had widespread impacts in reducing costs, improving productivity and business resilience and delivering environmental and animal welfare benefits. While this had not yet translated into improved turnover, profitability or job creation for these businesses, most expected these effects in the future

Over half of the 36 case study beneficiaries had made cost savings because of support they had received through Farming Connect. For the most part, these had been realised quickly and some were quite substantial.

There is also evidence demonstrating how Farming Connect has led to increased productivity – as cited above, nearly three-quarters of the 36 beneficiaries consulted for the case studies had improved their productivity

Farming Connect has also helped to improve business resilience and viability. Consultees argued that, because many of the improvements were relatively quick to implement, they were able to move quickly to create a more sustainable business. These were not necessarily transformational changes in themselves, but they created sustainable businesses that could then be taken forward for the next generation.

Evidence of turnover and profitability impacts was less prevalent and often small scale; where reported, it was usually driven by diversification, more efficient processes and having the skills to bring tasks in-house. In some instances, financial impacts were not evident at the time of consultation but were expected to come through in the longer term. Job creation or retention was not a key aim for most consultees; their focus was on ensuring the business was sustainable to secure their own jobs and those of their children.

As part of the Phase 2 case studies, consultees were asked whether Farming Connect had led to new product or market opportunities. Around one-third of beneficiaries had observed this impact already, but this mainly related to new market opportunities such as producing honey, planting new varieties, moving from sheep farming into suckler cows or diversifying business activities to bring resilience to the business (e.g. biomass). There was no evidence of farmers introducing highly innovative new products/processes, such as new food production systems

Both phases of the research provided substantial evidence that Farming Connect advice had led to environmental improvement and animal health benefits. This was achieved through reductions in antibiotics and fertiliser use, more sustainable management of resources and measures to improve biodiversity

Table 63:Additionality – to what extent benefits would be realised in the absence of Farming Connect

		Implemented on-farm changes	**Personal benefits**	**Farm performance**
Deadweight	Would have fully achieved the outcomes anyway (same speed, scale and quality)	8%	6%	8%

Partial additionality	Would have achieved the same outcomes, but not as quickly	31%	28%	25%
	Would have achieved the same outcomes, but not at the same scale	11%	8%	11%
	Would have achieved the outcomes, but at a lower quality	17%	11%	17%
Fully additional	Probably would not have achieved the same outcomes	22%	31%	25%
	Definitely would not have achieved the same outcomes	14%	14%	14%
Don't know		3%	0%	3%

Learning from elsewhere

Twenty-six programmes were reviewed, including two which operate across the UK, and five others from England, Scotland and Northern Ireland. The ten programmes from EU countries included five from Ireland, three from the Netherlands and two from Denmark. Also included were three programmes each from Australia and Canada, two from New Zealand and one from USA.

Of the 19 programmes where some outcome evidence was available:

- Just over a third included outcomes relating to the theme of environmental improvement and sustainability: reported outcomes for several projects related to improvements in nutrient management and associated environmental benefits such as improved water quality.
- 14 reported outcomes linked to knowledge exchange and development: several projects reported outcomes related to awareness raising amongst participants, others noted increased collaboration and cooperation between stakeholders and some recorded improved or developed knowledge transfer mechanisms and products.
- Nine included outcomes related to the theme of economic improvement.

A further economic outcome was increased productivity linked with greater economic stability over time.

For five of the programmes, evidence was linked to the theme of technology utilisation and the encouragement of innovation activities. Most evidence related to technology utilisation and innovation activities focused on expected outcomes.

In conclusion:

- Both phases of the evaluation have shown how Farming Connect plays a crucial role in creating the "foundations for change", with a substantial impact on personal outcomes such as changes in mindsets, attitudes, confidence and ambition, alongside improved skills and knowledge (both in terms of business and technical skills). This has led to changed business management practices and, crucially, to better informed and more confident decision-making processes. Farming Connect also has a (recognised but often under-appreciated) positive impact on the mental health of farmers and in strengthening networks within the farming community.
- In terms of implementation, for many farmers, Farming Connect is leading to small scale, incremental changes over a long period of time. This is because many very small businesses are resource and capacity constrained, so changes need to be affordable and manageable. It may also reflect the way in which engagement with Farming Connect (and navigation of the offer) and the definition of goals within many of the activities are farmer-led. These marginal gains across many aspects of the business are, in aggregate, creating more viable and sustainable enterprises. There are also widespread benefits in terms of environmental impacts and animal health, notably in terms of reduced antibiotic and fertiliser use, sustainable resource management and biodiversity.
- In a few cases, Farming Connect has been transformative, for example by significantly reducing costs, improving productivity/yields or diversification.

Third Wales Farm Practice Survey[194]

Overall, 31.1% of Glastir participants agreed or strongly agreed that they had '*changed my management of the farm*', and 36.6% that they had made '*lasting changes to my farm management*'.

Farms participating in the upper Glastir Advanced (GA) level of the scheme were more likely to agree (41.1% and 45.4%) than farms participating in Glastir Entry (GE) (only) (18.5% and 28.7%). This was assumed to reflect the increased requirements of management prescriptions and remuneration under 'GA'

The percentage of 'GE (only)' participants that disagreed or strongly disagreed with the statement '*I have changed my management of the farm*' was higher in this Third Farm Practice Survey (54%) than in the Second Survey (30%). This was interpreted as evidence of management changes not persisting after the 'GE (only)' agreements had come to an end. All 'GE (only)' elements would have ended before or during 2019.

A more favourable interpretation is that around half of surveyed farms entering Glastir had already participated in the earlier Tir Gofal and potentially taken up similar measures under both schemes. Hence, there would not have been as great a change of farm management on entry to Glastir as there had been on entry to Tir Gofal.

The contribution of BPS to farm profitability in Wales

The latest Farm Business Survey for 2023-24[195] has been used to estimate the profitability of 9,125 Welsh farms covering 1,259,000 ha and the importance of current BPS payments[196]. It also provides a basis for understanding their current and total assets and liabilities (and, hence, their viability).

Profit is defined as the sum of agricultural output, diversification revenue, Pillar 1 payments (BPS) and Pillar 2 payments (largely payments from Glastir but includes other Rural Development Plan payments to farms) less the costs[197].

The basis of aggregate profits is summarised in Table 9. Overall, across 9,125 farms, profits were £280m, of which 76% was derived from BPS payments. Including BPS payments, profits were 14.3% of output and, without BPS, they were 3.5%.

Table 64: Farm profitability (£m, 2023-24)

Component	**£m**
Output/revenues	
• Agriculture plus diversification	1,707
• BPS - Pillar 1	212
• BPS - Pillar 2	39
Total	1,958
Costs	1,679
Total profits	280
Total profits excluding BPS	**68**

The level of farm profits and the importance of BPS payments vary by farm type and farm size (see Table 10). The key points to note are that without BPS payments:

- The dairy sector would make the biggest profits along with cereal/general cropping farms;
- DA grazing, SDA beef and SDA sheep farms would make no profit; and

[194] The FPS is a stratified survey looking at changing farm inputs and management at a whole-farm level that can be attributed to participation in the Glastir scheme. The survey was conducted via a scripted telephone interview of 600 farms. The survey achieved returns from 125 'Dairy farms, 226 Cattle & Sheep in the Disadvantaged Area (CS-DA) & Cattle & Sheep in the lowland Area (CS-LOW) farms, and 249 Cattle & Sheep in the Severely Disadvantaged Area (CS-SDA) farms.

[195] Based on 550 returns.

[196] Values given in this paper show the raised population estimates for the 9,125 farms that have Standard Output of at least €25,000. Smaller farms are excluded

[197] This includes adjustments for depreciation, unpaid labour and notional rent for owned land

- The smallest farms (with output less than £250k) would make a loss whereas farms with output more than £250k a year would make a profit.

Table 65: Farm profitability by farm type and farm size[198]

	Number	Total profit (£m)	BPS (£m)	Profit excluding BPS (£m)	BPS as % of total profit	Profit excluding BPS as % of output
Farm type						
Dairy (LFA)	878	60	18	42	30	8.0%
Dairy (Low)	474	31	10	21	32	6.1%
SDA sheep	2,399	62	80	-18	129	-6.1%
SDA sheep/beef	1,199	36	33	3	92	1.7%
SDA beef	548	6	9	-3	150	-7.5%
DA grazing	1,841	29	30	0	103	-0.2%
Low grazing	1,068	25	18	7	72	5.3%
Cereals/Gen crops	443	23	9	14	39	10.5%
Mixed sheep/cattle/crops	275	8	6	2	75	3.4%
Output (£000)						
Under 75	2,705	8	40	-32	500	-22.5%
75 to 125	2,166	31	44	-12	142	-5.6%
125 to 250	2,337	60	61	-1	102	-0.3%
250 to 500	1,066	72	43	29	60	8.2%
At least 500	850	109	25	84	23	10.0%
Total	**9,125**	**280**	**212**	**68**	**76**	**3.5%**

A comparison of current assets and liabilities provides a basis for assessing the viability of Welsh farms:

- Current assets include trading livestock, cash and other short-term assets; and
- Current liabilities include overdrafts and short-term loans.

Table 11 summarises the current assets and liabilities of Welsh farms. The cells highlighted pink represent those farms where current liabilities exceed current assets – this is less than 10% of farms. Other farms may also be in the same position, but this is not certain because of the ranges used to summarise the data. Those cells highlighted green re those farms where assets exceed liabilities.

Table 66: Current assets and liabilities of Welsh farms (% of farms, 2023-24)[199]

Current liabilities	**Current assets**					
	<£25k	**£25k - <£50k**	**£50k - <£100k**	**£100k - <£200k**	**£200k+**	**Total**
£0 - <£5k	5	11	13	9	3	41
£5k - <£25k	5	6	8	7	3	28
£25k - <£50k	2	2	3	3	2	11
£50k - <£100k	1	2	3	2	1	9
£100k+	X	2	1	3	4	11
Total	**14**	**22**	**27**	**23**	**14**	**100**

[198] This is farm size by the value of output
[199] Source: Farm Business Survey for Wales, based on a representative sample of 550 farms

Table 12 provides an equivalent analysis but this time for total assets and liabilities where total assets are what the business is worth (i.e. the value of the land and buildings of the farm business, breeding livestock, machinery and BPS entitlements in addition to current assets) and total liabilities are what the business owes, including mortgages and other secured long-term loans, in addition to current liabilities.

The cells highlighted pink represent those farms where total liabilities exceed total assets – this is a very small proportion of farms. Other farms may also be in the same position, but this is not certain because of the ranges used to summarise the data. Those cells highlighted green are those farms where assets exceed liabilities.

Table 67: Total assets and liabilities of Welsh farms (% of farms, 2023-24)[200]

Total liabilities	**Total assets**					
	<£200k	**£200k - <£500k**	**£500k - <£1m**	**£1m - <£2m**	**£2m+**	**Total**
£0 - <£10k	1	4	13	17	6	41
£10k - <£50k	1	1	4	9	4	20
£50k - <£200k	X	2	5	9	6	22
£200k - <500k	X	X	2	3	3	8
£500k+	X	X	X	2	7	8
Total	**3**	**7**	**23**	**41**	**26**	**100**

[200] Source: Farm Business Survey for Wales, based on a representative sample of 550 farms

C. VALUE FOR MONEY ANALYSIS OF THE UNIVERSAL LAYER - APPROACH & RESULTS

This Annex explains the different approaches to the economic modelling which has been used to support the value for money analysis in the Economic Case:

- Assessment of impacts of the Universal Layer based on analysis by the Environment and Rural Affairs Monitoring & Modelling Programme (ERAMMP) using its Integrated Modelling Platform[201] (IMP); and
- Analysis by an ADAS led consortium.

It also summarises the key results.

ERAMMP - Integrated Modelling Platform

The IMP is a tool for exploration of the effects of policy and management interventions on farm viability, land use and environmental outcomes in Wales. It takes an integrated approach, recognising that interventions have multiple impacts and policy effects in one sector have indirect effects in other sectors. It comprises a chain of specialised, state-of-the-art models covering agriculture, forestry, land use allocation decisions, water, air, soils, biodiversity, ecosystem services and valuation.

The IMP is applied to full-time farms (> 1 Full Time Equivalent (FTE) labour). Changes in land use are driven by on-farm economics and land suitability. They do not consider skills, or cultural and behaviour responses.

The economic baseline for the IMP is 2023. Farm Business Survey (FBS) data for 2022-23 is a key input into the modelling alongside cost and commodity prices from the John Nix Management Pocketbook (2023).

Full assumptions that underpin the modelling are included in ERAMMP Report 60[202.]

The modelling estimates impacts for 7,401 full-time farms in Wales. This model population accounts for:

- 30%[203] of the c. 24,608 active farms in the June agricultural survey,
- 73% of all cattle (78% of beef and 69% of dairy) in Wales;
- 83% of all sheep in Wales;
- 67% of rough grazing, 61% of crop land and 50% of improved grass, of which 76% of temporary grass and 46% of permanent grass.

Table 13 shows the number of farms by farm type, and the total area represented by each of these farm types. Specialist sheep, Dairy and SDA mixed farms account for the largest shares of farms in the model. In terms of aggregate farm area, Specialist sheep, SDA mixed and Dairy account for the largest total areas.

Table 68: IMP Full-time farm numbers and area by farm type

Farm type	Total No of Farms	Total area (includes non-agricultural areas[204])	Average farm size (ha)
Cereals	97	20,842	215
General Cropping	52	7,109	137
Dairy	1,260	163,485	130
Lowland cattle & sheep	679	63,665	94
Mixed[205]	255	33,824	133
Other[206]	317	18,383	58
Specialist Sheep (SDA)	2,257	342,804	152
Specialist Beef (SDA)	184	34,007	185
SDA mixed	1,139	164,305	144
DA mixed grazing	1,161	124,854	108
Total	**7,401**	**973,278**	**132**

[201] ERAMMP – Report 42, IMP overview
[202] ERAMMP - Report-60, IMP Land Use Scenarios Final Report
[203] The shortfall represents both part time/micro farms and uncertainties in the allocation of LPIS to full time farms. Data limitations prevented the identification of all full-time farms, and all land associated with full time farms in Wales.
[204] Non-agricultural areas consist of bare rock, buildings, yards, sand dunes, mud flats. These areas are excluded from the modelling calculations
[205] Mixed: holdings for which no single category accounts for more than two thirds of total Standard Output
[206] Other: Holdings that do not fit into any of the defined categories. This category includes non-classifiable holdings

Modelling scenarios: Baseline scenario description and comparison to Counterfactual (BAU)

Baseline

The scenarios are introduced on top of a baseline. This indicates the conditions in which model farms are simulated to be operating ahead of the modelling scenario being introduced.

The baseline for the scenarios covered in this analysis is one where:

- BPS is being paid[207], with no taper;
- Rural Investment/ SFS Preparatory Schemes are not included;
- Standards of good agricultural and environmental condition (GAECs) apply;
- The Water Resources (Control of Agricultural Pollution) (Wales) Regulations 2021 are not in force (CoAP); and
- the Universal Layer of the SFS is not available.

Preferred Way Forward (PWF) Scenario

This scenario is that whereby the SFS Universal Layer is introduced. Two payment rate scenarios (PWFa and PWFb) are modelled (see below). In addition to the modelled introduction of the Universal Layer, the following elements are also simulated within the scenario:

- BPS removed in full;
- Rural Investment/ SFS Preparatory Schemes are not included (no change from baseline);
- GAECs continue to apply (no change from baseline);
- The Water Resources (Control of Agricultural Pollution) (Wales) Regulations 2021 are in force for all farms, including costs of compliance; and
- SFS Universal Layer introduced (OAs and Collaborative actions are not modelled).

Counterfactual scenario (BAU)

The Counterfactual scenario (BAU) is that against which the impacts of the PWF scenario can be compared. For this modelling, the Counterfactual is designed to offer insight into potential impacts if the SFS were not introduced, and BPS was continued. In this modelling scenario, the following elements are simulated:

- BPS paid, no taper;
- Rural Investment/ SFS Preparatory Schemes are not included (no change from baseline);
- GAECs continue apply (no change from baseline);
- The Water Resources (Control of Agricultural Pollution) (Wales) Regulations 2021 are in force for all farms, including costs of compliance; and
- The Universal Layer of the SFS is not available.

Interpretation of outputs

The baseline and two scenarios together mean specific effects can be explored by varying comparison across the model outputs.

The simulated impact of the Counterfactual (BAU) scenario is estimated from the change against the baseline.

The simulated impact of the PWF scenarios can be estimated by calculating the change difference between the Counterfactual (BAU) and each of the PWFs where possible i.e. difference between the projected value for the PWFs and that of the Counterfactual. This allows the impact of the SFS Universal Layer to be separated from other factors in the modelling (e.g. the regulatory environment). Where the change under the Counterfactual is minimal, or where cumulative change is being calculated, changes for the PWFs may be presented against the baseline. This is explained in the analysis where this is the case.

Description of PWF modelling scenario: SFS Universal Layer payments

This section outlines the approach to modelling the estimated impacts arising from the SFS Universal Layer under two payment scenarios (PWFa and PWFb).

Table 14 shows the payment rates included in the modelling, and which payments were not modelled. All payments are modelled as a flat-rate i.e. they do not vary according to the action undertaken, or any farm-specific factors such as size. Capping or tapering of payments is not included. The only difference between the two scenarios is the value of the Social Value payment (£115 per ha under PWFa, £70 per ha under PWFb).

[207] Excluding payments on common land and Young Farmer top-up

The following points in relation to payments should be noted when interpreting the results of these SFS Universal Layer scenarios:

- Payments eligible on common land were not modelled. The IMP does not model common land as it cannot be reliably linked to the other farm data sets (June Survey and the Land Parcel Identification System, LPIS) used in the model;
- The transition period whereby farms will have the option between 2026 and 2029 to receive either reduced BPS or payments under SFS was not modelled; and
- The Optional and Collaborative Layers of the Scheme were not modelled, and therefore any payment from actions which may be undertaken under these Layers of the Scheme are not represented.

The scenarios should therefore be taken as an estimation of potential Universal Layer impacts:

- Once BPS has been completely phased out;
- In a scenario where the choice for farms is to either join the Universal Layer of SFS or operate outside of all WG schemes; and
- Of Scheme payments and action on land within the farm gate only. For farms with common rights, payments beyond the farm gate may represent a substantial source of additional payment beyond those modelled in the IMP.

The outputs should not be interpreted as representing potential impacts arising in 2026, or any year where farms may choose to receive BPS as an alternative to joining the Universal Layer of the SFS.

Table 69: SFS Universal payment rates for modelling

Payment	Description	PWFa (£/ha)	PWFb (£/ha)
Maintenance of existing woodland	Payment value for each hectare of existing woodland that is managed.	62	62
Habitat maintenance (farmland)	Payment value for each hectare of semi-natural habitat managed, and/or each additional hectare of temporary habitat up to the required 10%, once created.	69	69
Whole Farm Payment	Payment value for each hectare covering all other Universal Actions on the total eligible area.	31	31
Social Value Payment (SVP)	This payment is per hectare in addition to any costs incurred and income forgone. Applied to the whole farm.	115	70
BPS Taper		Not modelled	Not modelled

Description of PWF modelling scenario: representation of Universal Actions

This section describes how the Universal Actions were incorporated into the PWF modelling scenarios. Assumptions are based on the November 2024 Scheme version[208].

Representation of Scheme actions within the modelling was the result of an iterative process between Officials and the IMP modelling team to ensure action representation appropriately reflected the policy intent. All assumptions were documented and approved by the SFS SRO, in line with AQUA Book guidance[209].

Table 15 gives an overview of the key costs modelled for each Universal Action (UA) and how the action influences modelled impacts. Costs are applied to model farms to understand, alongside the simulated payment rates, whether it is of economic benefit to enter the Scheme but also influence the economic optimisation of model farm structures (e.g. land use, stocking).

UAs vary in terms of which aspects of the model they influence. Actions which mainly incur a time cost, e.g. benchmarking, influence model farm FBI but do not directly result in changes in land use, stocking, or nutrient inputs unless the business takes further action beyond the UA. These actions, marked with an asterisk in Table 4, therefore do not have a direct effect on modelled environmental impacts.

UA9 woodland maintenance is modelled as cost and impact neutral due to uncertainty in the existing baseline management and condition of on-farm woodland, and the on-site variability in actions which may be undertaken under UA9 as a result.

Table 70: Universal Layer Modelling Assumptions

	Action	Modelling cost assumptions	Representation in impacts
-*	Habitat Baseline Review	Regarded as part of the application process. No cost represented in the modelling	-
-*	Carbon calculator	1 day per year of farmer time	Costs incurred influence farm FBI

[208] Welsh Government, Sustainable Farming Scheme: proposed scheme outline, 2024
[209] HM Treasury, The Aqua Book: guidance on producing quality analysis for government, 2015

	Action	Modelling cost assumptions	Representation in impacts
UA1*	Soil Health	Per field: 18 minutes plus analytical cost of testing Includes land which has previously received, or may receive inputs	Costs incurred influence farm FBI
UA1*	Nutrient management plan/records	2 days per year of farmer time	Costs incurred influence farm FBI
UA1*	Nutrient management reporting	1 day per year of farmer time	Costs incurred influence farm FBI
UA2*	Integrated Pest Management (IPM)	2 days per year of farmer time	Costs incurred influence farm FBI
UA3*	Benchmarking	1 day per year of farmer time	Costs incurred influence farm FBI
UA4*	Continuous Professional Development (CPD)	Minimum 7-year hours per year. 6 hours + mandatory H & S	Costs incurred influence farm FBI
UA5	Habitat Maintenance	Livestock reduction of 1 ewe (or direct beef equivalent) per hectare on rough grazing if baseline stocking exceeds habitat-based guidance threshold. This is a simplifying assumption to reflect that, whilst some habitat land may be more than 1 ewe per ha over the guidance levels, some stock is likely to be moved elsewhere on the farm rather than removed but this is not a response which is modelled. Pond maintenance: cost/m2/yr irrespective of pond size	Costs incurred and income foregone due to changes in stocking influence farm FBI
UA6	Temporary habitat creation on improved land	Land out of production on arable and intensive grassland to meet 10% habitat Scheme Rule. Modelled as: Temporary rough grass margins on arable Mixed Leys on improved (rotational and permanent) grassland	Land use change influences stocking and nutrient inputs and has downstream impacts on environmental outcomes Costs incurred and income foregone due to changes in stocking influence farm FBI
UA7*	Designated Site Management Plan	1 day per year of farmer time	Costs incurred influence farm FBI Maintenance of sites included under UA5 Delivering specific action under the plan is an Optional Layer action and not included here.
UA8	Hedgerow management	Planting of new hedgerow trees in hedgerows not in management at baseline Hedgerows in management at baseline assumed to contain saplings which can be left to grow	Change in hedgerow condition, and new hedgerow trees, has downstream impacts on environmental outcomes Costs incurred influence farm FBI
UA9	Woodland maintenance	Cost neutral due to uncertainties in baseline management and condition and variability in potential action which could be taken	No influence on farm FBI
UA10*	Tree and Hedgerow Planting Opportunity Plan	1 day per year of farmer time	Costs incurred influence farm FBI
UA11*	Historic Environment	1.5 days per year of farmer time	Costs incurred influence farm FBI
UA12*	Animal Health and Welfare	0.5 days per year of farmer time to complete Mobility and Body Condition Scoring	Costs incurred influence farm FBI
	Animal Health Improvement Cycle (AHIC)	1 day per year of farmer time, 0.5 days per year of vet time to complete AHIC	Costs incurred influence farm FBI
	Biosecurity	0.5 days per year of farmer time, 0.5 days per year of vet time to complete Animal Biosecurity Assessment	Costs incurred influence farm FBI

Description of PWF modelling scenario: responses of model farms

Each of the 7,401 full-time model farms is presented with two 'choices' in the PWF modelling scenario:

- Join the Universal Layer of the SFS in return for payment, and implementation of all applicable universal actions; and
- Do not join the Universal Layer, and operate without any government funding.

Farms are modelled as entering the Universal Layer if the business is simulated to generate £1 more profit within the scheme than if they were to operate without any funding. Potential behavioural drivers not considered, as these are too diverse to account for with enough confidence in the modelling.

Model farms are not able to transition to a more profitable farm type within the scenarios. Outcomes and impacts should therefore be considered as those which may arise over the shorter term, rather than indicative of any industry re-structuring which could occur over a longer period.

Simulated scheme uptake

This section outlines the simulated uptake under each PWF scenario, and the differences in uptake between the scenarios, in terms of:

- Farm numbers;
- Farm area;
- Habitat area;
- Hedgerow length;
- Woodland area; and
- Livestock numbers.

Farms

99% and 97% of model farms are simulated to join the Universal Layer of the scheme (as opposed to receiving no WG funding) under PWFa and PWFb respectively (Table 16). High simulated uptake is attributable to the loss of BPS. Modelled uptake is higher under PWFa due to the larger Social Value payment.

By scenario and farm type, uptake is simulated to be highest in SDA mixed farms (99.6%) in the higher payment scenario and Specialist Beef (99.5%) in the lower payment scenario. Simulated uptake across both scenarios is lowest in the Other farm type (89.0% under the higher rate and 78.6% under the lower rate).

Table 71: Simulated uptake by farm type

Farm type	Number of farms (total)	PWFa % of farms adopting	PWFb % of farms adopting
Cereals	97	97.9	94.9
General Cropping	52	98.1	94.2
Dairy	1,260	99.2	95.0
Lowland cattle & sheep	679	99.1	96.2
Mixed	255	97.7	97.7
Other	317	89.0	78.6
Specialist Sheep (SDA)	2,257	98.8	98.2
Specialist Beef (SDA)	184	99.5	99.5
SDA mixed	1,139	99.6	99.3
DA mixed grazing	1,161	99.2	98.1
Total	**7,401**	**98.6**	**96.7**

Farm area

Given that most full-time farms simulated to join the Universal Layer under both payment scenarios, uptake by total area is high.

Across both scenarios, over 99% of the total model area (including non-agricultural areas) is simulated to enter the Universal Layer. Under PWFa, 99.7% of the modelled area is simulated to be within the scheme, compared to 99.1% under PWFb (see Table 17).

Specialist Sheep (SDA), SDA mixed grazing farms and Dairy farms have the greatest area in the Universal Layer, reflecting their large numbers (31%, 15% and 17% of total model farms respectively) and their large area (35%, 17% and 17% of total model farm area respectively).

Table 72: Simulated uptake by farm area

Total Farm Area (ha)	Baseline total farm area (ha) (including non-agricultural areas)	Total area under PWFa	% of farm area under PWFa	Total area under PWFa	% of farm area under PWFb
Cereals	20,842	20,692	99.3	20,524	98.5
General Cropping	7,109	6,947	97.7	6,916	97.3
Dairy	163,485	163,072	99.8	159,898	97.8
Lowland cattle & sheep	63,665	63,355	99.5	62,856	98.7
Mixed	33,824	33,356	98.6	33,356	98.6
Other	18,383	18,097	98.4	17,671	96.1
Specialist Sheep (SDA)	342,804	342,024	99.8	341,577	99.6
Specialist Beef (SDA)	34,007	33,997	100.0	33,997	100.0
SDA mixed	164,305	164,112	99.9	163,744	99.7
DA mixed grazing	124,854	124,612	99.8	124,159	99.4
Total Farm Area (ha)	**973,278**	**970,264**	**99.7**	**964,698**	**99.1**

Habitat entering Universal Layer: UA5 Habitat Maintenance

Under UA5 Habitat Maintenance, all habitat land entering the Universal Layer is brought under this action. For semi-improved and rough grassland habitat land, this is modelled as 1 ewe (or beef equivalent) in stock reduction per hectare where the habitat is modelled as being over the guidance stocking limits. Livestock removed from habitat land is removed from the farm business entirely, rather than being displaced elsewhere on the farm. In practice, farms may re-locate stock to other areas of the farm, but this is not a response which is captured in the modelling. Therefore the 1 ewe per ha was chosen as a simplifying assumption to reflect that, where an area of habitat is stocked above the guidance level, some livestock may be displaced rather than removed entirely but also that there could be economic impacts where livestock is removed.

In line with the high simulated uptake across both scenarios, the areas of existing habitat simulated to be under UA5 are also high (see Table 18). Across both scenarios, most of all model habitat land is brought into the Universal Layer (99.8% under PWFa, 99.7% under PWFb).

Table 73: UA5 Habitat Maintenance: area of habitat simulated to enter Universal Layer

UA5 habitat	Baseline total area (ha)	Total under PWFa (ha)	Total under PWFb (ha)	Percentage of baseline area under PWFa	Percentage of baseline area under PWFb
Ponds	84	66	58	78.6	69.1
Semi-improved grassland	127,123	126,976	126,881	99.9	99.8
Rough grassland	157,629	157,516	157,500	99.9	99.9
Non-agricultural habitat land [210]	2,607	2,539	2,536	97.4	97.3
Non-woodland SSSI on Arable, Improved Grassland and non-agricultural land	10,202	10,129	10,112	99.3	99.1
Broadleaved woodland >0.1ha	54,744	54,515	54,262	99.6	99.1
Total (existing habitat)	**352,389**	**351,741**	**351,349**	**99.8**	**99.7**

Hedgerows entering Universal Layer: UA8 Hedgerow Management

Hedgerows are distinguished in the baseline according to whether they have previously been under management or created within a Welsh Government agri-environment scheme (AES, e.g. Glastir). This distinction is used in the modelling to make assumptions about hedgerow condition and the presence of saplings which can be left to grow in line with the requirements of the action (Outcomes section).

[210] Land Cover Map classes of supralittoral rock, supralittoral sediment (e.g. sand dunes and salt marsh).

Most hedgerows (97.5%) are not recorded as being in previous schemes and therefore assumed to be narrower, shorter and without available saplings on entry to the scheme (see Table 19). This is a simplifying assumption for the purposes of the modelling.

High adoption under both payment scenarios means most of the baseline hedgerow area is brought into UA8 (99.6% under PWFa and 98.8% under PWFb).

Table 74: UA8 Hedgerow Management: Length of hedgerows simulated to enter Universal Layer

Length of hedge (km)	Baseline Length	Length within Universal Layer PWFa	Length within Universal Layer PWFb	% of baseline Length PWFa	% of baseline Length PWFb
Hedge in AES at Baseline	565	564	560	99.8	99.2
Hedge not in AES at Baseline	22,086	22,007	21,815	99.6	98.8
Total hedge (km)	**22,651**	**22,571**	**22,375**	**99.6**	**98.8**

Woodland entering Universal Layer: UA9 Woodland Maintenance

There is 82,857ha of on-farm woodland in the baseline (see Table 20). This represents 8.5% of the total model area. Most of the farm woodland (>0.1ha, excluding conifer over 30ha[211]) is brought into maintenance under both payment scenarios (99.7% under PWFa and 99.2% under PWFb).

Table 75: UA9 Woodland Maintenance: area of woodland simulated to enter Universal Layer

	Baseline area	Area within Universal Layer PWFa	Area within Universal Layer PWFb	% of baseline area PWFa	% of baseline area PWFb
Area of woodland (ha)	82,857	82,573	82,171	99.7	99.2

Livestock simulated to enter Universal Layer

In line with the high simulated uptake in terms of farm numbers and area under each payment scenario, the proportion of baseline Grazing Livestock Units (GLUs) simulated to be brought under the Universal Layer is also high with marginal difference between the two (see Table 21). Table 21 does not consider any changes in absolute stock numbers; these are explored in the Outcomes section.

Table 76: Proportion of baseline livestock simulated to enter Universal Layer

GLUs	Baseline total	PWFa livestock in Universal	PWFb livestock in Universal
Beef	261,637	252,449	251,315
Sheep	411,249	384,765	383,911
Dairy	293,860	254,871	249,672
Total	966,746	892,084	884,898
Percentage (%)	**100**	**92.3**	**91.5**

Simulated WG payments to farms

This section outlines the simulated Welsh Government spend across the Counterfactual and PWF scenarios in terms of:

- Aggregate spend within each scenario
- Aggregate spend by farm type
- Average payment by farm type

The IMP models full time farms only and does not include payments or action on common land. Simulated spend is therefore smaller than it would be if the full farm population, and associated land, was included and should not be taken as the full cost of the Universal Layer to WG.

[211] Conifer over 30ha is assumed to be under commercial management

Aggregate Spend

Under the Counterfactual scenario, a total of £143.5m in BPS is simulated to be paid to model farms (see Table 22). In the PWF scenarios, BPS is removed and model farms join the SFS Universal Layer if it is more profitable to do so than operating without government funding.

Total simulated WG spend under PWFa is 18% higher than in the Counterfactual, and under PWFb it is 13% lower.

Table 77: Total simulated WG payments to full time farms, by payment type

Total simulated payments to full-time farms (£m)	Counterfactual	PWFa	PWFb	% of total payment PWFa	% of total payment PWFb
BPS	143.5	0	0	-	-
Whole Farm Payment	0	30.0	29.9	17.8	24.0
Habitat maintenance	0	22.9	22.8	13.5	18.3
Woodland maintenance	0	4.5	4.5	2.7	3.6
Social Value Payment	0	111.5	67.5	66.0	54.1
Total	**143.5**	**168.9**	**124.6**	**100**	**100**

Note. Modelled BPS payments exclude common land and Young Farmer top up

Between the payment scenarios, total simulated SFS Universal Layer payments to full-time farms are 26% higher under PWFa (£169 million) than PWFb (£125 million).

The difference in total simulated payment between the two PWF scenarios is primarily due to the larger Social Value Payment (SVP) but also the additional 140 farms and 5,556ha simulated to join the Universal Layer under PWFa.

Across both scenarios, the largest proportion of payments is from the SVP. In PWFa, 66% of payments are the SVP, 18% for the whole farm payment, 14% for habitat maintenance and 3% for woodland maintenance. Under PWFb, 54% of payments are the SVP with 24% for the whole farm, 18% for habitat, and 4% for woodland maintenance.

Generally, differences in simulated expenditure across the other payment types are small since the only payment rate to vary across the scenarios is the SVP, and the higher uptake under PWFa is marginal (an additional 5,556ha of land under management represents <1% of the full model area).

In PWFb, the whole farm payment represents a larger proportion of total simulated payments (24%), due to the lower contribution from the SVP and the fact that this payment is paid across the farm, whilst other payment elements are paid on specific areas only (e.g. woodland).

Spend by Farm Type

By farm type, the highest simulated expenditure under both the Counterfactual and PWF scenarios is towards Specialist Sheep (SDA), SDA mixed grazing and Dairy (see Table 23). This is reflective of the larger numbers and area of these farms, and high uptake.

Total simulated payments across both payment scenarios show a similar distribution across farm types to the BPS spend in the Counterfactual scenario.

Under PWFa, all farm types receive higher simulated aggregate payments than under the Counterfactual scenario except for Lowland Cattle and Sheep farms who receive £0.37million less in total payment.

Under PWFb, all farm types receive lower simulated aggregate payments than under the Counterfactual scenario except for Specialist Sheep who receive marginally more in aggregate (£0.02million).

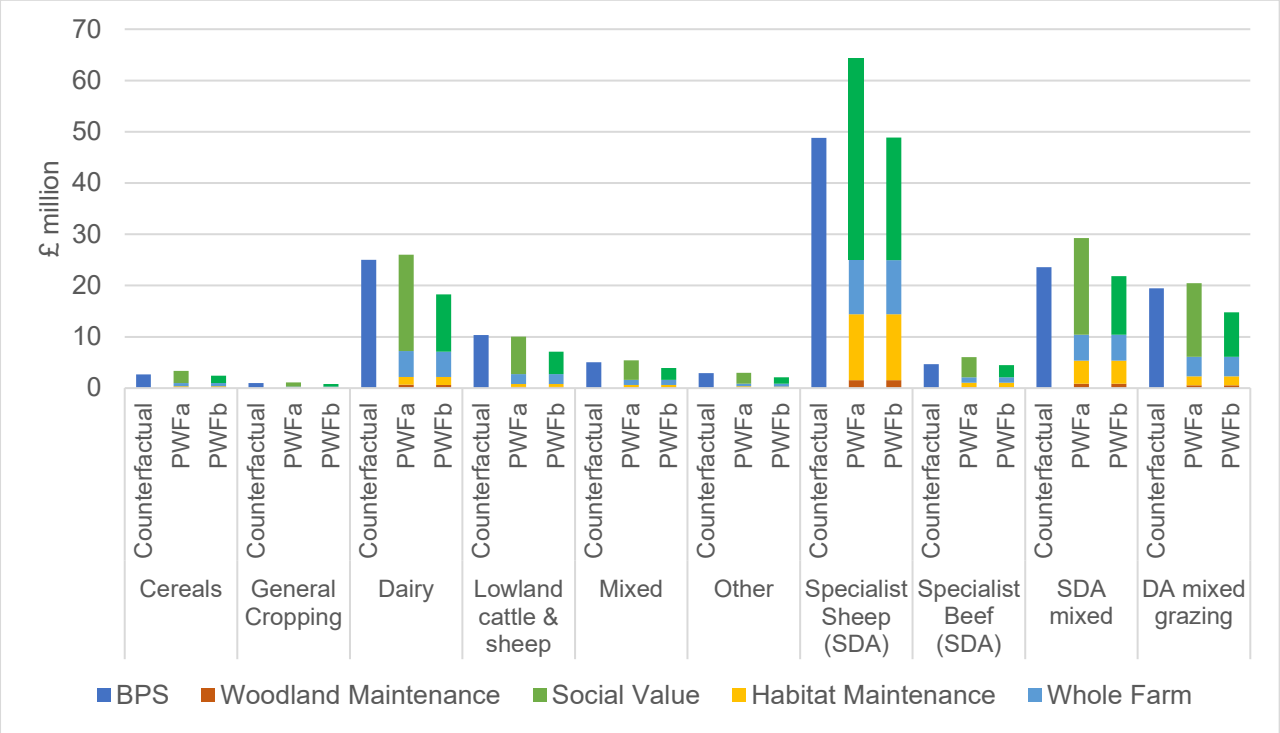
For all farm types, and under both scenarios, the SVP represents the largest payment (see Figure 11), reflective of the fact that this payment is higher in value than the other payment elements across both scenarios plus paid over the full eligible farm area.

Table 78: Simulated aggregate spend by farm type

Aggregate simulated payments (£m)	BPS	Total PWFa payment	Total PWFb payment
Cereals	2.6	3.4	2.4
General Cropping	1.0	1.1	0.8
Dairy	25.0	26.0	18.3
Lowland cattle & sheep	10.4	10.0	7.1
Mixed	5.0	5.5	4.0
Other	2.9	3.0	2.1
Specialist Sheep (SDA)	48.8	64.3	48.9

Specialist Beef (SDA)	4.7	6.0	4.5
SDA mixed	23.6	29.3	21.9
DA mixed grazing	19.5	20.4	14.8
Total	**143.5**	**168.9**	**124.6**

Figure 20: Total payments by farm type



Average payments

Average simulated payments do not include any payments on common land and, in the case of BPS, also exclude the Young Farmer top-up.

Across both payment scenarios, Cereal farms receive the largest average Universal payment (see Table 24). This is due to the relatively small number of these farms in the model (97) but a comparatively high average farm size (average farm size of 215ha compared to 131ha for all model farm types) meaning larger social value and whole farm payments. Farms in the Other category receive the lowest average payment across both scenarios, reflective of the smaller average size of these farms in comparison to that of the full model population (58ha compared to 132ha).

Between scenarios, cereal farms see the largest change in average payment between the higher and lower SVP. Farms in the Other category see the lowest reduction between the two payment scenarios.

In comparison to BPS, all farm types receive a higher average payment under PWFa than under BPS, reflective of the larger simulated WG spend. Under PWFb, average payments are lower than under the Counterfactual for all farm types except for Specialist Sheep (SDA) farms which have a marginally higher average payment than under the Counterfactual.

Table 79: Average simulated payments by farm type

Average Universal Payment (£)	BPS[212]	PWFa	PWFb	Difference PWFa to PWFb (£)
Cereals	27,177	35,239	26,077	-9,161
General Cropping	19,074	21,660	16,088	-5,572
Dairy	19,869	20,786	15,290	-5,496
Lowland cattle & sheep	15,290	14,878	10,888	-3,990
Mixed	19,684	21,891	15,869	-6,022
Other	9,194	10,484	8,415	-2,069
Specialist Sheep (SDA)	21,636	28,841	22,045	-6,796

[212] Simulated BPS payments do not include common land payments, or the Young Farmer top up.

Average Universal Payment (£)	BPS[212]	PWFa	PWFb	Difference PWFa to PWFb (£)
Specialist Beef (SDA)	25,468	32,944	24,594	-8,350
SDA mixed	20,688	25,806	19,317	-6,490
DA mixed grazing	16,751	17,737	12,980	-4,756
Total	19,483	23,027	17,156	-5,870

Outcomes

Model outcomes represent the changes to land use, stocking and nutrients which drive downstream environmental impacts.

The following sections present outcomes from the two PWF payment scenarios in comparison to outcomes from the Counterfactual.

Changes because of the Counterfactual scenario are calculated against the baseline.

Changes because of the PWF scenarios are calculated against the Counterfactual change. Results for the PWFs therefore indicate the simulated additional change in outcomes relative to those seen in the Counterfactual scenario. Where the Counterfactual change is negligible, PWF change is calculated against the baseline in order that percentage changes more accurately reflect the absolute change which is simulated.

Outcomes are represented for:

- Land Use (including temporary habitat creation under Universal Action 8);
- Hedgerow management;
- Livestock numbers; and
- Nutrient inputs.

Land Use

Under the Counterfactual scenario, there are very small, modelled changes in total crop area (0.19% reduction) and the area of rotational grass (0.11% increase). No other changes in productive area are seen (see Table 25).

In comparison to the Counterfactual, modelled land use changes under the PWF scenarios are larger due the requirements of the 10% Habitat Scheme Rule and UA6 Temporary Habitat Creation but remain small as overall proportion of the total modelled productive areas. Changes due to UA6 on temporary grass and arable are modelled as temporary changes.

Under PWfa, in comparison to the Counterfactual, an additional 0.67% of crop area is simulated as undergoing land use change to temporary habitat, rotational grass reduces 5.28% and the area of improved permanent grass reduces by 1.84%. For PWFb there is a marginally lower reduction in rotational and permanent grass. Rough grass undergoes no change in either payment scenario.

Table 80: Simulated percentage change in land use

% change in land use	Crop	Rotational Grass	Permanent Grass	Rough Grass
Baseline to Counterfactual	-0.19	0.11	0.00	0.00
Counterfactual to PWFa	-0.67	-5.28	-1.84	0.00
Counterfactual to PWFb	-0.66	-5.08	-1.82	0.00
PWFa compared to PWFb	0.01	0.22	0.02	0.00

As a result of this projected land use change the total area of temporary habitat created under UA6 is 16,018ha for SFS7a and 15,673ha for SFS7b, a difference of 2.16% (see Table 26).

Temporary habitat creation under UA6 represents an additional 4.5% on top of the baseline habitat area under PWFa, and 4.4% under PWFb.

Most of the temporary habitat is mixed leys created on permanent grass (Intensive Grassland). This accounts for 60% in PWFa, mixed leys on rotational grass account for 38% and rough grass margins on arable 3%.

Table 81: UA6 Temporary habitat creation: total area created by land use category

Temporary habitat created (ha)	PWFa	PWFb	PWFa compared to PWFb %
Temporary habitat (crop)	459	450	1.9
Temporary habitat (rotational grass)	6,001	5,767	3.9

Temporary habitat (permanent grass)	9,559	9,456	1.1
Total	**16,018**	**15,673**	**2.2**

Of the 16,018ha of temporary habitat created in PWFa and the 15,673 in PWFb, the largest proportion is created on dairy farms (see Table 27). This is reflective of their large numbers and area in the model, and lower proportion of existing habitat area. Temporary habitat on general cropping farms represents the lowest proportion of area created across both scenarios, reflective of the lower number of this farm type in the model (52 farms) and therefore lower aggregate total area in comparison to other farm types.

Table 82: UA6 Temporary Habitat creation: area created by farm type

Temporary habitat creation by farm type	**PWFa**		**PWFb**	
	Total created (ha)	**% temporary habitat created**	**Total created (ha)**	**% temporary habitat created**
Cereals	614	3.8	606	3.9
General cropping	221	1.4	220	1.4
Dairy	6,070	37.9	5,829	37.2
Lowland cattle & sheep	2,500	15.6	2,477	15.8
Mixed	863	5.4	863	5.5
Other	494	3.1	477	3.0
Specialist Sheep (SDA)	941	5.9	937	6.0
Specialist Beef (SDA)	272	1.7	272	1.7
SDA Mixed	910	5.7	892	5.7
DA Various	3,133	19.6	3,100	19.8
Total	**16,019**	**100**	**15,673**	**100**

Hedgerow changes

Under the Counterfactual, no changes to baseline hedgerows are modelled.

Under UA11, hedgerows entering the Universal Layer undergo two key changes depending on the baseline condition:

- Increase in width to 3 by 2m from 1m by 1m if not managed in baseline, or from 2 by 2m if assumed to already be managed
- The cultivation of saplings in hedgerows every 50metres. Saplings are planted where the hedgerow is assumed unmanaged (and therefore in worse condition) in the baseline but assumed to be already present to cultivate within the hedgerow if managed at baseline.

There is an overall increase of hedgerow area of 192% in PWFa and 190% in PWFb in comparison to the baseline (see Table 28). A total of 373,891 samplings are simulated to be cultivated under PWFa, and 370,728 under PWFb (see Table 29). Differences between the two scenarios are minor, reflecting high uptake under both. The increase in area should be considered an overestimate due to uncertainty over the baseline width and height of modelled hedgerows.

Most saplings are modelled as actively planted, as opposed to already present in the hedge to allow to grow, as most hedgerows in the baseline are modelled as unmanaged. The number of saplings actively planted should be assumed an overestimate due to uncertainty over the baseline condition of modelled hedgerows.

Table 83: UA11 Hedgerow Maintenance: simulated increase in hedgerow area

Hedgerow metrics	**Baseline and Counterfactual (CF)**	**PWFa**	**PWFb**	**% difference CF to PWFa**	**% difference CF to PWFb**	**% difference PWFa to PWFb**
Hedgerow area (m2)	23,215,920	67,793,000	67,405,800	192.01	190.34	-0.57

Table 84: UA11 Hedgerow Maintenance: simulated number of saplings cultivated

Saplings cultivated	**PWFa**	**PWFb**	**% difference PWFa to PWFb**
Number of non-planted saplings	7,997	7,950	-0.59
Number of planted saplings	365,894	362,778	-0.85
Total	**373,891**	**370,728**	**-0.85**

Livestock changes

Under the Counterfactual there is an overall 2.8% modelled reduction in Grazing Livestock Units (GLUs) in comparison to the baseline. This is due to a 9.0% reduction in Dairy GLUs due to the limits and requirements related to the CoAP regulations (see Table 30). Beef (0.11% reduction) and Sheep (0.00% change) GLUs are unaffected.

In comparison to the Counterfactual, under PWFa and PWFb there is an additional 4.8% and 4.7% modelled reduction in total GLUs respectively. The largest reductions are seen in sheep (6% reduction in both scenarios) followed by dairy GLUs (4% reduction in both scenarios) and beef (3% reduction), reflecting the larger areas of habitat on sheep farms which are therefore subject to Universal Action 5. The creation of temporary habitat under UA6 on permanent and rotational grassland influences stocking across all GLU categories.

Differences in stock changes between PWFa and PWFb are marginal (0.07% overall), reflecting similar levels of uptake across the scenarios.

Table 85: Simulated percentage change in Grazing Livestock Units (GLU)

% Change in GLUs	Beef	Sheep	Dairy	Total
Baseline to Counterfactual	-0.11	0.00	-9.01	-2.77
Counterfactual to PWFa	-3.02	-6.20	-4.40	-4.81
Counterfactual to PWFb	-2.99	-6.19	-4.23	-4.74
% difference in GLUs				
PWFa compared to PWFb	0.03	0.01	0.18	0.07

Nutrient Inputs

Changes in nutrient inputs are driven by modelled changes in stocking and land use.

Under the Counterfactual, there is an overall 5.8% reduction in nutrient inputs (see Table 31). This is driven by a 14.5% reduction in N fertiliser and a 9% reduction in dairy excreta. The reduction in dairy excreta is associated with the 9% reduction in dairy GLUs because of the change to nutrient loadings within the farm under the CoAP regulations. Beef and sheep excreta are unaffected.

In comparison to the Counterfactual, the payment scenarios see additional modelled reductions in nutrient inputs of 4.4% under PWFa and 4.3% under PWFb. Reductions occur across all input categories.

In line with the stocking reductions described in the previous section, the largest modelled changes in inputs under the payment scenarios are seen in sheep excreta (6.2% reduction across both scenarios).

There are minor differences between the two scenarios. PWFb sees a slightly lower reduction in overall inputs, due to marginally lower decreases in stocking and land use change compared to PWFa.

Table 86: Simulated percentage change in nutrient inputs

% change in nutrient input	N fertiliser	Dairy excreta	Beef excreta	Sheep excreta	Total
Baseline to Counterfactual	-14.50	-8.99	-0.14	0.00	-5.76
Counterfactual to PWFa	-2.81	-4.40	-3.02	-6.20	-4.35
Counterfactual to PWFb	-2.73	-4.23	-2.99	-6.19	-4.28
% difference in nutrient input					
PWFa compared to PWFb	0.09	0.18	0.03	0.01	0.07

Impacts

This section describes the simulated economic and environmental impacts arising from the modelled scenarios. It considers impacts on:

- Farm Business Income;
- Carbon stocks and GHG emissions;
- Water quality;
- Air quality; and
- Biodiversity.

Assumed longevity of scheme changes

All actions are delivered under 1-year agreements. However, for the purposes of projecting the long-term impacts of changes associated with the scheme, IMP assumes that actions and associated management remain in place for the modelled period. This is except for temporary habitat creation, since a farmer could shift these temporary habitat features around the farm, and they are therefore not included in the land use change areas which act as inputs for the Ecosystem Services models.

Aggregate FBI

Under the baseline, aggregate Farm Business Income (FBI) from the full-time model farms is £345.9 million (see Table 32). Dairy farms account for the largest proportion (59%), followed by Specialist Sheep (12%) and DA Mixed Grazing (9%). The sectors representing the smallest shares are General Cropping (0.4%), Cereals (1%) and Other (1%). This reflects the lower numbers and area of these farms.

Under the Counterfactual, aggregate FBI reduces 13.6% from the baseline. This is mainly due to a reduction in Dairy Grazing Livestock Units (GLUs) in relation to the CoAP regulations, the costs of Nitrogen export these farms face because of Nitrogen application limits, and the application limits themselves. Farms which stock beef and sheep are not affected by these limits but do incur some of the additional costs of the regulations such as closed periods for spreading and record keeping.

In comparison to the Counterfactual, the introduction of the Universal Layer increases aggregate simulated FBI a further 2.5% under PWFa. This is reflective of the larger total simulated WG spend on SFS Universal under PWFa (£25 million additional) than on BPS under the Counterfactual. Specialist Sheep SDA (26.8%) and Specialist Beef SDA (20.2%) see the largest percentage increases in aggregate FBI in comparison to the Counterfactual. Lowland Cattle and Sheep (17.2%) and Other (15.1%) see the largest percentage decreases.

In comparison to the Counterfactual, the introduction of the Universal Layer decreases aggregate FBI by 12.1% under PWFb (see Table 33). This is reflective of the lower spend under PWFb (£19 million lower) in comparison to the Counterfactual.

Between the two payment scenarios, the lower SVP under PWFb reduces simulated aggregate FBI by 14% (£43.5m) in comparison to PWFa. Dairy FBI is least impacted by the lower SVP in PWFb (4.4% reduction in PWFb compared to PWFa). Lowland Cattle & Sheep, Specialist Sheep (SDA) and Specialist Beef (SDA) see the greatest reduction in simulated aggregate FBI when the SVP is lower (32.3%, 28.2% and 27.8% respectively).

Table 87: Simulated aggregate FBI by Farm type

Total simulated FBI from full time farms (£m)	Baseline	Counterfactual	PWFa	PWFb
Cereals	3.9	3.5	3.9	3.0
General Cropping	1.5	1.3	1.3	1.0
Dairy	205.5	171.3	166.7	159.4
Lowland cattle & sheep	10.7	10.5	8.7	5.9
Mixed	8.4	7.4	7.3	5.8
Other	4.6	4.1	3.4	2.6
Specialist Sheep (SDA)	44.5	43.0	54.5	39.1
Specialist Beef (SDA)	5.6	4.6	5.5	4.0
SDA mixed	29.1	25.1	28.6	21.2
DA mixed grazing	32.3	28.1	26.5	20.9
Total	**345.9**	**298.9**	**306.4**	**262.9**

Table 88: Percentage Change in aggregate FBI by farm type

% change in total simulated FBI from full time farms	% change Baseline to Counterfactual	% change Counterfactual to PWFa	% change Counterfactual to PWFb	% change PWFa to PWFb
Cereals	-10.5	11.7	-15.0	-23.9
General Cropping	-11.0	-1.4	-24.7	-23.6
Dairy	-16.7	-2.7	-6.9	-4.4
Lowland cattle & sheep	-1.3	-17.2	-44.2	-32.6
Mixed	-11.8	-1.8	-22.1	-20.7
Other	-11.3	-15.1	-34.9	-23.4
Specialist Sheep (SDA)	-3.4	26.8	-9.0	-28.2
Specialist Beef (SDA)	-18.0	20.2	-13.2	-27.8
SDA mixed	-13.5	13.6	-15.7	-25.8

% change in total simulated FBI from full time farms	% change Baseline to Counterfactual	% change Counterfactual to PWFa	% change Counterfactual to PWFb	% change PWFa to PWFb
DA mixed grazing	-12.9	-5.7	-25.6	-21.1

Carbon stocks and GHG emissions

Carbon stock

For carbon stocks (LULUCF soil and biomass carbon stock, hedge carbon stock), changes occur non-linearly over time in response to a change in the system. Modelled change occurs in the scenarios in response to modelled land use or management change, or hedge maintenance.

The change represents a transfer of carbon from being stored in the soil and biomass "pool", to the atmospheric "pool" (or vice versa).

Because of the non-linear rates of change, numbers are reported only as a total change to 2030, rather than as an annual average. Negative values indicate sequestration (i.e. a reduction in the atmospheric carbon pool).

Under the Counterfactual scenario, due to the marginal modelled land use change the modelled loss of carbon stocks from the baseline is smaller than the level of uncertainty in the modelling chain and should be considered zero (see Table 34).

Given the stock changes under the Counterfactual should be considered zero, reporting percentage change for the PWFs as a proportion of the change under the Counterfactual gives values which do not appropriately reflect the level of change which has occurred. Change for the PWFs is therefore reported against the baseline. Under the PWF scenarios, there is a projected increase in carbon stock of 0.02% to 2030 in comparison to baseline stocks. This is primarily due to the additional carbon sequestration arising from the increase in hedgerow height/width and the addition of trees into hedgerows under UA8 Hedgerow Management. Therefore, modelled changes in carbon stocks are strongly dependant on assumptions around baseline hedge dimensions, and how these might change under the scheme, as well as the data used to estimate associated carbon stock change. The impacts of this on overall confidence in the outputs are limited, since these carbon stock changes are very small compared to modelled changes in agricultural GHG.

Again, there are negligible areas of land use change projected which result in modelled loss of carbon stocks smaller than the level of uncertainty in the model which should be considered zero. These small modelled losses have currently been accounted for in the reported net carbon stock change values and are offset by the gains from hedgerows.

Differences between the two PWF scenarios are negligible due to the high levels of uptake across both, but there is marginally higher sequestration under PWFa.

Table 89: Modelled carbon stock changes 2023 to 2030

Note. negative values indicate sequestration	Counterfactual	PWFa	PWFb
Carbon stock change from baseline (ktCO2e)	0.78	-92.34	-91.53
Carbon stock change difference from counterfactual (ktCO2e)	-	-93.11	-92.31
Carbon stock change from baseline (%)	0.00	-0.02	-0.02

GHG emissions: annual

Annual emissions for agricultural and wetland GHG are modelled and the cumulative change over time is calculated. These systems create emissions annually, and the modelling assumes a direct relationship between the management of them and the emissions released.

Modelled changes in emissions occur in response to modelled changes in land use and agricultural management (including livestock and fertiliser use). Negative values indicate avoided emissions.

Changes are assumed to occur immediately and remain consistent over time. This assumption may over-estimate benefits for wetland GHG, however these make up a negligible proportion of the GHG benefits.

Table 35 shows the annual wetland (peat) and agricultural GHG emissions under each scenario, the change for each against the baseline, and the change for the PWF scenarios against the Counterfactual.

Under the Counterfactual, there are minimal modelled changes to wetland GHG due to negligible land use change on peatland areas. There is a simulated annual reduction in agricultural GHG flux of 5.5% in comparison to the baseline. This decrease reflects the modelled 2.8% reduction in GLUs (primarily Dairy) and associated excreta, and reduction in N fertiliser inputs (14.5%), leading to overall reduction in N inputs of 5.8%. There is also a minor influence from the marginal projected changes in land use (0.19% reduction in crops, 0.11% increase in rotational grass) and a small reduction in the indirect N_2O emissions due to

modelled CoAP impacts on nitrate leaching (see water quality section). Of the change in agricultural GHG flux, the simulated reduction in methane is greater than N_2O when expressed as CO_2-e, but proportionally more reduction is seen in N_2O (a reduction of 4% in methane compared to 13% in N_2O). These benefits are therefore dependant on the modelled changes in livestock and fertiliser as well as our modelling assumptions about changes in management in response to CoAP.

Compared to the Counterfactual, there are also minimal modelled changes in wetland GHG, again reflective of minimal land use change on peatland areas. There is an additional 4.3% annual reduction in modelled agricultural GHG flux from the Counterfactual under PWFa and 4.2% under PWFb. Of this, the PWF scenarios see an additional 3.3% (PWFa) and 3.2% (PWFb) reduction in modelled N_2O in comparison to the Counterfactual. For methane, the PWF scenarios see an additional modelled reduction of 4.5% (PWFa) and 4.4% (PWFb) compared to the Counterfactual. For methane, these changes are primarily driven by the additional livestock reduction (additional 4.7 to 4.8 % of Counterfactual GLUs) seen under the PWF scenarios, whilst for N_2O the N fertiliser reduction (additional 2.7 to 2.8 % of Counterfactual fertiliser) is also important. These modelled benefits are therefore strongly dependant on the modelled changes in livestock and fertiliser inputs, and the modelling assumptions underpinning this response to the scheme. Because the CoAP delivers a large proportion of these modelled benefits, they are also dependant on the modelling assumptions and projected response to the CoAP.

Differences in emissions reduction between PWFa and PWFb should be considered minimal.

Table 90: Modelled annual agricultural emissions

				Breakdown of Agricultural GHG	
Annual agricultural (fertiliser and livestock) and wetland GHG changes	**Scenario**	**Wetlands (4D) flux (KtCO2eq/yr)**	**Agricultural GHG flux total (KtCO2eq/yr)**	**Agricultural GHG flux as N2O (KtCO2eq/yr)**	**Agricultural GHG flux as methane (KtCO2eq/yr)**
Annual emissions	Baseline	509	4,063	658	3,405
	Counterfactual	509	3,838	571	3,268
	PWFa	509	3,674	552	3,122
	PWFb	509	3,677	553	3,124
% Difference from Baseline	Counterfactual	-0.02	-5.53	-13.28	-4.03
	PWFa	-0.02	-9.57	-16.10	-8.31
	PWFb	-0.02	-9.49	-16.04	-8.23
Difference from Counterfactual	PWFa	0.00	-164	-19	-146
	PWFb	0.00	-161	-18	-143
% Difference from Counterfactual	PWFa	0.00	-4.29	-3.25	-4.47
	PWFb	0.00	-4.20	-3.18	-4.38

Stocks and GHG Emissions: cumulative change to 2030

Cumulative modelled change in stocks and GHG for the Counterfactual and PWF scenarios are reported against the baseline.

Agricultural GHG reductions, as opposed to increases in carbon stocks, deliver most of the modelled carbon benefits to 2030 across the Counterfactual and both PWF scenarios (see Table 36). These reductions are driven by modelled changes in livestock and N inputs.

For carbon stocks in soils and biomass, there is no change to 2030 under the Counterfactual due to minimal land use change. Under both PWF scenarios there are modelled increases of 0.02% in carbon stocks due to UA8 Hedgerow Management. Which are strongly dependant on assumptions and data used to make these projections.

To 2030, the Counterfactual scenario sees a modelled cumulative reduction of 5.53% from the baseline in agricultural GHGs, due to modelled reductions in livestock (9% reduction in dairy GLUs) and N fertiliser (14.5% net reduction). These benefits are therefore dependant on the modelled changes in livestock and fertiliser.

The PWF scenarios see modelled reductions of 9.6% (PWFa) and 9.5% (PWFb) from the baseline, this is an additional reduction of 4.2% (PWFb) and 4.3% (PWFa) of Counterfactual agricultural GHG to 2030. This is driven by the modelled additional livestock reduction (additional 4.7 to 4.8 % of Counterfactual GLUs) and N fertiliser reduction (additional 2.7 to 2.8 % of Counterfactual fertiliser) seen under the PWF scenarios. These modelled benefits are therefore strongly dependant on the modelled changes in livestock and fertiliser inputs, and the modelling assumptions underpinning this response to the scheme. Because the CoAP delivers a large proportion of these modelled benefits, they are also dependant on the modelling assumptions and projected response to the CoAP.

Table 91: Modelled cumulative change in carbon stocks and GHG 2023 to 2030

Note: negative numbers indicate sequestration or avoided emissions	Scenario	Wetlands (4D) flux (KtCO2eq/yr)	Agricultural GHG flux total (KtCO2eq/yr)	Losses from carbon stocks in land use change and forestry + harvested wood products (KtCO2eq)
Cumulative change in emissions from baseline to 2030	Counterfactual	-0.81	-1,796.1	0.78
	PWFa	-0.81	-3,112.0	-92.34
	PWFb	-0.81	-3,086.0	-91.53
Cumulative change from baseline to 2030 as: % of baseline stock (Losses from carbon stocks) or of baseline GHG emissions (agricultural and wetland GHG)	Counterfactual	-0.02	-5.53	0
	PWFa	-0.02	-9.57	-0.02
	PWFb	-0.02	-9.49	-0.02

Water quality

Pollutant loads for N, P and sediment are influenced by changes in livestock, fertiliser and land use. Data on non-agricultural sources of pollutants, plus pollutants from farms or land not considered in the IMP farm modelling, are included in calculations of water quality concentrations but may have lower confidence and are modelled as not responding to the scenario.

Data reflect modelling of a new long-term average because of modelled land use and management under each scenario and do not account for any time lags in a new equilibrium being reached. This use of the new long-term average may be less appropriate over shorter time periods (i.e. to 2030). These long-term averages smooth out peaks which may occur due to significant weather events causing increased erosion and pollutant losses.

In comparison to the baseline, the Counterfactual shows modelled reductions of 7% in both nitrate and phosphorous load (see Table 37). These changes reflect modelled reductions in livestock units (2.8% reduction in GLUs, primarily Dairy), fertiliser inputs (14.5 % reduction in N fertiliser and 1.94% reduction in P fertiliser) and the modelled impacts of CoAP (reducing nitrate and phosphorus losses associated with manure and fertiliser applications, through improved timing and application). These benefits are therefore dependant on the modelled changes in livestock and fertiliser as well as our modelling assumptions about changes in management in response to CoAP. Reduction in sediment load is marginal and, given the small change value, should be considered zero. This reflects minimal land use change.

In comparison to the Counterfactual, the PWF scenarios see a further modelled reduction in Nitrate load of 3.0%. Modelled Phosphorous load reduces an additional 1.7% in both PWF scenarios in comparison to the Counterfactual. These changes are driven by the additional modelled reductions in livestock (additional 4.7 to 4.8 % of Counterfactual GLUs); N fertiliser (additional 2.7 to 2.8 % of Counterfactual); P fertiliser (additional 2.05 to 2.09 % of Counterfactual). These modelled benefits are therefore strongly dependant on the modelled changes in livestock and fertiliser inputs, and the modelling assumptions underpinning this modelled response to the scheme. Because the CoAP delivers a large proportion of these modelled benefits, they are also dependant on the modelling assumptions and projected response to the CoAP. Similarly to the Counterfactual, there is no change in sediment load, reflecting a general absence of land use change at the aggregate scale. Differences between the PWF scenarios should be considered negligible.

Table 92: Modelled changes in N, P, and Sediment load

Annual average pollutant load	Scenario	Nitrate load kt NO3 N /yr	Phosphorus load kt P /yr	Sediment load kt Z /yr
Simulated load	Baseline	23.03	0.41	147.55
	Counterfactual	21.40	0.38	147.29
	PWFa	20.76	0.37	147.30
	PWFb	20.77	0.37	147.30
% Difference from Baseline	Counterfactual	-7.08	-7.15	-0.18
	PWFa	-9.87	-8.73	-0.17
	PWFb	-9.82	-8.70	-0.17
Difference from Counterfactual	PWFa	-0.64	-0.01	0.01
	PWFb	-0.63	-0.01	0.01
% Difference from Counterfactual	PWFa	-3.00	-1.70	0.01
	PWFb	-2.94	-1.67	0.01

Drinking Water Nitrate Status and WFD Phosphorus Status

Modelled water quality pollutants (N, P, sediment) are aggregated to Water Framework Directive (WFD) sub-catchment scale to calculate total loading at that level. These are accumulated downstream, accounting for downstream links between the sub-catchments and available data on non-agricultural pollutants and then converted to concentration. Modelled concentration is then used to assign N drinking water status and WFD P status for each catchment. Modelled change in status can occur with marginal water quality improvements if the baseline concentration was close to the status threshold.

Of 879 catchments, 5 are modelled as failing for drinking water Nitrate status[213] in the baseline (see Table 38).

Under the Counterfactual, no change is simulated in the number of catchments failing.

Under both PWF scenarios, one catchment is projected to improve.

Table 93: Modelled WFD catchment level drinking water Nitrate status

Group	Scenario	Pass	Fail
Simulated status	Baseline	872	5
	Counterfactual	872	5
	PWFa	873	4
	PWFb	873	4

WFD Phosphorus status is assigned using catchment specific thresholds which vary with elevation, alkalinity as well as being lower in areas designated as SAC. We assess P status based on the concentration at the outflow of each WFD sub-catchment, and therefore we use the most downstream threshold available for each catchment. Modelled baseline status and changes in status reflect the spatial pattern of these thresholds as well as modelled changes in pollutant loading.

Under the Counterfactual scenario, there is a modelled 10% reduction in the number of catchments with moderate WFD P status in the baseline, and an increase in catchments with good (2%) and high (3%) status (see Table 39). No catchments are simulated to decline in status. Improvements are related to the modelled reductions in dairy livestock units and P fertiliser inputs seen under this scenario and are therefore dependant on these modelled changes, as well as our modelling assumptions about changes in management in response to CoAP.

In comparison to the Counterfactual, both PWF scenarios see a lower increase in the number of catchments modelled as increasing to Good status (1% less than under the Counterfactual) but a higher increase in the number moving to High status (additional 1%). No catchments are simulated to decline. Improvements reflect the modelled additional reductions in P load due to additional reductions in livestock (additional 4.7 to 4.8 % of Counterfactual GLUs) and P fertiliser (additional 2.05 to 2.09 % of counterfactual). These modelled benefits are therefore strongly dependant on the modelled changes in livestock and fertiliser inputs, and the modelling assumptions underpinning this response to the scheme. Because the CoAP delivers a large proportion of these modelled benefits, they are also dependant on the modelling assumptions and projected response to the CoAP.

Table 94: Modelled catchment WFD Phosphorus status

	Scenario	High	Good	Moderate	Poor	Bad
Simulated status	Baseline	279	264	131	7	0
	Counterfactual	287	269	118	7	0
	PWFa	290	266	118	7	0
	PWFb	290	266	118	7	0
Difference from Counterfactual	PWFa	3	-3	0	0	0
	PWFb	3	-3	0	0	0
% Difference from Counterfactual	PWFa	1	-1	0	0	NA
	PWFb	1	-1	0	0	NA
% Difference from Baseline	Counterfactual	3	2	-10	0	NA
	PWFa	4	1	-10	0	NA
	PWFb	4	1	-10	0	NA

[213] Nitrate status is based upon EU Nitrate Directive target of 50 mg l^{-1} Nitrate, or 11.3 mg l^{-1} NO_3-N

Air Quality: Ammonia

Modelled changes in ammonia emissions are driven by modelled changes in land management, including stocking and Nitrogen inputs.

Under the Counterfactual scenario there is a 6.8% reduction in modelled ammonia emissions (see Table 40), driven by the modelled livestock reduction (2.8% reduction in GLUs, primarily Dairy), and 14.5 % reduction in modelled N fertiliser inputs.

Compared to the Counterfactual, the PWF scenarios see an additional 3.7% (PWFa) and 3.6% (PWFa) reduction in ammonia emissions. These further reductions reflect the additional reductions in livestock (additional 4.7 to 4.8% of Counterfactual GLUs) and N fertiliser (additional 2.7 to 2.8 % of Counterfactual) under the PWF scenarios.

Differences between the two payment scenarios are marginal, due to high simulated uptake across both.

Table 95: Modelled changes in ammonia emissions

Group	Scenario	Ammonia emissions (kt NH3 N /yr)
Simulated emissions	Baseline	15.53
	Counterfactual	14.47
	PWFa	13.94
	PWFb	13.96
Difference from Baseline	Counterfactual	-1.06
	PWFa	-1.59
	PWFb	-1.58
% Difference from Baseline	Counterfactual	-6.82
	PWFa	-10.23
	PWFb	-10.14
Difference from Counterfactual	PWFa	-0.53
	PWFb	-0.51
% Difference from Counterfactual	PWFa	-3.66
	PWFb	-3.56

Air quality: $PM_{2.5}$ and Health Impacts

Modelled changes in $PM_{2.5}$ concentration are linked to the modelled changes in ammonia emissions as well as modelled pollutant removal by additional vegetation which can intercept emissions, particularly trees and woodland.

Removal rates vary with modelled initial pollution concentrations and the spatial location of vegetation in relation to concentration.

Across both the Counterfactual and PWF scenarios, modelled decreases in $PM_{2.5}$ concentrations follow the pattern of modelled ammonia emissions decrease (see Table 41).

Under the PWF scenarios, there is an additional modelled benefit from the expansion in hedgerow height and width under UA8 Hedgerow Management, and the increase in hedgerows trees but the primary impact is because of the modelled reduction in livestock units and inputs.

Health impacts are modelled as a function of change in exposure of the population to $PM_{2.5}$ and therefore vary spatially. Areas with higher population density have more people to benefit from any reduction in exposure to $PM_{2.5}$.

Mortality from exposure to $PM_{2.5}$ is calculated in terms of Life Years Lost. This estimate refers to the aggregate years lost to premature death across the population.

Benefits from improvements in air quality are projected in terms of the reduction in Life Years Lost across the population. For the PWF scenarios, the modelled change in PM2.5 and LYL benefits are representative of the timepoint when the trees and hedges are fully grown, before which the component of the benefits relating to removal by vegetation would not be delivered.

Under the Counterfactual, there is a minor modelled reduction of 5.3 years Life Years Lost in relation to $PM_{2.5}$ exposure across the full population of Wales.

In comparison to the Counterfactual, the PWF scenarios show an additional modelled reduction of approximately one third. Differences between the two payment scenarios are negligible.

Table 96: Modelled changes in $PM_{2.5}$ concentration and Life Years Lost

Group	Scenario	Average pop weighted change in $PM_{2.5}$ concentration	Life Years Lost (LYL)
	Counterfactual	-0.003	-5.3
	PWFa	-0.0051	-9.08
	PWFb	-0.0050	-9.02
Difference from Counterfactual	PWFa	-0.0021	-3.78
	PWFb	-0.0020	-3.72
% Difference from Counterfactual	PWFa	-41%	-42%
	PWFb	-40%	-41%

Plant biodiversity

The plant biodiversity modelling assumes that soil changes resulting from changes in land use, or the implementation of specific interventions, drive correlated changes in habitat suitability for plant species.

The simulated land use change for the Counterfactual scenario involved very minor changes in cropland towards improved rotational grass (<1% of modelled land changing use). Therefore, the impact on plant biodiversity has not been modelled for the Counterfactual.

Whilst not modelled, it is relevant to note that the simulated reduction in livestock units under the Counterfactual occurred almost entirely in Dairy GLUs on improved grassland, where increases in plant biodiversity are unlikely.

Under the PWF scenarios, plant biodiversity impacts are simulated for UA5 Habitat Maintenance and UA8 Hedgerow Management only. The effects of other UAs are not modelled, specifically:

- UA6 Temporary Habitat Creation: the actions modelled (rough grass margins on arable and mixed leys on improved grassland) are specified as temporary and are not fixed to a specific location and are therefore unlikely to persist at a site for long enough to have a lasting impact on plant biodiversity specifically.
- UA9 Woodland maintenance: woodland maintenance may result in variable environmental impacts depending on the baseline condition, age and type of woodland. Uncertainty over these baseline factors and lack of information on what maintenance would be applied or if this would represent a change means that impacts are not modelled, including plant biodiversity.

Under UA5 Habitat Maintenance, 1 ewe per hectare (or direct beef equivalent) is removed where the land parcel is simulated to be above the guidance stocking level. The reduction is 1 ewe/beef equivalent regardless of how many livestock units the parcel is stocked above the recommended level. Stocking densities are associated with vegetation height which in turn is linked to condition.

There are no differences in simulated uptake between the PWF scenarios across the surveyed habitat plots used in the modelling. Results for modelled impact are therefore the same under both scenarios.

In the baseline, most habitat plots have unfavourable vegetation height and therefore are in sub-optimal condition (see Table 42). The introduction of UA5 Habitat Maintenance, and the associated modelled reduction in livestock on habitat land, simulates an increase in vegetation height across all broad habitats and therefore a decrease in the number of locations in sub-optimal condition. However, the impact is small with 11% of plots simulated to shift into having favourable potential vegetation height because of the stock reduction.

By broad habitat type, the greatest modelled impact is seen in Bog. This is because the reduction of 1 ewe per hectare is expected to result in zero stocking density in many cases reflecting very low grazing pressure to start with. This is inferred from the observed vegetation height where in vegetation that was observed to be in Blanket Bog or Bog in the baseline survey, vegetation height was close to optimal and required very little change in stocking density to move into optimal height.

Table 97: UA5 Habitat Maintenance: simulated impact on vegetation height

Broad habitat	Scenario	% modelled plots below optimal vegetation height
Acid grassland	Baseline	83
	PWF	77
Dwarf Shrub Heath	Baseline	100

Broad habitat	Scenario	% modelled plots below optimal vegetation height
	PWF	99
Fen, Marsh & Swamp	Baseline	100
	PWF	96
Bog (including Blanket Bog)	Baseline	99
	PWF	**61**
Total	**Baseline**	**92**
	PWF	**81**

The decrease in the number of locations in sub-optimal condition, whilst minor, does drive some changes in the modelled habitat suitability across upland habitats, lowland wetland and lowland heath for some positive indicator Common Standards Monitoring (CSM) plant species.

Across all species, in both PWF scenarios, 41% of modelled plant species see no significant change in simulated frequency of occurrence across the habitat plots (see Table 43). 35% are simulated to increase in frequency whilst 23% are simulated to decrease. Increases are seen because of increased habitat suitability for common dwarf shrubs and other heath and bog species, whilst decreases are seen in species of grazed acid grassland.

Table 98: UA5 Habitat Maintenance: Modelled change in plant species

Response of plant species to UA5 Habitat Maintenance	PWFa and PWFb count of species	PWFa and PWFb percentage %
Increasing frequency	44	35
Decreasing frequency	29	23
Not significant	51	41
Total	**124**	**100**

Under UA8 Hedgerow Management, modelled increases in hedge width and height are applied over field boundary plots next to existing hedgerows. Changes in habitat suitability for Ancient Woodland Indicator (AWI) plant species for Wales, nectar plants and positive indicator CSM species for lowland grassland are modelled.

47% of modelled species show no significant change simulated in response to PWFa and PWFb. Increases in frequency are simulated for 21% of species, because of increases in habitat suitability for common woodland and edge species (see Table 44). Decreases are simulated for 31% of modelled species, related to decreased suitability for improved and semi-improved grassland species. These changes assume there is no grazing pressure preventing the widening of the hedge base.

Table 99: UA8 Hedgerow Management: Modelled change in plant species

Response of plant species	PWFa and PWFb count	PWFa and PWFb percentage %
Increasing frequency	21	21
Decreasing frequency	31	31
Not significant	47	47
Total	**99**	**100**

Bird biodiversity

Population change as a percentage of the baseline population is simulated for 80 species associated with different habitats across Wales under the Counterfactual and PWF scenarios.

Modelled changes in population (species specific counts) are driven by modelled land use and management changes that influence the availability and suitability required for successful breeding conditions.

Under the Counterfactual, bird biodiversity impacts are simulated because of changes in livestock, minor shifts in land use, and changes in farming intensity because of the scenario.

Under the PWF scenarios, bird biodiversity impacts are additionally modelled for specific action under UA5 Habitat Maintenance, UA6 Temporary Habitat Creation and UA8 Hedgerow Management only. The effects of other UAs are not modelled, specifically:

- UA9 Woodland maintenance: woodland maintenance may result in variable environmental impacts depending on the baseline condition, age and type of woodland. Uncertainty over these baseline factors means that impacts for woodland maintenance are not modelled, including bird biodiversity.

Across the PWF scenarios, 94% of modelled bird species exhibit no change in response to the scenario, meaning that any current trajectories of increase, stability or decline are projected to remain the same (see Table 45).

Under the Counterfactual, population size is simulated to increase for one bird species and an additional three are simulated to increase for the PWF scenarios. One species is simulated to decrease in population size under the PWFs. The changes are marginal and should be considered lower than the level of uncertainty in the model. The dominant outcome is one of no modelled response from the 80 bird species in response to any of the scenarios.

Whilst not reflected in the modelled response, it could be expected that the increase in hedgerow condition (height and width) under UA8 Hedgerow Management would have a small to moderate positive impact on hedgerow-nesting species such as Lesser Whitethroat, Bullfinch and House Sparrow. The lack of response from these species in the modelling may be related to a combination of methodological factors linked to the likelihood of such species being identified in hedgerows of similar condition in the baseline survey data, but also the location and suitability of the wider landscape around these hedgerows. Increased hedgerow condition is likely to offer wider benefits where hedgerows are situated in a landscape already more favourable for the species of question.

Table 100: Modelled changes in bird population size

Number of species	Counterfactual Count	PWFa and PWFb Count	Counterfactual Percentage	PWFa and PWFb Percentage
Very likely to increase	1	2	1	2.5
Likely to increase	0	2	0	2.5
No change	79	75	99	94
Likely to decrease	0	1	0	1
Total	**80**	**80**	**100**	**100**

Very likely to increase = Population increases in > 97.5% of simulations

Likely to increase = Population increases in > 89.5% of simulations

No change= None of the above are true, so no change is assumed to be projected because of the scenario, or confidence in a change is low.

Monetary valuation of change in ecosystem services (2023 to 2030)

Modelled changes in air quality, water quality, carbon stocks and GHG emissions are valued in monetary terms to 2030. The monetary values are therefore underpinned by the dependencies and assumptions from the physical modelling. Appraisal approaches and assumptions are HMT Green Book Compliant. Table 46 shows the physical measure for each benefit valued.

Except for temporary habitat creation measures, all changes for the Counterfactual and PWF scenarios are assumed to remain in place for the modelled period, for the purposes of projecting the long-term impacts. All modelled physical benefits and economic valuations are based on this assumption.

Modelled physical values for water quality are for a new long term annual average. The shorter the period over which benefits are being valued, the less reasonable to assume that improvements in in-stream water quality have occurred, due to lags in the system (nutrient retention in soils and influence of groundwater in some catchments). This should be noted when considering benefits.

Table 101: Physical measure for each benefit valued

Benefits	Units	Type of value
Air quality	Life Years Lost (LYL) each year	Reduction in costs of health impacts from air pollution (Jones et al[214])
Water quality	Expected changes in WFD status due to changes in P and N	Benefit to people from knowing of/ enjoying higher quality freshwater environments (NWEBS values from Metcalfe, 2012 and updates[215])
GHGs	Net change in atmospheric TCO2eq over 8 years	Benefit of reducing atmospheric GHG concentrations from non-traded sources (DESNZ, 2023[216])

Figures represent an estimate of the value of the change in wellbeing to people in Wales over eight years (2023-2030) under each modelled scenario.

[214] Jones, L., Vieno, M., Morton, D., Cryle, P., Holland, M., Carnell, E., Nemitz, E., Hall, J., Beck, R., Reis, S., Pritchard, N., Hayes, F., Mills, G., Koshy, A., Dickie, I. (2017). Developing Estimates for the Valuation of Air Pollution Removal in Ecosystem Accounts. Final report for Office of National Statistics, July 2017.

[215] Metcalfe, P. (2012) Updating the National Water Environment Benefit Survey Value. Report for Defra.
Metcalfe, P. (2012). Update of CRP WFD Benefit Value - Economic Component, report for the Environment Agency.

[216] DESNZ. (2023). Valuation of energy use and greenhouse gas. Supplementary guidance to the HM Treasury Green Book on Appraisal and Evaluation in Central Government. Data tables 1 to 19: supporting the toolkit and the guidance

The Counterfactual scenario is simulated to generate a total of £483 million pounds in additional benefits to 2030 (see Table 47). PWFa generates an additional £376 million of modelled benefits to 2030 (a total of £858 million) and PWFb generates an additional £369million (total of £851 million) modelled over the same period.

Of the modelled benefits delivered under the Counterfactual, the greatest value is derived from a reduction in GHG emissions (£477 million). Across both PWF scenarios, the largest modelled benefit is also derived from reductions in GHG emissions (£851 million under PWFa and £844million under PWFb). Across all scenarios, modelled avoided GHG emissions from agriculture because of changes in livestock and inputs dominate this impact, with negligible contribution from land use change and limited contribution from hedge maintenance in the PWF scenarios (see Table 48).

Water quality benefits contribute the second largest modelled value across all scenarios. Under the Counterfactual, modelled benefits from improved water quality are valued at £4.8 million to 2030. Modelled benefits under the PWF scenarios are marginally higher (£5.21 million under both), due to larger modelled reductions in stocking and inputs in comparison to the Counterfactual.

Air quality benefits contribute the least to the total estimated valuation of additional benefits to 2030 across all scenarios. Under the Counterfactual, the modelled benefit to 2030 is valued at £0.8 million, due to avoided ammonia emissions from the reduction in dairy livestock units and inputs. Under the PWF scenarios, modelled air quality benefits are valued at £2 million across both scenarios. This additional benefit is driven by the increases in hedgerow area and the numbers of hedgerow trees, alongside additional stock reductions.

It should be noted that the relative values of the air quality and water quality effects change over time up to 2123 for the PVF. This is due to the lag effect applied in the valuation of the physical air quality benefit modelled, to reflect that the physical values are representative of the timepoint when the trees and hedges are fully grown. This is 5 years for benefit delivered by hedgerows and 40 years for benefit delivered by trees, during which time the benefit increases to its full potential, and after which it remains stable.

Table 102: Summary of ecosystem service values under the Counterfactual and PWF scenarios to 2030.

Benefits 2023 to 2030	**Counterfactual**		**PWFa**		**PWFb**	
	Physical measure	**NPV, 8 years, £m**	**Physical measure**	**NPV, 8 years, £m**	**Physical measure**	**NPV, 8 years, £m**
Air quality	5.3 LYL	0.84	9.08 LYL	1.94	9.02 LYL	1.93
Water quality	21 Improve 0 Deteriorate	4.8	25 Improve, 0 Deteriorate	5.21	25 Improve 0 Deteriorate	5.21
GHGs	Decrease of 1.796m tCO2e	477	Decrease of 3.205m tCO2e	851	Decrease of 3.178m tCO2e	844
Total (£m)	**-**	**482.6**	**-**	**858.1**	**-**	**851.1**

Table 103: Breakdown of Greenhouse Gas (GHG) ecosystem service values for the Counterfactual and PWF scenarios to 2030

GHG benefits 2023 to 2030	**Counterfactual NPV, £m**	**PWFa NPV, £m**	**PWFb NPV, £m**
Agriculture	477	827	820
Land use	-0.22	25	24
Wetlands	0.21	0.22	0.22
Total	**477**	**851**	**844**

ADAS led consortium

ADAS modelled the impact of the SFS Universal Layer on:

- 8,781 full-time farms; and
- 6,774 part-time farms.

Assuming 100% take up of SFS. The Farm Business Income results are reported as changes in FBI compared to the current situation.

The total area covered by the SFS is 1.49m ha (all farms), with 265k ha of existing semi natural habitat and 27kha of habitat created to meet the 10% Scheme Rule – both areas receive the habitat maintenance payments under the Universal Layer (see Table 49). Existing woodland accounts for almost 66k ha and this area receives the woodland maintenance payment. Commons accounts for just over 81k ha and is modelled the commons maintenance payment (although this payment is now under the collaborative later). The total area of 1.49mha receives both the whole farm payment and the social value payment, For the latter, two values of this payment were modelled.

Table 104: Estimated land area managed in model

	All farms		FT farms	
	Total ha	**Mean per farm**	**Total ha**	**Mean per farm**
Semi natural habitat maintained (ha)	264.6k	17.0ha	231.9k	26.4ha
Semi natural habitat created (ha)	27.6k	1.8ha	22.7k	2.6ha
Woodland maintained (ha)	65.9k	4.2ha	51.0k	5.8ha
Commons maintained (ha)	81.6k	5.2ha	74.3k	8.5ha
Total SFS area (ha)	1,488.9k	96.7ha	1,257.2k	143.2ha

The model estimates the stocking reduction required because of SFS guidance on existing habitat and newly created habitat. The majority of grazing restrictions in the Universal Layer are encouraged but not mandatory. The constraint is on enclosed wetlands (peatland) as grazing this habitat type during the winter will cause potential permanent damage. Reduction in stocking reflects displacement of stock from habitat land and newly created habitat with reallocation of stock within the farm business and some displacement of stock from some farm businesses. The amount of stock displaced and then reallocated within the farm business or displaced is a key uncertainty (and subject to sensitivity analysis). The distribution of livestock displaced from farm businesses is uneven, most farm types and sizes incurring zero displacement but some farm incurring some, in particular very large farms and dairy farms. The worst-case estimate is a modelled 65.5k (5.5%) reduction in livestock units which generates an estimated reduction in the value of aggregate agricultural output of £80m (4.5%) and reduction standard labour reduction of 4.5% (see Table 50).

Table 105: Estimated physical changes

	All farms	**FT farms**
Livestock reduction (Livestock units)	65.6k	63.4k
% change	-5.5%	-5.6%
Output reduction (£m)	£80.2m	£79.0m
% change	-4.5%	-4.7%
Change in Standard Labour Requirement	1262	1,221
% change	-4.0%	-4.2%

The net effect on aggregate FBI is a reduction of between £79m-£146m (all farms), depending on the value of the social value payment, and for full time farms only a reduction of between £60m-£117m (see Table 51).

Table 106: Estimated impact on Aggregate Farm Business Income

	Social Value Payment £115/ha		**Social Value Payment £70/ha**	
	All farms	FT farms	All farms	FT farms
Total SFS payment	£243.7m	£206.1m	£176.7m	£149.6m
Less existing payments	£241.8m	£197.3m	£241.8m	£197.3m
Less GM reduction	£47.7m	£47.0m	£47.7m	£47.0m
Less other compliance costs	£33.4m	£22.2m	£33.4m	£22.2m
Change in aggregate FBI	£79.3m	-£60.4m;	-£146.3m	-£117.0m
Median change in FBI/farm	-£3.6k	-£4.6k	-£7.0k	-£9.0k

Sensitivity analysis

The impact on aggregate FBI is highly sensitive to assumptions about the number of stock reallocated from habitats to elsewhere on the farm, and the number of stock that are displaced from the farm – this impact is especially important for dairy farms and for large farms. The impact of aggregate FBI is also sensitive to assumptions about the number of farms already incurring SFS compliance costs. To test the sensitivity, three different scenarios are applied to all farms at the higher value Social Value Payment rate (see Table 52).

Table 107: Scenarios tested in sensitivity analysis

	Scenario 1	Scenario 2	Scenario 3
Stocking	A displacement of stock from farms of 65.5k GLUs	Only 70% of farms modelled to displace stock do so	Only 40% of farms modelled to displace stock do so
Compliance costs	All farms incur compliance costs	70% of farms incur compliance costs	40% of farms incur compliance

The sensitivity analysis generates estimates of the reduction in aggregate FBI of between £31m (best case) - £79m (worst case) (see Table 53). These translate into average farm level effects as follows (see Table 54):

Table 108: Impact on aggregate FBI - sensitivity analysis (£m)

All farms, higher SVP payment	Scenario 1	Scenario 2	Scenario 3
Total SFS payment	243.7	243.7	243.7
Less existing payments	241.8	241.8	241.8
Less GM reduction	47.7	33.4	19.1
Less other compliance costs	33.4	23.4	13.4
Change in aggregate FBI	-79.3	-54.9	-30.6

Table 109: Impact on farm level FBI - sensitivity analysis

Higher SVP	Scenario 1	Scenario 2	Scenario 3
Median payment per farm	£9.1k	£9.1k	£9.1k
Mean payment per farm	£15.7k	£15.7k	£15.7k
% gaining FBI	10%	12%	15%
For whom median gain in FBI (£k)	£3.9k	£3.7k	£3.3k
% reduced FBI	90%	88%	85%
For whom median reduction in FBI (£k)	-£3.6k	-£3.4k	-£2.8k

The results in Table 54 show that there are farms that gain FBI (10% – 15% of farms), with a median gain of between £3.3k - £3.9k. There are more farms who are modelled to see a reduction in FBI (85% - 90% of farms) with a median reduction £2.8k - £3.6k.

D. VALUE FOR MONEY ANALYSIS OF THE OPTIONAL & COLLABORATIVE ACTIONS

This Annex summarises the analysis of the value for money of each of the Year 1 OAs and CAs. In some cases, it has been possible to both quantify and monetise the expected costs and benefits; in other cases, the available evidence is summarised.

Summary of cost-benefit analysis of Optional and Collaborative Actions

This Annex presents a summary of the economic case for each of the SFS OAs and CAs. Full details of the data sources, assumptions and evidence that underpins this assessment is included in the annex.

We initially present a summary of analyses for those optional actions where we have been able to monetise some or all the likely benefits of the action to establish an estimated Net Present Social Value and an estimated Benefit: Cost Ratio. This the case for the following 7 optional actions:

Optional Action: Create New Woodland and Agroforestry

Description

This provides support for the Woodland production of a Woodland Creation Plan, and support for its implementation via (1) the Small Grants Woodland Creation Grant for tree planting to create shelterwoods, alongside watercourses, and in field corners or small fields for stock shelter, biodiversity and wood fuel - funding is available for planting between 0.1ha and 1.99ha; and (2) the Woodland Creation Grant which offers funding for tree planting, fencing and gates to farmers and land managers, for planting over 0.25ha. There are also maintenance and premium payments to ensure the trees establish.

Value for money assessment

Net Present Value of Costs	**£93m**
Net Present Value of Benefits	£377.7m
Net Present Social Value	£284.7m
Benefit: Cost Ratio	4.1
Benefits included	Biodiversity, carbon sequestration and air quality.
Benefits omitted	• Increased shelter & other benefits for livestock. This is likely to be insignificant in the short term but increase in significance over the longer term. This is likely to be significant for individual farmers, but at an all-Wales level the significance of this benefit, compared to estimated costs, will depend on take up of the Action.
Overall confidence in the estimate	Overall, we have medium to high confidence in the estimate, due to the robustness of the benefit estimates for carbon sequestration, and air quality regulation, however there is greater uncertainty and so less confidence in the benefit estimate for biodiversity.

Optional Action: Manage and Enhance Habitats

Description

Under this action SFS farmers will receive support for managing and enhancing existing habitats above and beyond the requirement to maintain the habitat under the Universal Layer. A list of habitat actions proposed has been developed – see the Annex – and common approaches include:

- stock exclusion where required;
- re-introduction of light grazing where required;
- enhanced management;
- habitat restoration;
- delayed cutting;
- Management of wetlands;
- Management of arable land and field margins.

Value for money assessment

Net Present Value of Costs	**£11m**
Net Present Value of Benefits	£80.4m

Net Present Social Value	£69.4m
Benefit: Cost Ratio	7,3
Benefits included	Biodiversity
Benefits omitted.	We have been unable to put a monetary value on the following benefits: Welfare improvements from improved recreation and landscape – this is likely to be significant over the longer term, and its significance relative to costs will depend on uptake and impact of the Actions on the change in landscape quality and people's appreciation of this. Social value of reduced GHG emissions – this is likely to be less significant in the short term but increase in significance over the long term. Its significance relative to costs is unknown. Private value to farms of livestock - this will be significant for individual farmers.
Overall confidence in the estimate	Overall, we have medium confidence in the estimate, as there is greater uncertainty and so less confidence in the benefit estimate for biodiversity

Optional Action: Implementation of designated Site Management Plan

Description

Having developed a designated site management plan in the Universal Layer farmers will be supported to carry out the actions outlined in the plan to achieve the desired management of the designated site. This will contribute to our Global Biodiversity Framework international commitments (including 30x30) by 2030.

Value for money assessment

Net Present Value of Costs	**£28.9m**
Net Present Value of Benefits	£551.5m
Net Present Social Value	£522.9m
Benefit: Cost Ratio	19.1
Benefits included	The following ecosystem services provided by biodiversity on SSSI at Favourable Conservation Status: provisioning services associated with biodiversity; Climate & water regulation; Sense of place; Charismatic species/non- charismatic species; Research and education
Overall confidence in the estimate	Overall, we have medium confidence in the estimate. The benefits rely on a single study published by Defra in 2011, and reflecting data on the value of SSSI gathered in 2010. It is likely that the value of public preference for the ecosystem services from SSSI has changed since 2010, and this adds greater uncertainty to the estimates.

Optional Action: Restore or plant new hedgerows

Description

Support to restore hedges, as well as planting new hedges, plus enhanced management actions (in the longer term). Creation and restoration, which aligns with the current offer from Small Grants - Environment. These include:

- Hedge coppicing - Hedge planting and coppicing
- Hedge Laying: traditional - Using traditional methods included as different cost base
- Hedge Planting - additional advice needs to be included to support the positioning of new hedges for wider outcomes e.g. ecological resilience and cross slope to support water outcomes

Value for money assessment

Based on a 10% increase in the total of hedges restored and planted each year, and a 48% increase in the total of hedges restored and planted each year.

Net Present Value of Costs	**£11.7m - £24.4m**

Net Present Value of Benefits	£2.4m - £4.9m
Net Present Social Value	£9.4m - -£19.5m
Benefit: Cost Ratio	-0.2
Benefits included	For new hedgerows planted: carbon sequestration, air quality, and biodiversity. For restored hedgerows: biodiversity.
Benefits omitted	We have been unable to put a monetary value on the following benefits: • For restored hedgerows: carbon sequestration and air quality. This benefit is likely to be significant over the long term but the significance of the benefit relative to costs is unclear. • For all hedges, the welfare improvements of enhanced landscape quality. This is likely to be significant but the significance of the benefit relative to costs is unclear. • For all hedges: the private benefits to farmers from improved pollination of mass-flowering crops and less pest damage. This benefit could be significant over the long term. For all hedges, the welfare value from improved water quality due to less soil erosion and run off. The impact of new and restored hedges on this benefit is likely to be moderately significant over the long term, but (give the relatively limited impact of hedges) not relative to the costs of this action.
Overall confidence in the estimate	Overall, we have low to medium confidence in the estimate due to likely significance of the benefits omitted from the benefit estimate.

Optional Action: Implement actions to improve soil health & introduce multispecies crop cover.

Description

Actions under the Optional Layer are focused on the following:

- Protecting soils from erosion through appropriate management in areas at risk.
- Maintaining current stores of soil organic matter and increase where appropriate, through effective soil management.
- Balancing soils' nutrient cycling to ensure the effective delivery of soil functions and services.
- Maintaining and improving soil structure, with a focus on minimising soil compaction through appropriate management during high-risk wet conditions.
- Protecting and fostering soil biodiversity through appropriate management.

Value for money assessment

Net Present Value of Costs	**£0.5m**
Net Present Value of Benefits	£0.04m
Net Present Social Value	£0.46m
Benefit: Cost Ratio	0.1
Benefits included	Welfare benefits of reducing nitrates, phosphorus and sediment run-off using cover crops
Benefits omitted	We have been unable to put a monetary value on the following benefits: • More profitable/productive farm business (GVA) and reduced fertiliser costs. Evidence from the Farm Business Survey 2023/4 shows that fertiliser costs per effective hectare[217] range from £81 (upland cattle and sheep); £94 (lowland cattle and sheep farms); £233 (hill and upland dairy) and £244 (lowland dairy). Savings in fertiliser costs may be important for individual farmers but will be less significant at a Wales-wide scale due to the limited area of land covered by this action. • Social value of reduced GHG emissions. This will be less significant on a Wales-wide scale due to the limited area of land covered by this action • Welfare improvements from improved biodiversity, including improved species recovery. This will be less significant on a Wales-wide scale due to the limited area of land covered by this action

[217] Effective hectares constitutes total farm area minus area occupied by roads, woodland, wasteland and buildings. Rough grazing is expressed in terms of pasture equivalent.

	• Other ecosystem services: Biological control of pests; Mineralisation of plant nutrients; Soil formation; Nitrogen fixation; Soil fertility; Hydrological flow; Aesthetic; Pollination. We have estimated the benefit of these ecosystem services for organically farmed land (see below), but we are unable to transfer this evidence to the benefits of this action. However, the organic action illustrates the scale of the benefits when a full account of the value of ecosystem services can be included.
Overall confidence in the estimate	Overall, we have medium confidence in the estimate as there are important categories of ecosystem services benefit omitted, and the organically farmed land action (below) illustrates the scale of the benefits that are omitted. However, the impact of these at a Wales-wide level will be limited due to limited land area covered by this action.

Optional Action: Support organic farming (certified and conversion)

Description

Under this action farmers will be supported to convert to, or maintain, organic standards on their farms:

Value for money assessment

Net Present Value of Costs	**£9.4m**
Net Present Value of Benefits	£355.0m
Net Present Social Value	£345.6m
Benefit: Cost Ratio	37.9
Benefits included	Ecosystem services: Biological control of pests; Mineralisation of plant nutrients; Soil formation; Carbon accumulation; Nitrogen fixation; Soil fertility; Hydrological flow; Aesthetic; Pollination
Benefits omitted	We have been unable to put a monetary value on the following benefits: • Health impact of organic food. We are unable to assess the size or significance this benefit, and so the significance of the benefit relative to the costs of the action is unknown. • Impact on productivity. We are unable to assess the scale or significance of this benefit, and its significance relative to costs is unknown. Evidence points to lower and more variable yields from organic crops
Overall confidence in the estimate	Overall, we have low confidence in the estimate, as it is based on a single study from New Zealand published in 2008 and it is unclear how transferable these results are to a Welsh context.

Optional Action: Create temporary and permanent habitats including ponds and scrapes

Description

These actions carry forward actions under UA8 (where not required to meet 10% habitat requirement) along with actions to create new permanent habitat on improved land. These actions will contribute to expanding the extent of habitats contributing to our Global Biodiversity Framework 30x30 target.

Value for money assessment

Net Present Value of Costs	**£1.5m**
Net Present Value of Benefits	£0.2m
Net Present Social Value	£1.3m
Benefit: Cost Ratio	0.2
Benefits included	Biodiversity

Benefits omitted	We have been unable to put a monetary value on the following benefits: • Welfare improvements from improved recreation and landscape. This is not likely to be significant relative to costs, due to the limited area of land estimated to be managed under this action. • Social value of reduced GHG emissions - this is likely to be of less significance relative to costs, due to the limited area of land estimated to be managed under this action. • Private benefits to farmer from improved pollination and reduced fertilizers and pesticides costs - whilst this benefit may be important for the individual farmer, at a Wales-wide scale this is likely to be of less significance relative to costs due to the limited area of land estimated to be managed under this action. Other ecosystem services: provisioning services associated with biodiversity; climate & water regulation; sense of place; charismatic species/non- charismatic species; and research and education. We have estimated the benefit of these ecosystem services for SSSI (see above), but we are unable to transfer this evidence non SSSI. However, the SSSI benefits illustrate the scale of the benefits when a full account of the value of ecosystem services can be included.
Overall confidence in the estimate.	Overall, we have medium confidence in this estimate.

For the remaining optional actions, and for the three collaborative actions, we have been unable to monetise the likely benefits of the action to establish an estimated Net Present Social Value and an estimated Benefit: Cost Ratio. In general, this arises been of a lack of robust and reliable evidence of the social value to society, expressed in monetary values, of the benefit generated. Instead, we utilise other evidence sources to generate a qualitative estimate of the value for money.

Optional Action: Managing existing woodland

Description

Completion of a woodland management plan will allow applications to apply for support for capital works identified in the plan of operations in the woodland management plan. Revenue payment will support the creation of a Woodland Management Plan, providing a rationale and gateway to capital grant for items required to complete the management actions

Value for money

Impact on costs We estimate the costs of this action to be £2.2m in 2026 rising to £3.96m for 2029.

Impact on benefits We are unable to estimate in monetary terms the benefits of this action. We list below the evidence associated with the benefits we have identified and their likely significance.

Welfare improvements from improved biodiversity, including improved species recovery (woodland birds) recreation and landscape	This benefit is likely to increase in significance over the longer term, but it is unclear how this benefit will compare to estimated costs
Social value of reduced GHG emissions	This benefit will be significant but will have already been captured in the assessment of benefits of the Universal Action UA9: Woodland Maintenance
Avoided air pollution health costs	This benefit will be significant but will have already been captured in the assessment of benefits of the Universal Action UA9: Woodland Maintenance
Increased shelter & other benefits for livestock	Existing woodland can contribute to improve livestock health in several ways[218], for example by providing shade and shelter. This could be significant for individual farmers.
Other incomes from woodland	It is possible that individual farmers may seek to sell carbon credits under the Woodland Carbon Code. Evidence[219] shows that that Woodland Carbon Code unit prices more than doubled over five years - from an average of £11.02 in 2020 to £26.85 in 2024, and that broadleaved woodlands attracted a slightly higher price than conifer woodlands in 2024.

[218] Forestry Commission, Grow your farm business: How trees can benefit your land, crops, and livestock, 2024
[219] Woodland Carbon Code, UK voluntary carbon market prices continue to rise, 2025

Timber sales	These could be significant for individual farmers. Evidence[220] from Confor is that that value of timber thinning to a farmer could be £3,000 per hectare (for a 20-hectare productive forest) and that timber sales (if clear felled) could be £20,000 per hectare.

Overall summary of value of money based on evidence

Costs are relatively low as are likely benefits. Overall, a rating of initial low VFM, but with VFM rising slowly over the longer term as biodiversity benefits accrue.

Optional Action: Implement higher standard farm biosecurity measures

Description

"Biosecurity" describes the actions that reduce the risk of infectious disease spreading onto and off farms. It is essential to keep animals and people healthy and safe from disease. Poor biosecurity and the introduction of diseases could have serious and long-term effects on your farm but also on the rural sector and nationally. We will encourage and reward good biosecurity, which will for some farms involve changes of farm management.

The benefits of good biosecurity are primarily for each individual farm to accrue, but there will also be positive impacts on the entire rural sector and food supply chains. This will lead to a collective national impact of improved health and welfare status of livestock in Wales and will make Welsh livestock farms more productive, safer and resilient.

Value for money

Impact on costs We estimate the costs of this action to be £326k per annum for each of the first four years.

Impact on benefits We are unable to estimate in monetary terms the benefits of this action. We list below the evidence associated with the benefits we have identified and their likely significance.

Benefits	Likely significance
Improved productivity - feed conversion efficiency/ratio	A 2023 study[221] from Northern Ireland reports that *pre-weaned dairy calves are vulnerable animals, highly susceptible to disease with consistently high levels of mortality on farms* and that *the health of dairy calves is the product of the other two major factors; nutrition and rearing environment, as the most common calfhood diseases could be mitigated through provision of appropriate nutrition in a clean and comfortable environment* The benefit is likely to be significant to individual farmers, but less so (relative to costs) at an all-Wales level due to estimated limited uptake of this Action.
Improved consumer confidence - welfare standards	Likely significant relative to costs of this Action. A 2002 review[222] concludes that *consumers' concerns about farm animal welfare can prevent them from buying some products, and this influences the sustainability of intensive systems. Consumers perceive the need to increase the level of welfare in farm animals, even though their level of knowledge about farming and animal welfare issues is relatively low. Consumers concerns are not equally distributed among the different farm species, nor is there consistency in the willingness to pay to enhance animal welfare*
Improved farm profitability	The 2023 study of dairy calf health in Northern Ireland concluded that there exists an *opportunity for research and knowledge transfer to target key areas within calf rearing to the benefit of calf health, welfare and performance, and subsequently dairy farm resilience and profitability.* The benefit is likely to be significant to individual farmers, but less so (relative to costs) at an all-Wales level due to estimated limited uptake of this Action.
Reduced risks associated with antimicrobial resistance development	Potentially significant relative to costs. A 2023 review[223] of antimicrobial usage (AMU) on farms found a *positive association between farm biosecurity and reduction in AMU was observed in 51.8% (14/27) of the studies, and 18.5% (5/27) showed that improvement in farm management practices was associated with a reduction in AMU. A single study on economic assessment concluded biosecurity practices as a cost-effective way to reduce AMU. On the other hand, five studies showed an uncertain or spurious association between farm biosecurity and AMU*

[220] Confor, Benefits of a 20 ha farm-forest, 2018

[221] Aaron Brown (2023) Housing and nutritional management to optimise dairy calf health and performance, Thesis Submitted for the Degree of Doctor of Philosophy, Queen's University Belfast

[222] Marta E. Alonso, José R. González-Montaña and Juan M. Lomillos (2020), Animals, 10, 385;

[223] Pankaj Dhaka, Ilias Chantziaras, Deepthi Vijay, Jasbir Singh Bedi, Iryna Makovska, Evelien Biebaut and Jeroen Dewulf (2023) Can Improved Farm Biosecurity Reduce the Need for Antimicrobials in Food Animals? A Scoping Review, Antibiotics, 12, 893

Benefits	Likely significance
Reduced damage costs of animal disease outbreaks	Potentially significant benefit relative to costs. According to the National Audit Office[224], the cost to the Welsh Government of the 2001 outbreak of Foot and Mouth Disease was £102 million with a further £90 million uncompensated costs estimated to agricultural and food chain industries. Over 1 million animals were slaughtered in Wales on basis of infection, dangerous contact or welfare reasons on nearly 1000 farms in total. The annual costs associated with Bovine Viral Diarrhoea (BVD) infection on Welsh farms are estimated[225] for a 100-cow beef farm at £4,500, and for a 130-cow dairy farm, £15,000 a year.

Overall summary of value of money based on evidence

Costs are relatively low (reflecting low take up) but farm level benefits, although low initially, could have immediate effect. Benefits over the longer term could be significant, especially those associated with reduced costs. Overall initial medium VFM (to reflect the immediacy of the farm level benefits).

Optional Action: Broader and more advanced Continuing Professional Development (CPD)

Description Proposed Optional CPD activities will provide support to complete more complex or higher level CPD linked to the Optional themes. A Phase 1 is proposed to focus on the following:

- Water;
- Air;
- Animal health / biosecurity;
- Habitat management, enhancement and creation;
- Woodland management and creation;
- KPI productivity and efficiency;
- Soil and multispecies crop cover; and
- Organic farming.

Value for money

Impact on costs We estimate the costs of this action to be £80k per annum for each of the first four years.

Impact on benefits We are unable to estimate in monetary terms the benefits of this action. We list below the evidence associated with the benefits we have identified and their likely significance

Benefits	Likely significance
More resilient farms	Potentially significant, relative to costs, over the long term. The 2020 review[226] of Farming Connect found that the support is leading to small scale, incremental changes over a period, often through introducing more professional approaches to business management and health and environmental improvements…. these marginal gains across many aspects of the business are, on aggregate, helping to create more viable and sustainable enterprises in the longer term
More profitable/ productive farm businesses (GVA)	May be significant in the long term for some farmers - the size of this benefit relative to cost may be significant in the long run, but this is unclear. A 2019 review[227] of the impact of knowledge transfer in Ireland in the period 2008-2014 found that *clients gained a 12.3% benefit to their margin per hectare over the period.*
Improved farmer welfare / wellbeing / mental health	Potentially significant relative to costs. The 2020 review of Farming Connect reported that *Farming Connect also has a (recognised but often under-appreciated) impact on the mental health of farmers, by helping to identify clear and affordable solutions to issues that had caused considerable stress and anxiety*

[224] National Audit Office (2002) The 2001 Outbreak of Foot and Mouth Disease
[225] Welsh Government (2022) Consultation on the compulsory Bovine Viral Diarrhoea eradication scheme
[226] Pates, R; Hindle, R; 2020. Evaluation of the Knowledge Transfer, Innovation and Advisory Services Programme. Cardiff: Welsh Government, GSR report number 14/2020
[227] A. Cawley, C. O'Donoghue, K. Heanue, R. Hilliard & M. Sheehan (2019) The impact of agricultural knowledge transfer resources on farm level profitability during the economic recession – a quantitative study, The Journal of Agricultural Education and Extension, 25:2, 161-177

Overall summary of value of money based on evidence

Costs are relatively low, with the benefits being mostly depending on the application of the CPD on the farm. This is an area where there is uncertainty, and this is reflected in the assessment of medium VFM.

Optional Action: Sustainable production

Description

This action will be taken forward through three measures:

- Reducing Age at Slaughter - a payment per animal based on a reduction in GHG emissions from reducing the average age of slaughter.
- Rotational Grazing/Graze & Rest – 'graze and rest' management (rotational, cell, mob) increases soil organic carbon in pastures, in comparison to set-stocked management
- Sire Registration Available - a one-off payment to all dairy and suckler cow farmers who register sire tag number at birth on the British Cattle Movement Service (BCMS)[228], which starts farmers on a journey to use data and genetics to reduce GHG emissions.

Value for money

Impact on costs We estimate the costs of this action to be around £8m in 2026 rising to around £9.7m in 2029.

Impact on benefits We are unable to estimate in monetary terms the benefits of this action. We list below the evidence associated with the benefits we have identified and their likely significance

Benefits	Likely significance
Improved farm profitability/ productivity (GVA)	A 2020 study[229] notes that benefits of finishing cattle more quickly are: • Less time on farm, so lower total carbon emissions. • More efficient to finish continental cattle quicker (linked to daily maintenance requirements). • Higher rates of daily liveweight gain is more efficient as a higher percentage of the ration is used for growth. • Better use of resources – land, buildings and labour. • Reduced costs of production A 2017 review[230] from Spain found that an increase of 1 kg in mature weight produced an economic cost of between 0.43 € and 0.38 € per slaughtered young animal due to the increase in production cost. This is likely to be significant for individual farmers, but the value of the benefit will likely be less significant at an all-Wales level relative to the cost of the Action.
Social value of reduced GHG emissions	This benefit could be significant relative to costs. ERAMMP report 68[231] states that In the case of meat-producing animals, with improved efficiency, slaughter weight can be achieved at a young age and a shorter lifetime will reduce CH4 emissions per animal. The report cites evidence that a reduced slaughter age will reduce the net carbon footprint for beef production by 5-10%. Evidence from Scotland suggests a 12.5% reduction in % Emission change from baseline from reducing the age at slaughter to 18 months. On graze and rest, the Sustainable Farming Scheme: Carbon Sequestration Evidence Review Panel[232] noted evidence from numerous studies and field trials showing how 'graze and rest' management (rotational, cell, mob) was shown to increase soil organic carbon in pastures
Reduction in fertilizer costs	The Sustainable Farming Scheme: Carbon Sequestration Evidence Review Panel also noted that the co-benefits of rotational grazing are well evidenced, including improved soil health, grass production, animal welfare and biodiversity benefits. Furthermore, it has a role to play in reducing wider GHG emissions via reduced fertiliser use and purchased feed. The Nature Friendly Farming Network note[233] that Adopting regenerative grazing practices can have an incredible impact on building soil health and improving farm business resilience…..Benefits of high-intensity grazing followed by more extended rest periods include deeper rooting plants, looser, more aggregated soils, larger, healthier plants, a deeper soil profile and dark soils rich in organic matter.

[228] The British Cattle Movement Service (BCMS): maintains the Cattle Tracing System (CTS) database; issues cattle passports; processes information received about cattle births, movements and deaths; and answers enquiries from cattle keepers

[229] Julian Bell Christine Beaton Mary Young Gavin Hill Daniel Stout Anna Sellars Steven Thomson Mike Spencer Andrew Moxey (2020) Suckler Beef Climate Change Group Farm Carbon Case Studies, SRUC

[230] Javier López-Paredes, Jose-Antonio Jiménez-Montero, Maria-Angeles Pérez-Cabal, Oscar González-Recio4 and Rafael Alenda (2017) A bio-economic model to improve profitability in a large national beef cattle population, Spanish Journal of Agricultural Research 5 (3)

[231] Prosser, H. (2022). Environment and Rural Affairs Monitoring & Modelling Programme (ERAMMP) ERAMMP Report-68: Review of GHG Emission Reduction and Carbon Sequestration in Agriculture to Inform Agricultural and Land Use Policy. Report to Welsh Government

[232] Sustainable Farming Scheme: Carbon Sequestration Evidence Review Panel: full report, 2024

[233] Nature Friendly Farming Network, Learnings on soil health, regenerative grazing and whole-farm planning, 2025

Benefits	Likely significance
	This is likely to be significant for individual farmers, but the value of the benefit will likely be less significant at an all-Wales level relative to the cost of the Action

Overall summary of value of money based on evidence Costs are relatively high, but the impact on benefits realisation is likely to be immediate and sustained, this is reflected in the assessment of high VFM.

Optional Action: Establish or adapt options which help people engage with, and access, the natural environment

Description

Proposed interventions under this optional action focus on the provision of capital grants for items to enhance the quality of existing walking routes, such as gates, and benches.

Impact on costs We estimate the costs of this action to be around £75k per annum for each of the first four years.

Impact on benefits We are unable to estimate in monetary terms the benefits of this action. We list below the evidence associated with the benefits we have identified and their likely significance

Benefits	Likely significance
Improved welfare associated with recreation	The value of this benefit may be significant relative to costs. The value of existing recreation on farmland in Wales has been estimated[234] at between £161/ha (annual average present value[235] over 5 years) and £118/ha (annual average present value over 25 years). These sum to estimated annual values for all Welsh farmland of £334m (using the £161/ha figure) and £244m (using the £118/ha figure)[236].
Avoided workforce productivity loss associated from avoided illness	Potentially significant relative to costs. A 2017 study[237] from America on the relationship between physical activity and unplanned illness-related absenteeism from work concluded that *less physically active individuals, as well as persons with any number of chronic medical issues, had higher rates of unplanned illness-related absenteeism…. Increasing physical activity has been shown to reduce the future risk of both short-term absenteeism and long-term disability leave*
Reduced NHS costs from inactivity and poor mental health	Potentially significant relative to costs. Evidence[238] shows that farm visits generate positive mental well-being outcomes on the day of the visit, but also the more enduring benefits in the weeks and months after a visit takes place. For some visitors a farm visit led to an increase in self-esteem and independence beyond the visit. A more recent 2023 Australian study[239] on nature walks as part of a community mental health programme concluded that Nature walking groups for people with mental health conditions have huge potential as a non-clinical intervention

Overall summary of value of money based on evidence

Costs are relatively low, but each category of benefit is potentially significant relative to costs. Therefore, the assessment is of high VFM.

Optional Action: Improve water quality, flow, and usage, to include flood mitigation

Description

To support farms to improve their water quality, resource and efficiency a range of capital items, including large infrastructure, will continue to be made available. SFS will assist farmers to go over and above the Control of Agricultural Pollution requirements.

[234] Dickie, I., Marks, R., Reeser, V., Couchman, A. & Jones, L. (2025). ERAMMP - Report-109: Revised assessment of natural capital in payment rates for 2025. Report to Welsh Government

[235] Average annual figures are annualised present values, which is calculated by dividing the PV by the time horizon. Discount rates are from HM Treasury (2022)

[236] These benefits will be included in the value of the benefits from Welsh farmland under the BAU scenario and under the SFS Universal Layer preferred option. To add them to the value of action taking under this optional action would therefore be double counting. We have not therefore attributed these benefits to this optional action.

[237] Elena Losina, Heidi Y. Yang, Bhushan R. Deshpande, Jeffrey N. Katz, Jamie E. Collins (2017) Physical activity and unplanned illness-related work absenteeism: Data from an employee wellness program, Plos One, May 4, 2017, 1-13

[238] Jane Mills, James Taylor, Janet Dwyer and Jennifer Bertlett (2014), The well-being benefits of sensory-rich farm visits, International Journal of Agricultural Management, Volume 4 Issue 1

[239] Katarzyna Olcon, Peter Destry, Thomas Astell-Burt, Julaine Allan (2023) "I can get to a happy place by visiting nature": The benefits of implementing nature walking groups within mental health services, Environmental Advances 13 100393

Impact on costs We estimate the costs of this action to be between £3.6m- £15m per year for the first four years, depending on the size of the capital cost per individual claim.

Impact on benefits We are unable to estimate in monetary terms the benefits of this action. We list below the evidence associated with the benefits we have identified and their likely significance.

Benefits	Likely significance
Welfare value for improvement in water body status	May become significant over the longer term, relative to costs. The Environment Agency central estimates[240] of the annual value of improving water quality in rivers in England and Wales varies from £17.4k per km[241] to £23.3k per km[242] (2012 prices).
Avoided flood damage costs	Likely to be less significant relative to costs. A 2013 review[243] of flood damage to agriculture concluded that even if existing methods have already focused on damage to crops, still some improvement is needed for crop damage functions. There is also a need to develop damage functions for other agricultural damage categories, including farm buildings and their contents. Finally, to cover all possible agricultural damage, and in particular loss of activity, a farm scale approach needs to be used.
Improved ecological communities can be valued in priority habitats	May become significant over the longer term, relative to costs.
Private value to farmers of improved productivity	This is likely to be significant for individual farmers, but the value of the benefit will likely be less significant at an all-Wales level relative to the cost of the Action. The 2024 report of the Nutrient Management Expert Group (NMEG)[244] concluded that *there is significant scope to ensure nutrients are used more efficiently on-farm: this requires better nutrient planning and monitoring on-farm, increasing responsible use of organic materials, reducing any excess nutrient inputs while also maintaining yield. It includes the application of a wide range of available technologies, many of which can save farmers money, but may have significant capital investment costs*
NHS/ public health costs avoided	The value of this benefit may be less significant relative to costs.

Overall summary of value of money based on evidence

Costs are uncertain and dependent on options taken up by farmers. However, the evidence of the increase in value of improved water body quality is strong. Impacts of reduced pollutant are likely to be realised immediately, but changes to water quality arise more slowly, leading to a medium VFM assessment

Optional Action: Improving air quality and lowering ammonia emissions

Description

A range of pollutant gases, and especially nitrogen compounds, are emitted to the atmosphere from agricultural activities, including fertilizer use, farm machinery and livestock waste. In addition, primary particulate matter is emitted from livestock housing and tilling activities. However, the main contribution to air pollution from agriculture in Wales is due to emissions of ammonia, where the agriculture sector accounted for 93% of total national ammonia emissions in 2022.

To support farms to improve air quality a range of capital items, including large infrastructure, will continue to be made available. These include:

- On-farm infrastructure investments
- Precision nutrient application equipment

Impact on costs We estimate the costs of this action to be between £3.6m- £15m per year for the first four years, depending on the size of the capital cost per individual claim.

Impact on benefits We are unable to estimate in monetary terms the benefits of this action. We list below the evidence associated with the benefits we have identified and their likely significance

Benefits	Likely significance

[240] Environment Agency (undated) Updating the National Water Environment Benefit Survey values: summary of the peer review
[241] Change in water quality status from bad to poor, 2012 prices
[242] Change in water quality status from moderate to good, 2012 prices
[243] P. Brémond, F. Grelot, and A.-L. Agenais (2013) Review Article: Economic evaluation of flood damage to agriculture – review and analysis of existing methods Nat. Hazards Earth Syst. Sci., 13, 2493–2512, 2013
[244] Defra (2024) Report of the Nutrient Management Expert Group (NMEG) Improving policy and practice for agricultural nutrient use and management

Private value to farmers from more efficient use of fertiliser/ nutrients	The evidence (in the technical annex) notes the potential of financial returns to agriculture from the use of precision agriculture. This is likely to be significant for individual farmers, but the value of the benefit will likely be less significant at an all-Wales level relative to the cost of the Action
Improved ecological communities can be valued in priority habitats	The value of this benefit is likely to be significant over the long run, relative to the cost of the action. Research[245] has estimated that, at a UK level, marginal damage costs of N impacts on 'appreciation of biodiversity' for nitrogen dioxide are £103/t NO2 and for ammonia are £414/t NH3
Welfare from improved water body status (amenity, recreation)	The value of this benefit is likely to be significant over the long run, relative to the cost of the action. The annual value of benefits per km of improved water body status are estimated[246] at £17.4k (change in status poor to moderate), £20.4k (moderate to good) and £23.3k (moderate to good) for rivers in England and Wales (2012 prices)

Overall summary of value of money based on evidence

Costs are uncertain and dependent on options taken up by farmers. However, the evidence of the impact and value of reduced air pollution on terrestrial habitats is strong, although the changes will occur over a longer period, leading to a medium VFM assessment

Collaborative Action: Innovation and Research and Development

Description

The aim of this action is to support farmers to:

- participate in research and development including innovation challenges
- implement the results of Research and Development/test technologies and innovative practices in a real-world context.
- the introduction (where appropriate) of findings into new SFS activity

This aim is to seek innovations that lead to increased efficiency, productivity and sustainability in Welsh agriculture and agri-food supply chains, delivering environmental benefits and accelerating the transition to Net Zero**.**

Impact on costs We estimate the costs of this action to be £1m in 2026, rising to £1.2m per annum for the period 2027-29.

Impact on benefits We are unable to estimate in monetary terms the benefits of this action. We list below the evidence associated with the benefits we have identified and their likely significance

Costs and benefits omitted	**Likely significance**
Improved farm businesses profitability/ productivity (GVA)	The value of the benefit is less significant in the short term relative to costs but with the potential for this significance to increase over the long-term depending on the uptake of new innovations and approaches. A 2018 study[247] concluded that *public investments in agricultural R&D have been a significant policy lever for supporting long-run productivity growth in the sector….. National public investments in agricultural R&D, along with technology spillovers from other countries and the private sector, are significant sources of new technology driving growth in agricultural Total Factor Productivity [TFP] …nearly all studies that attempt to quantify the impacts of multiple factors on long-term agricultural TFP growth in high-income countries find that public R&D had a major impact.*

Overall summary of value of money based on evidence

Costs are relatively low and the benefits uncertain and long term, leading to an initial low VFM assessment in the period 2026-29.

[245] Jones, L., Mills, G., Milne, A., Hayes, F., Monteith, D., Dwyer, J., Ozdemiroglu, E., Hall, J., Evans, C., Emmett, B., Sutton, M., Reis, S., Ashmore, M., Everard, M., Holland, M. (2014). Assessment of the impacts of air pollution on ecosystem services – gap filling and research recommendations. (Defra Project AQ0827), Final Report, July 2014.

[246] Environment Agency (2013) Updating the National Water Environment Benefit Survey values: summary of the peer review

[247] Heisey, Paul W., and Keith O. Fuglie. Agricultural Research Investment and Policy Reform in High-Income Countries, ERR-249, U.S. Department of Agriculture, Economic Research Service, May 2018.

Collaborative Action: Landscape scale activity

Description

This collaborative action will be taken forward through the existing Ffermio Bro scheme and the continuation of the Integrated Natural Resources Scheme (INRS)[248]. The exact outcomes and impact will depend on the projects that are funded under this collaborative action.

Impact on costs We estimate the costs of Ffermio Bro to be £3m a year 2026-2029, this representing the allocation to Designated Landscape Bodies to deliver Ffermio Bro. We estimate the costs of INRS to be around £3m in 2026, £6.8m in 2027 and £9.75m in 2028. We are unable to estimate the costs for 2029.

Impact on benefits We are unable to estimate in monetary terms the benefits of this action. We list below the evidence associated with the benefits we have identified and their likely significance

Benefits	Likely significance
Enhanced wellbeing of rural communities	The value of the benefit could be significant relative to costs. A 2012 study[249] on the benefits of collaboration in agri-environment schemes in England concluded that collaborative agri-environment schemes *have the potential to deliver greater environmental benefits, whilst at the same time encouraging farmers' participation in, and satisfaction with, agri-environment schemes.* It noted that collaboration based on participatory approaches *lead to better environmental outcomes since farmers are more likely to buy-in to the schemes long-term, to have a sense of ownership over them and to feel proud of their actions*
Welfare benefits of environmental outcomes achieved at scale across a specific landscape	The value of the benefit could be significant relative to costs. A 2013 review[250] concluded that the deployment of agri-environment schemes on a larger, landscape scale is likely to benefit a small but key group of species more than current 'farm-scale' schemes, while not disadvantaging species operating at smaller scales. It is also likely to provide additional co-benefits. A 2018 review[251] argued that a stronger focus on landscape-context specific measures could be incorporated in the design of agri-environment schemes to improve their effectiveness on the preservation of biodiversity at a landscape scale…. there is the need to incentivise the participation of farmers in spatially connected conservation measures.

We refer in the technical annex to evidence of the impact of other collaborative projects in Designated Landscapes.

Overall summary of value of money based on evidence

Costs are relatively high. However, we have good evidence that the new development phase of INRS has resulted in greater mobilisation and enthusiasm for project delivery across the project areas, and we also have evidence of the impact of other collaborative projects in Designated Landscapes. This leads us to assess VFM as high.

Collaborative Action: Market and supply chain support

Description

Support will be provided to farmers, farm-based businesses and businesses within the supply chain to add value to produce, to access new markets, to provide opportunities for adding value to produce, to develop supply chain opportunities all to ensure business sustainability and profitability and to safeguard and develop rural work opportunities.

Impact on costs We estimate the costs to be £20m per annum for each year 2026-2029.

Impact on benefits We are unable to estimate in monetary terms the benefits of this action. We list below the evidence associated with the benefits we have identified and their likely significance

[248] Currently the Development phase of the first window of INRS has progressed. Following extensive engagement and development support 30 collaborations received funding to develop project plans. This new development phase has resulted in greater mobilisation across the project areas

[249] Steven B. Emery, Jeremy R. Franks (2012) The potential for collaborative agri-environment schemes in England: Can a well-designed collaborative approach address farmers' concerns with current schemes?, Journal of Rural Studies, 28, 218-231

[250] Ailsa J. McKenzie, Steven B. Emery, Jeremy R. Franks and Mark J. Whittingham (2013) Landscape-scale conservation: collaborative agri-environment schemes could benefit both biodiversity and ecosystem services, but will farmers be willing to participate?, Journal of Applied Ecology, 50, 1274–1280

[251] Rotchés-Ribalta, R., Ó hUallacháin, D (2018) Agri-Environment Scheme design: the importance of landscape scale, Paper prepared for presentation for the 166th EAAE Seminar Sustainability in the Agri-Food Sector August 30-31, 2018, National University of Ireland, Galway Galway, Ireland

Benefits	Likely significance
Increased diversification, exports & trade of agri-food. More Welsh branded food products, and stronger local supply chains	The value of this benefit is likely to be significant relative to costs of this Action. The 2025 report Evaluation of the Food Business Investment Scheme and Rural Business Investment Scheme – Food[252] reported that the FBIS in the period 2014 to 2020 has supported the achievement of 597 new products and 214 new markets accessed. 60% of respondents to the evaluation cited Diversify/enter new markets and 56% Grow existing markets as specific outcomes of the support.
Improved carbon footprint through more efficient and resilient supply chains	The value of this benefit is likely to be significant relative to costs of this Action. 32% of respondents to the evaluation of the FBIS/RBISF[253] reported that the FBIS/RSIBF had resulted in a reduced carbon footprint. The review stated that the report stated that the *evaluation of the FBIS / RBISF schemes[254], which found that 41% of beneficiaries reported that their projects had generated positive environmental impacts, (although we note that is based on self-reported data, which is subjective). This was largely a result of the increased efficiencies generated by the new processes they had purchased (17% reported this), while 11% had used some of the funding to invest in renewable energy; furthermore, 9% cited improvements to their recycling processes (including examples of energy conversion from other processes) and improved waste management. A further 19% reported they had shortened their supply chain, resulting in reduced food miles*[255]
Improved prices, and financial turnover for farmers	The value of this benefit may be less significant relative to the costs of this Action. A 2018 review[256] of farming in Wales post Brexit reported on *the key role and influence of the food chain, in respect of how it chooses to respond to the Brexit process and likely outcomes, centred around key processor and retailer perspectives including buyer loyalty and willingness to invest in Wales, Welsh product image, as well as longer-term pricing and market growth strategies.* It recommended *Increasing agri-food sector and rural community resilience, through more active long-term partnership working between Welsh Government and commercial or social actors in the food, public services and financial sectors in Wales, planning for longer-term strength* and noted that *A focus upon entrepreneurship skills and confidence, new products, new markets for alternative products, new enterprises and new multi-sectoral, environmentally sustainable land-based business models would seem worthwhile,*
More consistent supply of better-quality products for consumers	Likely significant. As noted above, the FBIS has supported the achievement of 597 new products in the period 2014 to 2020
Improved farmer collaboration and support	Unknown. However, the evaluation report cited above notes combined, the projects and schemes are likely to have greatly enhanced the resilience and sustainability of the rural economy in Wales

Overall summary of value of money based on evidence

Costs are relatively high, however given the quality and robustness of evaluation evidence of existing schemes, and the clear impact these have on intended outcomes, we assess this as good VFM.

Summary

Contribution of the Optional and Collaborative Actions to SFS objectives

Collectively, the OAs and CAs cover actions in the following areas:

- Managing the quality of the key natural resources central to farming: soil, water and air;
- Creating new and manage existing woodlands, hedgerows and habitats, including SSSI;
- Promoting biosecurity;

Miller Research (2025) Evidence review of proposed SFS optional & collaborative actions, report to Welsh Government. The evidence reviewed indicates that many of the SFS Actions have the potential to align well with the Scheme's Critical Success Factors, particularly in delivering long-term public value across environmental, economic and social domains. However, this alignment is conditional on implementation, including appropriate scheme design, farmer engagement, and access to support.

Evaluation of the Food Business Investment Scheme and Rural Business Investment Scheme: Final Report. Cardiff: Welsh Government, GSR report number 10/2025.

[253] Source: Griffiths, E; Teifi, I (2025). Evaluation of the Food Business Investment Scheme and Rural Business Investment Scheme: Final Report. Cardiff: Welsh Government, GSR report number 10/2025.Figure 5.1 Proportion of respondents citing outcomes in response to the following question: 'Has the FBIS/RBISF investment led to any of the following changes or benefits for your business?'

[254] Food Business Investment Scheme and Rural Business Investment Scheme - Food

[255] The report cautions these benefits need to be balanced against the increased production and food miles for businesses that had accessed wider geographic markets because of the support. Whilst the evaluation could not definitively identify the schemes' impact, the balance of evidence suggests that they indeed had a positive impact on the environment, through the more than £60m invested in improved equipment and processes.

[256] Janet Dwyer (2018) The Implications of Brexit for Agriculture, Rural Areas and Land Use in Wales, Countryside and Community Research Institute (CCRI), University of Gloucestershire

- Promoting greater efficiency and sustainable productivity;
- Providing better quality experiences for the public who enjoy countryside access;
- Promoting the continued professional development of farmers, and encouraging longer term research and innovation; and
- Enhancing the returns to farmers from the market through promoting local supply chains.

Collectively, the OAs and CAs together should contribute toward the specific SFS objectives and the broader statutory SLM objectives. The risk associated with this are associated with poor levels of uptake by SFS farmers of the OAs and CAs. This risk will be mitigated by payment levels that incentivise uptake whilst ensuring good VFM. The risk is also that Actions generate impacts and outcomes over a longer period than envisaged or are less impactful that envisaged. There will be a comprehensive monitoring and evaluation strategy to help mitigate this risk.

E. COMMERCIAL CASE – KEY PROCUREMENTS

Redacted due to commercial sensitivity

F. BENEFITS REGISTER

The benefits register defines the benefits currently expected to arise from the SFS. These benefits will be regularly reviewed as part of planned approach to benefit realisation (see Management Case).

The benefits are defined for each Action across the three Layers of the SFS: Universal, Optional and Collaborative. The benefits of the Actions which form the Universal Layer are grouped together since this aligns with how they have been analysed as part of the Economic Case. Any additional expected benefits linked to the Universal Actions are also recorded separately. For the Actions which form part of the Optional and Collaborative Layers, the expected benefits are recorded separately.

For each expected benefit, the following details are provided:

- A unique reference number;
- The SFS Layer to which the benefit relates;
- The SFS Action to which the benefit relates;
- An outline description of the Action, including any enabling projects or activities;
- A description of what aspects of the SFS Action are expected to give rise to the benefit: this can be used to facilitate monitoring;
- A summary of the main farm activities that are required to deliver the benefits: for the Universal Actions these align to the descriptions in SFS outline and the for the OAs and CAs it is based on the logic chains which underpin the value for money analysis (see Economic Case);
- The expected benefit of the Action;
- The category of benefit based on the classification used in both the Strategic and Economic Cases: a distinction is made between cash releasing benefits, non-cash releasing benefits, those which are quantifiable but not monetisable and those which can only be described in qualitative terms;
- The principal beneficiary, again reflecting the classification used in the Strategic and Economic Cases: this distinguishes direct public sector benefits (which accrue to the Welsh Government), indirect benefits which accrue to other public sector organisations and wider benefits which may accrues largely to farmers, consumers, rural communities and other parts of Welsh society;
- How the expected benefit aligns to the Sustainable Land Management purposes;
- The key performance measure(s);
- The target level for the performance measure(s) based on the expected change assessed as part of the value for money analysis in the Economic Case;
- The potential costs incurred during delivery of the Action (i.e. the expected payments to farmers and land managers under the SFS between 2026 and 2029 expressed as a net present value in £m);
- The expected duration of the benefits from the SFS Actions;
- The potential benefits arising from delivery of Actions between 2026 and 2030 (expressed as a net present value in £m): some benefits are expected to accrue); and
- The Welsh Government official who will be responsible for benefits delivery.

G. GOVERNANCE PLAN - RPW

Introduction

The Welsh Government has developed its plans to implement and deliver the SFS which is due to launch on 1st January 2026. Further policy and operational development is anticipated beyond the start date in 2026.

For the SFS to be successful, timely decisions will be needed about further changes at the right level of authority. A well-defined, active governance structure will result in more efficient and effective teams, improved results, reduced risks and better resource utilisation. This means having a documented, structured approach to decision-making which:

- Ensures that decisions are made in a timely way, at the appropriate level;
- Provides strategic leadership and direction;
- Fosters a culture of accountability and transparency; and
- Provides oversight and guidance to improve the potential for success.

The broad framework of governance for the SFS is set out in the Management Case, the focus of this Annex is on the role of RPW and its partners and stakeholders in the day-to-day delivery of the SFS.

This Annex documents the planned approach to the governance of programme decision making which affects RPW (the "Governance Plan"). It also defines roles and responsibilities and the timeframe for decision making. When new processes or methodologies are proposed, decisions are made following due escalation and consideration.

It contains the Terms of Reference for each Board which forms part of the critical governance structure. The aim is to provide as much transparency as possible to decision-making arrangements which will guide the systems and processes operated to implement the SFS.

The Governance Plan will be reviewed annually and updated as and when needed by the Programme Manager. When changes occur, the version number will be updated to the next increment along with the date, and the owner making the change and change description will be recorded in the revision history log of the document.

Scope of the plan

The Governance Plan describes who, by role, will be responsible for making decisions, approving programme documents, establishing contracts in support of the programme, approving contractor deliverables, and making the final decision to accept the automated system and contractor's products. It also specifies thresholds above which issues must be escalated to a higher level of authority. Should parties to the programme want to appeal a decision, the plan includes an appeal process. The roles and responsibilities for the various boards are contained within each of the individual RPW Boards' Roles & Responsibilities as the make-up of each board can vary.

Success criteria / benefits realisation

This Governance Plan will be considered successful if decisions are made by the appropriate governing body on a timely basis. RPW may, however, decide to establish several key success criteria later once their measurability can be confirmed and they can be linked to the overarching management of the delivery of the SFS against its objectives as well as broader SLM objectives.

Levels of authority

All parties need to know their levels of authority as well as those of others involved in delivery of the SFS. Table 57 defines the proposed levels of authority for the SFS.

Table 110: Proposed levels of authority

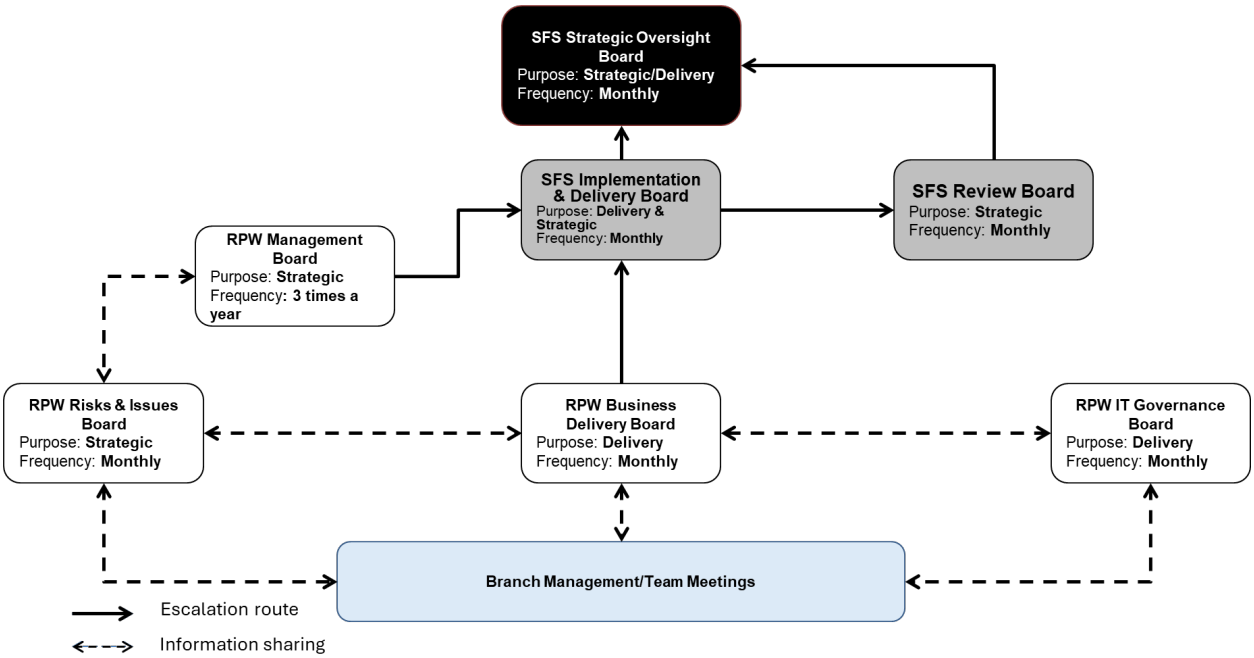
Governance group	Level of authority
Team Leads	Changes within own team, or that are agreeable to other teams, that do not adversely impact project budget or schedule.
Change Control Board	Changes to requirements or interim milestones within the overall project budget and schedule.
Project Manager	Changes that may be accommodated within the overall project budget and schedule. [Change this to reflect your project's decision regarding Project Manager's authority to approve changes to scope, schedule, and budget.]
Project Director	Changes that may be accommodated <<within 5%>> of the overall project budget and schedule.

Governance group	Level of authority
Project Sponsor	Changes that may be accommodated between <<5-10%>> of the overall project budget and schedule.
Executive Steering Committee	Changes that will require an increase to the project funding, impact implementation dates, or change project scope that have an impact of 10% or greater.
	Policy related changes; contract amendments.
State Control Agencies and/or Legislature	Any changes of more than 10% of scope, schedule, or resources.
	Budget action requests of any amount.
	Section 11.00 requests.
	Procurement of vendors.

Issue escalation & resolution

Any issues that arise will be addressed by those at the lowest level with the authority to do so. Sometimes, issues may be identified by those without the authority to resolve them. In these cases, the issues will be escalated to the appropriate level. All issues will be addressed within a specified time frame so that they do not overwhelm the programme. These Issues will be brought before the relevant RPW Board for discussion and eventual agreement on the recommended way forward. Should any issues become too great for an individual RPW board, these will be escalated to either the SFS Implementation Delivery Board or the higher SFS Strategic Oversight Board for consideration and decision.

Figure 21: RPW governance structure



Rural Payments Wales (RPW) Management Board (ToR)

Roles & responsibilities

The role of the RPW Management Board will be to:

- Provide visible and effective leadership to the Division and set its corporate strategic direction and priorities;
- Take forward delivery of the Division's agreed strategic aims and objectives and ensure Branch objectives are aligned;
- Ensure effective resource allocation and management of financial resources;
- Ensure full consideration and plans are in place for Business Continuity and Disaster Recovery;
- Agree corporate values, set standards and monitor compliance;
- Agree and maintain a transparent system of prudent and effective controls (including internal controls);
- Assess and manage Corporate risk and Information Assets;
- Lead and oversee the process of change and encouraging innovation;
- Agree a corporate strategy to maintain a healthy and safe environment for staff and visitors;
- Endorse the remit of its Operational Delivery Board, maintain oversight of their activities and agree arrangements for exception reporting; and
- Record and review open actions and required decisions.

Frequency of meetings

The Board will meet quarterly: it will follow on from a RPW Delivery Board meeting held earlier that day. Where appropriate the Board will establish ad hoc groups to take forward major pieces of work which need collective action.

Issues requiring an urgent decision outside the usual meeting cycle may be dealt with by correspondence through exception reporting or, on occasion, as an extraordinary meeting, in agreement with the Chair and members.

Membership

Board members will be appointed at the discretion of, and by, the Head of RPW. Members attending the Board should have knowledge of RPW and the authority to make strategic decisions.

The current Board membership is as follows (and will be reviewed annually):

- Head of RPW (Chair)
- Head of Operations (Deputy Chair)
- Head of Appraisal Branch
- Head of CAP Policy and Appeals Unit
- Head of Technical Support
- Head of Regional Offices
- Head of Customer Operations Branch
- Head of OPS 'Pilot'
- Head of RPW IT
- Head of Rural Inspectorate Wales & Cartographic Branch
- RPW IT Delivery Manager
- Head of Governance, Finance & People Branch
- Senior Business Change Manager
- RPW Programme Manager

Where appropriate the Board will be able to establish ad hoc groups to take forward major pieces of work which need collective action.

Escalation process

If the RPW Management Board members present at any meeting of the Board cannot resolve an issue, the RPW Management Board chair will have the casting vote. The chair will have the right to defer the casting vote and escalate to the SFS Implementation & Delivery Board.

Transparency

Board agendas, minutes and papers will be published on the intranet four weeks after each meeting.

Confidentiality

The Chair of the Board (Head of RPW or Deputy) may at their discretion, restrict access to certain documents that are classified as 'Restricted / Official-Sensitive', which may cause a conflict of interest and/or damaging consequences if disclosed.

Secretariat

The Board will be supported by a Secretariat from RPW's Governance, Finance & People Branch who will:

- Arrange meetings;
- Agree the agenda with the Chair;
- Circulate papers at least five working days prior to a meeting;
- Record discussions and actions and ensure that they are captured in the agreed minutes;
- Produce and circulate key discussions, action points and decisions within five working days of the meeting; and
- Ensure escalation is appropriately managed.

SFS Implementation & Delivery Programme Board (ToR)

Roles & responsibilities

The purpose of the SFS Implementation & Delivery Programme Board (SIDP Board) will be to provide strategic direction and leadership to the development and implementation of the SFS (all elements), Customer Experience Project, Suitability Review Project and the LPIS Project. The Change Programme Board will ensure projects remain focused on the key objectives and delivers high-level benefits.

The SIDP Board forms part of the wider governance structure which has been established to manage the transition from the CAP to the SFS, including the 2025 Preparatory year.

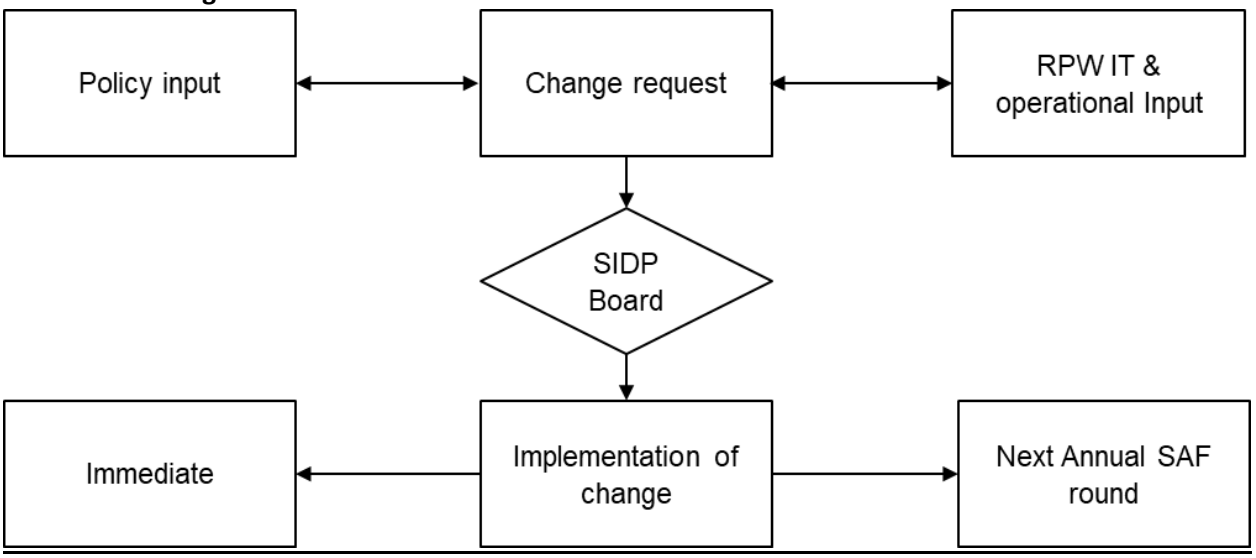
The planned role of the SIDP Board will be to:

- Confirm project tolerances and approve changes within remit of policy objectives and agreed change control process;
- Make decisions on changes that need to be introduced to the operational design of any of the component parts of SFS;
- Provide overall direction to projects, ensuring projects remain viable;
- Ensure projects have clearly defined roles and responsibilities;
- Approve project brief, PIDs and any tailoring requirements;
- Agree internal & external stakeholder communications;
- Review the various project RPW highlight reports;
- Record and review actions and decisions, dependencies and assumptions logs;
- Consider interdependencies and manage any conflicting priorities;
- Provide scrutiny of product quality and delivery;
- Ensure agreed milestone dates (plus RAG status') are replicated across to the SFS delivery Programme Plan.

The key areas the Board will discuss will be:

- Progress against key milestones;
- Project/workstream leads to provide high level updates by exception;
- Project/workstream to provide a detailed update from their area as requested;
- Review and sign off any programme documents;
- Review any proposed requests to changes to the baseline scope of the transition programme;
- Next stakeholder communication;
- Budget review; and
- Resource review.

Process for change



Frequency of meetings

The SIDP Board will meet monthly. Issues requiring an urgent decision outside the usual meeting cycle may be dealt with by correspondence through exception reporting or on occasions at an extraordinary meeting, in agreement with the Chair and members.

Membership

Membership will be on a rotational basis determined by the business delivery priorities during the year. The full membership will be as follows:

- Head of RPW (Chair)
- Head of Operations (Deputy Chair)
- Head of Appraisal Branch
- Head of CAP Policy and Appeals Unit
- Head of Technical Support

- Head of Regional Offices
- Head of Customer Operations Branch
- Head of OPS 'Pilot'
- Head of RPW IT
- Head of Rural Inspectorate Wales & Cartographic Branch
- RPW IT Delivery Manager
- Head of Governance, Finance & People Branch
- Senior Business Change Manager
- RPW Programme Manager.

There will also be requirements for attendees from outside of RPW who may include:

- Representatives from the Farming Connect Team
- Representatives from CAP Gemini (IT Contractors)
- Representatives from NRW
- Representatives from Welsh Audit Office (WAO).

The Secretariat will be provided by the RPW Programme Management Office.

Board members, in their absence, will need to provide a deputy to represent their area of work. Input may be requested from other stakeholders as and when necessary.

Escalation process

The SIDP Board will be the escalation point for issues that may affect the operational delivery of the SFS, or any other new development being undertaken by RPW.

If the SIDP Board members cannot resolve the issue and the decision is deadlocked, the RPW Change Board Chair shall have the final casting vote or the Chair may refer the issue or decision to SFS Delivery Board, and/or the Rural Affairs Agricultural Change Board (ACB).

Transparency

The actions and decisions agreed at the SIDP Board will be stored in iShare and will be available to all staff on request to the RPW Governance, Finance & People branch.

Confidentiality

The Chair of the Board (Head of RPW or Deputy) may at their discretion, restrict access to certain documents that are classified as 'Restricted / Official-Sensitive', which may cause a conflict of interest and/or damaging consequences if disclosed.

Secretariat

The RPW Governance, Finance & People branch will provide the secretariat for the SIDP Board by:

- Arranging meetings.
- Agreeing the agenda with the Chair.
- Circulating papers at least five working days prior to a meeting.
- Producing and circulating key discussions, action points and decisions within five working days after the meeting.
- Maintaining the SIDP Board Risk & Issue register.
- Ensure all relevant papers are saved to the appropriate folders in iShare.
- Update the actions & decisions logs
- Escalating issues to SFS Delivery Board and/or the Rural Affairs Agricultural Change Board (ACB) as and when required.

Rural Payments Wales (RPW) Business Delivery Board (ToR)

Roles and responsibilities

The role of the Rural Payments Wales (RPW) Business Delivery Board will be to manage and monitor the delivery of RPW products from the front-line branches. It will also act as the governance for the implementation of changes to existing processes of Rural Payments Wales including (but not exclusively):

- Customer Contact
- RPW Online
- Annual SAF processes
- Annual BPS Processes
- All SFS Processes (once available and released for use)

- All Preparatory Scheme Processes (*once available and released for use*)
- Publications
- Authentication and Government Gateway / Verify (One Login)
- In-field technology
- All business processes to keep the LPIS up to date
- Cloud strategy
- Land Maintenance (Form FM5 / Online mark-up)
- Raising of *New* Risks & Issues
- Reporting on existing areas of Delivery (i.e. key statistics).

Frequency of meetings

The Board will meet monthly, on the 1st Tuesday of the month. Issues requiring an urgent decision outside of the usual meeting cycle may be dealt with by correspondence or on occasions as an extra ordinary meeting, in agreement with the Chair and members.

Mode of operation

It works closely with the RPW Business Operational Change Board and the RPW Technical Design Board, which quality assures and assesses the feasibility of the changes to systems and processes proposed by the Board.

Membership

The RPW Business Design Board will meet monthly. It works closely with the RPW Business Change Board, RPW Business Design Board and the RPW Technical Design Board, which quality assures and assesses the feasibility of the changes to systems and processes proposed by the Board. Membership will be as follows:

- Head of RPW (Chair)
- Head of Operations (Deputy Chair)
- Head of CAP Policy and Appeals Unit
- Head of Technical Support
- Head of Customer Operations Branch
- Head of OPS 'Pilot'
- Head of RPW IT
- Head of Rural Inspectorate Wales & Cartographic Branch
- RPW IT Delivery Manager
- Head of Governance, Finance & People Branch
- Senior Business Change Manager
- RPW Programme Manager
- CAP Gemini Contractors *(upon invite only)*

Transparency

Agenda, papers and minutes of the RPW Business Design Board are unrestricted and are available on iShare.

Confidentiality

The Chair of the Board (Head of RPW or Deputy) may at their discretion, restrict access to certain documents that are classified as 'Restricted / Official-Sensitive', which may cause a conflict of interest and/or damaging consequences if disclosed.

Escalation route

For situations where a change will be required to existing systems and/or processes then the affected business area will complete and submit a Change Request template to the secretariat for discussion at the next BDB. The Change request will detail the existing situation and why there is a need for a change. The change request will be accompanied by at least 2 proposals for managing the situation. i.e. RPW continue to operate as is (albeit maybe at risk), or at least 1 other proposal for mitigating the situation will be provided together with the risks and benefits of making that change. The proposals will be considered by the board, and the final decision will be recorded on the template and saved to iShare. The decision will also be recorded on to the Decision Log in case of future scrutiny. Should no agreement be reached during the BDB it may be deemed necessary to escalate the issue to the Rural Affairs Agricultural Change Board.

Secretariat

The Board will be supported by a Secretariat from the Rural Payments Wales Governance, Finance & People Branch by:

- Arranging meetings.
- Agreeing the agenda with the Chair.

- Circulating papers at least five working days prior to a meeting.
- Recording of the minutes.
- Updating the relevant Issues, Actions & Risk Logs.
- Producing and circulating key discussions, action points and decisions (i.e. Monthly minutes of each meeting) within five working days after the meeting.
- Ensure escalation is appropriately managed.
- Updating RPW Delivery Board Summary document.

Rural Payments Wales (RPW) IT Delivery Board (ToR)

Roles & responsibilities

The RPW IT Project Services Delivery Board overseas and manages the delivery of the range of business owned Deliverables.

The breadth of work encapsulated under this IT Delivery Board to include:

- BAU delivery:
  - Release content, timings
  - Prioritisation of Issues/Fixes
  - Change Control
- Project services:
  - Scope
    - The Scope Documents will detail the set of deliverables, effort and prioritisation that will satisfy the business outcomes and objectives that underpin the RPW operation.
    - RPW IT will be responsible for the creation of the set of Scope documents.
    - RPW Business Owners have responsibility to ensure the Scope Documents capture the requirements and will be required to provide acceptance.
    - Change Control
  - Delivery schedules
    - Business Owners to agree scheduling of each agreed deliverable into the IT Delivery Plan in-line with RPW Milestones.
    - Prioritisation
    - Review Progress
    - Change Control
- IT Delivery Monitoring
  - Monitoring of IT Delivery Pan
  - Prioritisation
  - Change Control
- Governance for RPW IT Containerisation Delivery (Full Solution)
  - Governance
    - Scope
    - Design
    - Development
    - Communication
    - Testing Approach
    - Risk & Issues
  - Schedule of Delivery
    - Implementation Stages
  - Change Control

Frequency of meetings

It is proposed that the RPW IT Delivery Board meets monthly.

Membership

The RPW IT Delivery Board provides oversight and governance over the breadth of IT delivery, to include BAU, Project Services, (incl. IT Containerisation).

Where appropriate the RPW Delivery board will recommend activity required to be presented to the RPW Technical Design Board for approval, or other RPW Governance boards as appropriate for specific areas of delivery.

All decisions and approvals made at IT Delivery Board are the responsibility of WG members of the board. 3rd party representatives will contribute and offer advice, guidance and recommendations.

Role - WG
RPW IT: Head of IT
RPW IT Programme Delivery Manager (Chair)
RPW IT Projects Manager
RPW IT Operations Manager
RPW IT – Geospatial Managers
RPW IT: Support Team Manager
RPW Operational Delivery Business Owners
PMO
3rd Party Attendance
Geospatial Project Services/BAU
CAPIT / RPW Online Programme Manager
CAPIT/Online Project Services
CAPIT/Online BAU

Each area will be represented at each monthly session. Representatives or cover will be the responsibility of each area of business. Any representatives should have decision making responsibility.

Escalation process

If the RPW IT Delivery Board members present at any meeting of the board cannot resolve the dispute or issue and the decision is deadlocked, the dispute/issue shall be finally determined by PMO escalation to SRO via the appropriate Governance route.

Transparency

Agenda, papers and Minutes of the meeting of the RPW Delivery board are unrestricted and will be available on iShare.

Confidentiality

The Delivery Manager, in conjunction with RPW Business Owners may, at their discretion, designate certain items as Official Sensitive. In certain circumstances, 3rd party members may be asked to withdraw from the board for these discussions.

Secretariat

The Board will be administered by the RPW IT Delivery Manager.

- Arranging monthly meetings or interim meetings 'IF' required.
- There will be a set agenda. Any additional / late requirements covered under AOB.
- Updated documents will always be available.
- Producing and circulating action points and any decisions within five working days after the meeting.
- Ensure escalation is appropriately managed.

Rural Payments Wales (RPW) Risk Management Board (ToR)

Role & responsibilities

The role of the Rural Payments Wales (RPW) Risk Management Board will be to manage and monitor the Risks and Issues which can/could impact on the delivery of all Rural Payments Wales business processes and systems. Risks can be covered by the four main categories: Financial risk, Operational risk, Strategic risk, and Compliance risk.

Frequency of meetings

The RPW Risk Management Board meets monthly on the 2nd Monday of the month. It works closely with the RPW Business Delivery Board and RPW Business Change Board which are the boards where Risks & Issues are initially raised.

Membership

The RPW Risk Management Board consists of the following members:

- Head of Rural Payments Wales
- Head of RPW IT
- Head of Operations
- Head of Governance, Finance & People Branch
- Programme Manager

Transparency

The Risks & Issues Register will be updated throughout the course of these meetings. It will be unrestricted and will be available on iShare. A template will be available for RPW management to raise Risks/Issues at the RPW Business Delivery Board.

Confidentiality

The Chair of the Board (Head of RPW or Deputy) may at their discretion, restrict access to certain documents that are classified as 'Restricted / Official-Sensitive', which may cause a conflict of interest and/or damaging consequences if disclosed.

Escalation process

The RPW Risk Management Board may decide to escalate the Risk/Issue if they agree that there will be a wider/greater impact than what RPW can control itself. The route for escalation currently is that for Risks/Issues are brought to the SFS Delivery Board and/or the Agricultural Change Board, depending on the levels of risk thought to be attributed to the situation.

Secretariat

The Board will be supported by a Secretariat from the Rural Payments Wales Governance, Finance & People Branch by:

- Ensuring the Risk & Issues Register is up to date.
- Escalating Risk & Issues as and when requested to do so.
- Review incoming Risks & issues and present them at the RPW Business Delivery Board.

H. OVERARCHING CONTROL PLAN - RPW

The Overarching Control Plan will be the top-level strata to ensure homogenous controls when implementing the SFS from 2026 to 2030.

Implementation of the SFS will be undertaken by RPW within Welsh Government.

Scheme name: SFS

Purpose of scheme:

The SFS is the Programme for Governments commitment to 'Create a new system of farm support that will maximise the protective power of nature through farming, recognising the particular needs of family farms in Wales and acknowledging ecologically sustainable local food production'.

The ongoing sustainable production of food remains the cornerstone of the SFS. However, because of climate change, RPW are likely to experience major risks to future food production. Our natural ecosystems are the best defence we have in mitigating and adapting to the impacts of climate change.

To recognise this, along with important social and cultural aspects interlinked with farming, the Sustainable Land Management (SLM) objectives were established in the Agriculture (Wales) Act. The SLM objectives are:

- Sustainable production of food and other goods.
- Mitigating and adapting to climate change.
- Maintain and enhance the resilience of ecosystems and the benefits they provide.
- Conserve and enhance the countryside and cultural resources and promote public access to and engagement with them, and to sustain the Welsh language and promote and facilitate its use.

The SFS will help achieve these objectives and will reward farmers for actions which align with them across 3 Layers of the scheme:

- **Universal:** All applicable actions must be carried out by farmers who join the Scheme. These actions will help farms become more sustainable. They should be within reach of most farmers and can be integrated into current farming practice
- **Optional:** Actions which may be targeted to specific land or landscape feature issues which a farmer may choose to deliver. Farmers will be able to choose which actions they undertake in this Layer and receive payment for delivery (in addition to the payment for undertaking the Universal Actions).
- **Collaborative:** These actions are carried out in a coordinated way by multiple farmers or land managers, at a landscape, catchment or national scale. We want to focus collaborative actions on elements of the Scheme where they can deliver greater benefits than the sum of individual parts or where several different people are needed to achieve a specific outcome.

In addition to the SFS, the Act will support other grant funding interventions that target the supply chain to improve sustainable production of food, other goods and mitigating and adapting to climate change.

Guiding regulations:

Agriculture (Wales) Act 2023, Subsidy Control Act 2022, [powers of support order 2025] to give effect to section 10 and 12 of the Agriculture (Wales) Act 2023 will be made by 31 December 2025 to support introduction of the scheme.

Subsidy Control (Andrew to review)

All SFS interventions will be notified under the subsidy control regulations. We will follow SCR reporting requirement.

Administrative checks:

General principles

Administrative checks should be made in such a way as to ensure effective verification of the correctness and completeness of the information provided in the application for funding, payment claims or other declaration. Checks should verify the compliance with eligibility conditions and the terms under which support is granted.

The methodology used for carrying out administrative checks should be set out in the procedures and desk instructions for each level of the Scheme. These should identify which points are checked and the level of checks required for different parts of the procedure along the end-to-end process.

For each Scheme level RPW will establish a control system that ensures all necessary checks are carried out for effective verification of compliance and appropriate use of public funds.

We will ensure the results of the administrative and on-the-spot checks are assessed to establish whether any problems could in general entail a risk for other similar operations, customers or other bodies. The assessment will also identify the causes of such situations, any further examination which may be required and the necessary corrective and preventive action.

An application for funding or payment claim shall be rejected if the customer or his/her representative prevents checks from being carried out, except in cases of exceptional circumstances. Any amount already paid for that operation shall be recovered.

Reductions or exclusions in the SFS shall be without prejudice to additional penalties pursuant to other provisions of national law.

Indications of non-compliance resulting from cross-checks shall be followed-up by any other appropriate administrative procedure, and where necessary, by an on-the-spot check.

Cross checks

Cross checks shall cover all elements that are possible and appropriate to control by means of administrative checks. They shall ensure that:

- The eligibility criteria, actions and other obligations for the Scheme or support measure are fulfilled.
- There is no double financing through legacy EC or other national schemes.
- The application or the payment claim is complete and submitted within the relevant time-limit and, where applicable, that supporting documents have been submitted and prove eligibility or compliance.
- There is compliance with long-term commitments, where appropriate.

Cross checks shall at least be carried out between the agricultural parcels as declared in the single application and/or payment claim and the relevant information contained in the Land Parcel Identification System (LPIS) per reference parcel. Where the integrated system provides for geo-spatial application forms, the cross-checks shall be carried spatially against the digitised area declared with the LPIS. Our process will be:

- Established business rules in CAPIT to ensure compliance and eligibility.
- Remote Sensing.
- Management checks conducted at all management levels.

Indications of non-compliance resulting from cross-checks shall be followed-up by any other appropriate administrative procedure, and where necessary, by an on-the-spot check. Rural Inspectorate Wales (RIW) will conduct a rapid field visit.

Scheme payment rates

A document explaining the methodology in calculating Scheme payment rates will be available and retained for each Scheme, using the Reasonableness of Cost and Value for Money (VFM) principles.

Applications for funding

Our appraisal processes will:

- Include written procedures for the submission of applications for funding that ensures that a unique identification system applies to all applications for support submitted by the same customer, including the date received.
- Ensure final customers (i.e. last customer in receipt of grant funding) are identified by a single Customer Reference Number (CRN).
- Allow applications to be totally or partially withdrawn at any time when RPW are notified by writing, provided the customer has not been informed of irregularities or an OTSC.
- Record and retain all applications and related documentation including date of receipt as well as the date of any amendments/ withdrawals.
- Where relevant ensure a clearly defined selection and scoring criteria is recorded and retained.
- Ensure that on successful completion of eligibility checks an offer containing Scheme conditions and grant rates will be sent to the customer.
- Retain evidence that the customer has accepted grant offer conditions.
- Check each application (and retain a record of those checks, the identity of the official, and the date completed) to ensure:
    - The eligibility of the customer.
    - The eligibility of the operation.
    - Compliance with the Scheme selection criteria.
    - Compliance with procurement rules.
    - Compliance with Subsidy Control rules.

- Compliance with Regulatory Baseline.
- Reasonableness of the costs submitted by using reference costs, comparison to different offers or an evaluation committee.
- The reliability of the customer, in particular concerning any previous co-financed operations.
- No double funding has been applied.
- The aid application or the payment claim is complete and submitted within the relevant time-limit and, where applicable, that supporting documents have been submitted.
- There is compliance with long-term commitments, where appropriate.

Reasonableness of Costs

- Ensure there are adequate systems to assess the reasonableness of costs. Grants awards should ensure the cost-effective and value-for money principles. These should in particular, address the avoidance of over-specifications.
- There are several methods to assess that prices are reasonable and competitive. Comparison of different offers, expert(s) opinion or reference price lists. Whatever method, or combination of them, is used, it should give sound assurance RPW are able to assess that the prices are market based.
- Where changes are introduced in the project during the implementation, the impact on the costs should be reassessed during the phase of the payment claim.

Payment claims

Our payment processes will:

- Have a defined set of verifiable indicators for each Scheme.
- Ensure the customer submits a payment claim or activity completion confirmation for all Schemes.
- Allow claims for payment to be totally or partially withdrawn provided the customer has not been informed of irregularities or on-the spot checks.
- Include procedures that ensure a unique identification system applies to all claims submitted by the same customer, including the date received.
- Record and retain all payment claims and related documentation including date of receipt as well as the date of any amendments/withdrawals.
- Ensure no payment is made to customers where it is established artificially conditions were created to obtain such payment.
- Administrative checks shall include, and where appropriate for the claim in question, verification that:
    - The completed operation compared with the operation for which the application for support was submitted and granted.
    - The costs incurred and the payments made.
    - Expenditure relates to the eligible period and has been paid.
    - Expenditure relates to an approved operation.
    - Payment is compliant with the Scheme Rules.
    - Receive, check and complete a reconciliation of all invoices and documents proving payment (e.g. bank statements).
    - For simplified cost options: that conditions for payments defined in the grant award have been fulfilled.
- Maintain evidence of the check undertaken including by who and when they were completed.
- Ensure an in-situ check is undertaken before the final payment for an operation. In situ checks per Scheme shall be decided on ex ante because of risk considering the likelihood of non-compliance and value of funding and can include a remote assessment of evidence provide such as geo-tagged photos, or on-site visits.
- Ensure RPW have provisions to recover any undue payments if on-the-spot-checks cannot be completed prior to payment or if customers are demonstrating unacceptable behaviour.
- Check compliance with long-term commitments, where applicable.

Regulatory baseline

Our controls will ensure that:

- The regulatory baseline be defined in Scheme Rules and a set of verifiable standards be made available for all regulatory baseline requirements.
- We will supply customers, where appropriate, via electronic means lists of SMR and GAEC applicable to the Regulatory Baseline of the Scheme.
- Where a customer does not meet the verifiable standards, an appropriate sanction shall be imposed on that customer defined by intent, severity, extent, and permanence.

- The appropriate sanction shall only apply where the non-compliance is the result of an act or omission directly attributable to the customer concerned; and where one, or both, of the following additional conditions are met:
  - The non-compliance is related to the agricultural activity of the customer.
  - The area of the holding of the customer is concerned.
- We will make use of the existing administrative and control systems to ensure compliance with the Regulatory Baseline rules and use on-the-spot checks to verify whether a customer complies with legal obligations.

On-the-spot checks

Our Inspection processes will:

- Ensure the inspectors undertaking the on-the-spot checks have not been involved in the administrative checks of the operation.
- Ensure RPW draw a representative inspection sample from the entire population of customers aiming for:
  - A 20% to 25% random part to obtain a representative error rate.
  - 75% to 80% risk-based part, which shall target the areas where the risk of errors is the highest.
- Ensure that all selection criteria for both Risk and Random are fully defined and documented, including:
  - Analysis method
  - Scoring system
  - Retaining all documentation used for inspection Risk and Random selection.
- Ensure that on-the-spot checks cover all the customers commitments which can be checked at the time of the visit.
- Produce a report detailing on-the-spot checks including evidence of the checks undertaken including by who and when they were completed.
- Giving the customer the opportunity to sign the report to attest the customers' presence at the check and add observations.
- An annual analysis of the results of controls will be undertaken, and adjustments in control rates may be made where appropriate.

For Area based only, our inspection processes will:

- Carry out on-the-spot checks of eligible payment claims (following administrative checks) during the calendar year for a representative sample of customers for each Scheme.
- Limit announcement of on-the-spot checks to the minimum time necessary, less than 48 hours in most cases, and never more than 14 days.
- Have a set of instructions that clearly define control arrangements that give a reasonable assurance that eligibility criteria, verifiable indicators and other actions are respected.
- Spread on-the-spot checks over the year based on an analysis of the risks presented by different actions.
- Ensure that the on-the-spot checks cover all agricultural parcels and non-agricultural land for which support is claimed. Consider sampling and extrapolation where a defined level of error is found.
- Determine areas and remote sensing in accordance with established Welsh Government practice.

Ex post checks, our inspection processes will:

- The ex-post checks should cover in each calendar year at least 1% of SFS expenditure for investment operations that are still subject to durability commitment and for which the final payment has been made.
- Ensure at least 30% and no more than 40% of expenditure is selected randomly. The remainder will be selected considering the need to check a mix of types and sizes of operations, and any risks identified following previous checks.

Reductions, withdrawals and penalties

General principle

SFS will have a proportionate sanction regime set out in published verifiable standards and penalty matrix, to disincentivise over declarations and failure to meet Scheme requirements.

The sanction regime will include non-financial sanctions, e.g. warning letters and/or training events to improve customer compliance and reduce future irregularity

For Area based only, our reductions and exclusions

Ensure that late claim submission penalties are applied at 1% per working day following the submission deadline. If claims are submitted more than 25 working days late no payment will be made. This needs to align with BPS until 2029.

All area-based Schemes will have over and under declaration penalties and the Scheme thresholds will be published in Schemes guidance.

Ensure that where a non-compliance with Scheme action (e.g. habitat maintenance/woodland management) is found the reduction or exclusion will be calculated upon the basis of the severity, extent and permanence of the non-compliance. In some circumstances, and where applicable, the reduction or exclusion may apply to amounts already paid in previous years.

Ensure that where more than one reduction is applicable, they are applied in the following order: Over-declaration penalty, animal declaration penalties, breach of Scheme eligibility penalties, late submission penalties, under-declaration penalty, cross compliance penalties.

For Non-Area only, over- declaration of the expenditure.

Payments shall be calculated based on amounts found to be eligible during the administrative checks.

Welsh Government shall examine the payment claim received from the customer and establish the amounts that are eligible for support. They shall establish the amount that will be payable to the customer:

- Based on the payment claim and the grant decision.
- After an examination of the eligibility of the expenditure in the payment claim.

If the amount established in point (a) exceeds the amount established in point (b) by more than 10 %, an administrative penalty shall be applied to the amount established in (b). The amount of the penalty shall be the difference between those two amounts but shall not go beyond full withdrawal of the support.

However, no penalties shall be applied if the customer can demonstrate to the satisfaction of Welsh Government that he/ she is not at fault for the inclusion of the ineligible amount or if Welsh Government is otherwise satisfied that the customer concerned is not at fault.

Ensure that where a non-compliance with Scheme action (e.g. soil health planning or animal health and welfare) is found the reduction or exclusion will be calculated upon the basis of the severity, extent and permanence of the non-compliance. In some circumstances, and where applicable, the reduction or exclusion may apply to amounts already paid in previous years.

Fraud and irregularity

We will ensure that:

- A controllability and verifiability assessment is undertaken for each Layer of the Scheme.
- A fraud and irregularity risk assessment is conducted of each Layer of the Scheme and a fraud prevention and detection plan is appropriately implemented.
- There is effective prevention against fraud, especially in areas with a higher level of risk, and which will act as a deterrent, having regard to the costs and benefits as well as the proportionality of the measures.
- All staff are adequately trained in Fraud Awareness.

Debt process

Our recovery processes will:

- Ensure recovery of the debt greater than £100 is requested from the customer and recover undue payments from the customer.
- Where a debt remains outstanding, it will be automatically recovered from the customer from any future payments made under the powers of support order.
- Debts of £100 or lower will not be requested from the customer (written off).
- Ensure that where the nonfactual errors are made by Welsh Government and the customer could not reasonably have detected it, RPW will not recover the debt.

Budget management:

Each Scheme should have a budget split by window and year signed off at Ministerial level.

Each Scheme will have monthly reports on the budget progress showing commitments and spend to date, and claim forecast for spend for the Scheme period, split by financial year.

Information security arrangements:

We will follow Welsh Governments Protecting and Managing Information policies, including Data Protection as defined in General Data Protection Regulations (GDPR)

We will follow Welsh Governments ICT Security policies, including Cyber Security.

Human resource standard

Our Human Resources standards will ensure:

- The organisational structure has sufficient capacity and capability to perform the duties required to fulfil the operations outlined and for the volume of schemes and customers to be supported.
- The structure supports the correct separation of duties. This means that no official can cover more than one of the responsibilities of authorising, paying, on-the-spot check or accounting of funds.
- No official performs one of those tasks without the work coming under the supervision of a second official by:
    - Ensuring all approval, assessment and authorisation of Applications, Project Amendments and Payments require a Supervisory Check.
    - Ensure Management checks at all levels.
- Staff training is appropriate at all levels of operation, and there is a policy of rotating staff in sensitive positions, or alternatively for increased supervision. Training records will be maintained:
- Ensure that appropriate measures are taken to avoid a conflict of interests where a person occupying a position of responsibility or a sensitive position with regard to the verification, authorisation, payment and accounting of claims also fulfils other functions outside Welsh Government. Staff will sign an annual declaration of interest form.
- There shall be evidence of review of the work of all staff by a senior staff member.

Delivery partners

A report in respect of the options chosen for the control of the cross-compliance requirements and the competent control bodies responsible for the checks of the cross-compliance requirements and standards. Subsequent modifications concerning information provided in that report shall be notified without delay;

Reporting arrangements:

Our arrangements will support:

- Welsh Government reporting against the legal duties outlined in the Agriculture (Wales) Act or to other legal institutions e.g. WTO
- Each Layer of the Scheme and ensure sufficient data is captured to enable annual reporting detailing:
    - Data relating to individual customers in terms of applications and payment claims, areas and animals declared and/or claimed, results of administrative, on-the-spot checks and ex-post checks;
    - Where applicable, the results of the checks relating regulatory baseline including the relevant reductions and exclusions.
    - Scheme reporting and control evaluations.
- Publication of customer details as required under the Subsidy Control Act
- RPW evidence for the annual assurance of Welsh Government accounts and any subsequent audits

I. CHANGE MANAGEMENT FRAMEWORK - RPW

Introduction

The SFS aims to contribute towards multiple Welsh Government policy objectives within the Sustainable Land Management (SLM) Framework set out in The Agriculture (Wales) Act 2023.

Extensive policy collaboration has been ongoing over many years, together with significant co-design with the farming industry and key external stakeholders, to agree the overarching SFS proposals for go-live in 2026.

All parties involved in Scheme design understand the significant industry change required to deliver the SFS's objectives and recognise that the SFS will need to flex and change as participation increases and Welsh Government start to monitor and evaluate the outputs, outcomes and impacts of the Universal, Optional and Collaborative Layers of the SFS.

Change control process

Change is an inevitable part of any programme or business process. Policy makers, stakeholders, SFS participants and delivery partners regularly suggest or request changes certain aspects of the Scheme or its supporting processes. Satisfying these requests consistently can be a challenge.

The planned change control process for the SFS covers the steps involved in handling Scheme change requests arising from either internal and/or external parties.

Change requests can be multiple, as different processes, procedures or legislation can change (or need to change) in the same period. It will, therefore, be necessary to have a change control process in place to manage all change requests that follow Ministerial approval of the SFS (expected in Summer 2025).

RPW's change control process defines the process and procedures that will enable resolution of all the SFS change requests. Instances where change requests should be initiated are as follows:

- When the 'eligibility requirement' for SFS needs to change (to meet changing Ministerial, Policy or Stakeholder needs);
- When the Scheme management requirements on participants need to change due to changes in priorities e.g. environmental, social or business factors;
- When an existing process exceeds acceptable processing time (whether that is automated or manual interventions) or prohibits participants from meeting Scheme Rules and requirements; and
- When Welsh Government and/or delivery partners implement an innovative or modern technology solution e.g. mobile app.

Definitions

The planned change control process recognises the concepts of external and internal change drivers (see Figure 13) and four change categories (see Figure 14). These concepts are fundamental for effective change management.

Figure 22: Drivers of change:

Drivers	Definition
External	Changes to SFS policies or processes instigated from outside of Welsh Government. Such changes will generally be major in nature and may be driven by political imperatives, review of monitoring and evaluation evidence or following stakeholder engagement.
Internal	Changes to SFS processes instigated from within Welsh Government, including NRW. Such changes should be standard in nature and occur to improve operational efficiency, to resolve unforeseen policy consequences or to solve in-year Scheme issues. These changes also cover any IT issues identified in the live environment.

Figure 23: Types of change:

Categories	Definition
Standard	These are the most basic level of changes and do not carry much risk. These changes can happen daily and are instigated from individual participants Scheme applications (i.e. case reviews). Alternatively, they could be simple, minor policy modifications (e.g. a change to a payment rate, or new items available for support) which will not require a complete re-adjustment of the process that already exists.
Normal	These changes usually impact internal processes or systems, changing the way the SFS is administered. As such, fundamental changes to Scheme Rules are not necessary and in year changes can be managed without impact on the participant. However, it should be noted that any changes to participant facing systems, in year, will still need careful consideration and if, appropriate, publicity to ensure that participants are not adversely affected.

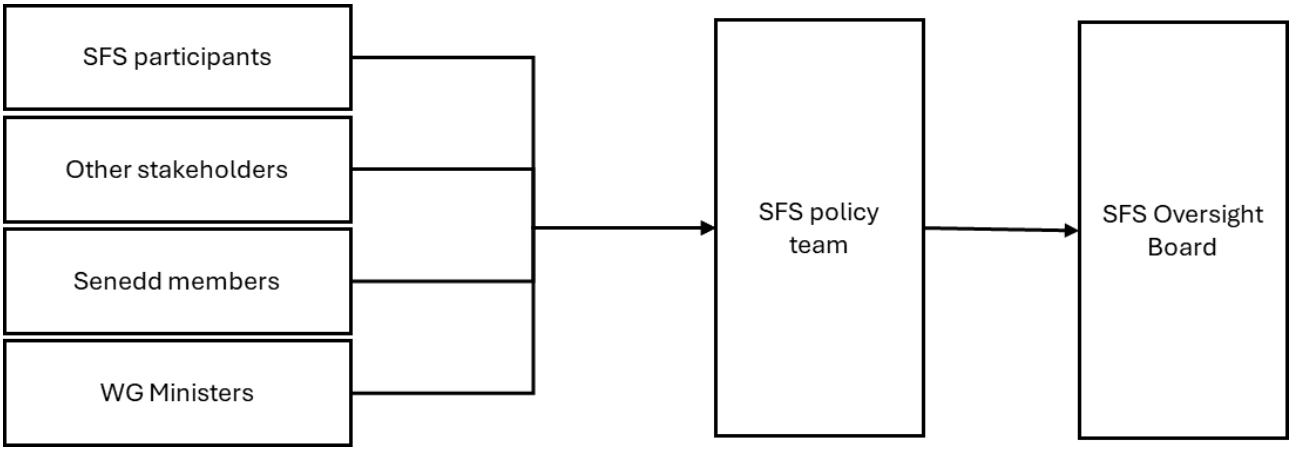
Categories	Definition
Major	These changes fundamentally impact the SFS itself and will require changes to Scheme Rules and amending participants obligations under the Scheme. Consequently, such changes need careful planning as retrospective/in year changes are unlikely to be wholly successful.
Emergency	These changes are the requests that are taken up when the change must be immediate. They will always be higher priority than any other change requests. They could be linked to fixing IT system issues that are a threat to the security of data. An emergency change can also be implemented when any issue is causing a complete disruption of the business operations.

External change

The SFS is designed to operate within an overarching framework which consists of the Universal, Optional and Collaborative Layers. Participants and their representatives (e.g. Farming Unions, other key Stakeholders, even Senedd Members or Ministers) may suggest changes to any Layer of the SFS once final Scheme details are published (Summer 2025) or after go-live in 2026.

Any proposed external change needs to be co-ordinated and considered by Welsh Government policy officials in the first instance before being presented to the SFS Oversight Board, where members should be briefed on the proposed changes, together with policy impact assessments as appropriate (see Figure 15).

Figure 24:Co-ordination and consideration of proposed changes from external drivers



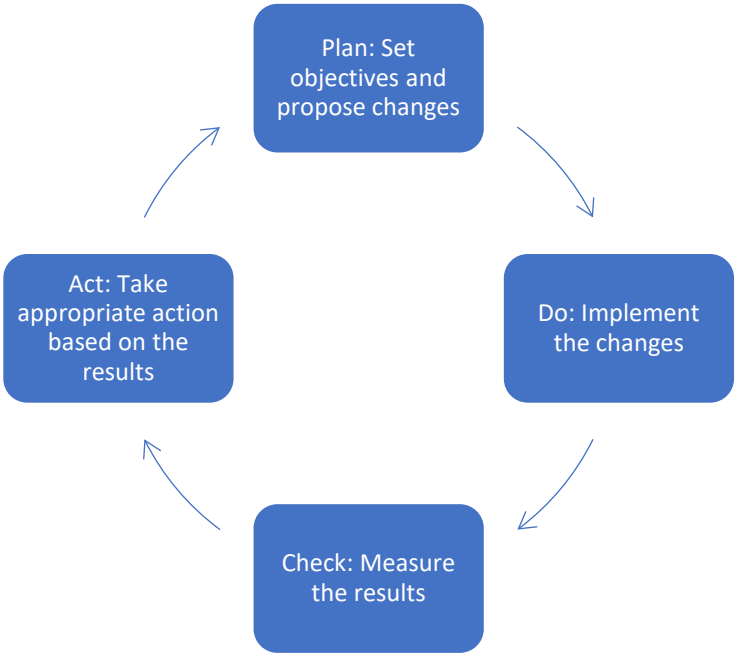
It is envisaged that only 'Normal' or 'Major Changes' will be considered and endorsed by the SFS Oversight Board before being referred to RPW and the SFS Implementation and Delivery Board for consideration as part of the internal change control process.

Internal change

RPW operates an annual continuous improvement regime, where it will gather and evaluate feedback from participants, stakeholders, delivery partners and policy teams before considering change proposals to implement each year. Continuous improvement is managed on a simple Plan-Do-Check-Act (PDCA) cycle (see Figure 16

RPW's Business Delivery Board has already been established as a formal governance arrangement for post go-live monitoring of both system performance and SFS delivery. RPW can, therefore, cover 'Standard' and 'Emergency' change proposals on an 'ad-hoc' basis as part of its continuous improvement cycle and existing governance arrangements in place.

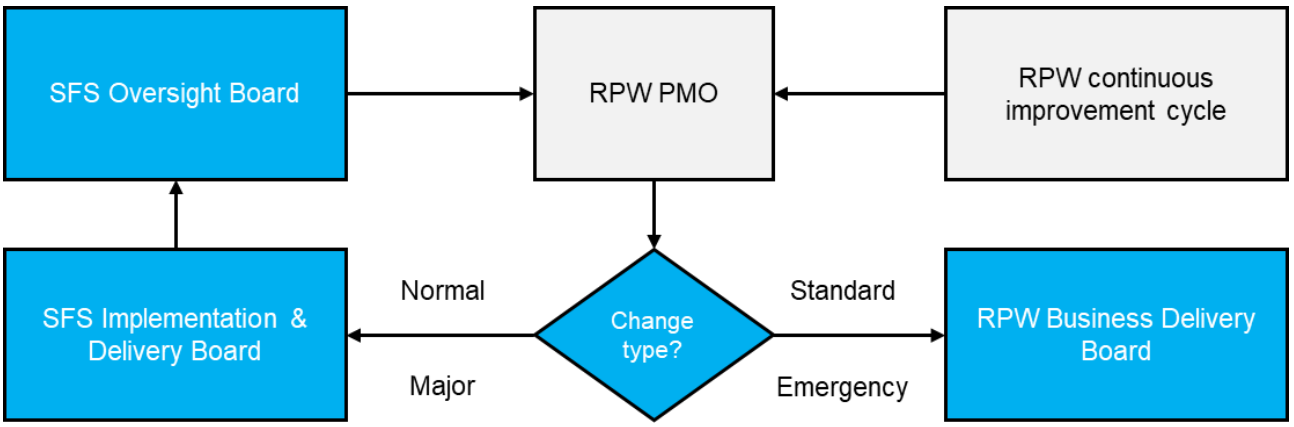
Figure 25:RPW continuous improvement cycle



Change control process

Change requests will be managed by RPW's Programme Management Office (PMO), who will work with RPW's Operations Branch to consider and determine the appropriate referral route (see Figure 17). All decisions will be logged and documentation retained for future reference and scrutiny if needed.

Figure 26: Change request referral process



All change requests will need to be submitted using a standard template before they are considered by the relevant RPW Board.

Normal or Major change requests must be submitted to the SFS Implementation & Delivery Board for consideration before any decision is taken on whether to accept/decline or modify the request. They should be submitted in advance of the deadlines wherever possible to ensure adequate development of systems, processes and guidance within the respective calendar year and Layer of the SFS.

If change requests are submitted outside these deadlines, they must be accompanied by a completed change request risk assessment form following consultation with RPW Operations Team.

Normal or Major change requests will follow the process outlined in Figure 18.

Step 1: Change is Identified - Collect Important Documentation and Information

The primary step of a change request process will be the initiation of a change request. The request cannot be randomly made with any relevant back up documentation. There must be clear and accurate documentation and information to show the requested change is valid.

Step 2: Change is Accepted

The change proposed should be considered by SFS Policy team and formally presented and accepted by the SFS Oversight Board. This is where a change request form is used that would require the SFS Policy to fill out certain details on it to officially process the request.

Step 3: Complete Change Request Form - Understand the scope of the change

Once SFS Policy has initiated the change, RPW and delivery partners will be required to study the scope of the change that is requested. It will be important to determine the requirements within the SFS implementation and delivery model, ensure that enough data is available, and that the stakeholders and other concerned people are aware of this request.

Step 4: Change Assessed & Evaluated - Impact of the Change.

Apart from figuring out the scope of the change, it will be equally important to determine the impact this change would create on the Scheme requirements or business process. If it is a major change, it will be crucial to remember that it would affect the programmes goals and the budget, or it can have implications for the participants in the Scheme. Having these points cleared will allow the team to decide whether to recommend approval or rejection of the initiated change.

Step 5: Estimation of Inclusion Calculated

Once the impact of the request(s) is determined, it will be now easier to list down the request(s) based on their priority and costs for implementation and delivery. This should take into consideration the existing RPW IT development plans, Scheme budget and introducing the change at the right stage of the SFS annual cycle and in consideration of the Scheme Layers.

Step 6: Change Decision Made - Approve or Reject the Change Requests

Several factors must be taken into consideration before a request is approved or rejected. Some of those factors are the implementation and delivery costs, the level of budget approvals that are required depending on the scope of the change, etc. Therefore, it is appropriate that the more work required or the more the scope the more levels of approvals needed. Hence, the approval process should also have proper guidelines or framework in place.

Step 7: Approved Changes Incorporated

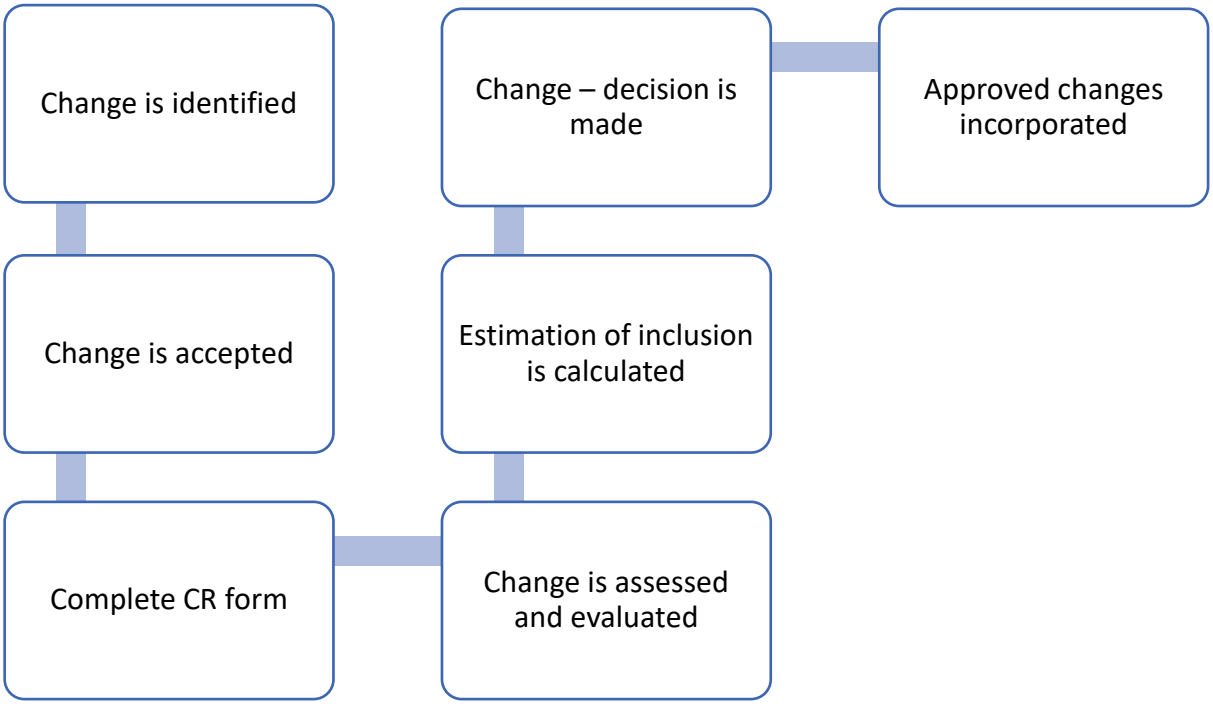
Once the approval stage has finished, an implementation plan must be generated for the approved changes. This stage will be highly crucial as it will significantly affect the Scheme and existing business processes. Hence, a strategic plan that will seamlessly allow the change to be incorporated has to be effectively communicated to all the stakeholders and concerned parties.

The impact of Normal and Major Changes must be reported back to the SFS Oversight Board for final consideration. Policy documents, including evidence supporting the rationale for any Scheme rule change, must be updated and retained by the SFS policy teams.

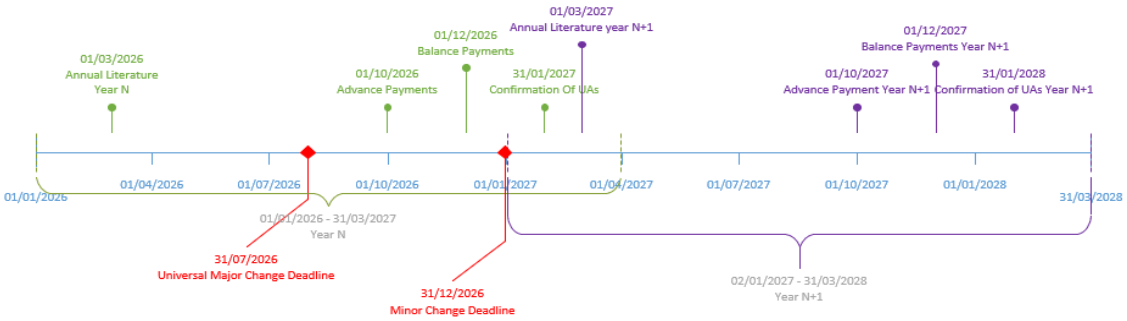
Standard or Emergency Change request (via the appropriate business delivery options form) will be submitted to the RPW Delivery Board and any decision will be taken as part of the continuous improvement cycle.

The annual reporting and wider SFS monitoring and evaluation will evaluate the effectiveness and value for money of any changes incorporated.

Figure 27: Process flow for Normal or Major changes



SFS Universal change deadlines



The Universal Layer of the SFS operates on an annual basis. Participants will consider their entry in advance of the Scheme year start date of 1st January, referencing published Scheme guidance. In addition, RPW has established IT development cycles to ensure that required participant-facing and back-end systems are in place and functioning. The timeline in Figure 19 shows the annualised change points.

Figure 28: Timeline for annual changes

Optional & Collaborative change deadlines

Support under the Optional and Collaborative Layers may be subject to an 'anytime' application process or have specified windows of opportunity for participants. Without a dedicated or structured change deadline, there is increased potential for participant confusion around SFS rules which could result in Scheme conditions not being met.

To manage this risk, SFS changes will also have to be on an annualised basis. However, as is common practice for current Schemes, standard changes which do not require a complete re-adjustment of the requirements and rules that already exist, should be able to be accommodated under the RPW continuous improvement cycle.

Unscheduled change

RPW recognise that external events can result in change requests that cannot meet the agreed change deadline. Such changes introduce risk, both internally for development cycles, and externally, for participants.

To assess the extent of the risk, and to ensure appropriate mitigating action is taken, all proposed unscheduled changes will require a detailed impact assessment using the change request risk assessment form.

This form must be completed collaboratively to ensure that the full impact and costs of change are considered and any unintended consequences mitigated.