

**EXPENDITURE REVIEW OF  
THE  
COMPENSATORY  
ALLOWANCE SCHEME**

**Department of Agriculture and Food**

**2005**



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**Glossary of Terms**

CAP	Common Agricultural Policy
CAS	Compensatory Allowance Scheme
C&AG	Comptroller and Auditor General
CPI	Consumer Price Index
CSC	Central Steering Committee
CSO	Central Statistics Office
EC	European Community
EEC	European Economic Community
EFT	Electronic Funds Transfer
EPA	Environmental Protection Agency
EU	European Union
ERS	Early Retirement Scheme
FFI	Family Farm Income
GFP	Good Farming Practice
IACS	Integrated Administration and Control System
ICMSA	Irish Creamery Milk Suppliers' Association
ICOS	Irish Co-operative Organisation Society
ICSA	Irish Cattle and Sheep Farmers' Association
IFA	Irish Farmers' Association
LFA	Less Favoured Area
LPIS	Land Parcel Identification System
LU	Livestock Unit
MAC	Management Advisory Committee
NDP	National Development Plan
NESC	National Economic and Social Council
NFS	National Farm Survey
NHFA	National Hill Farmer's Association
PED	Public Expenditure Division of the Department of Finance
RDP	Rural Development Plan
REPS	Rural Environment Protection Scheme
RSS	Rural Social Scheme
UAA	Utilised Agricultural Area
VFM	Value For Money
WTO	World Trade Organisation

## **Executive Summary**

### **Context**

The Expenditure Review Initiative (ERI) is a process of evaluation carried out by Government departments as part of their annual business planning. Review objectives are to analyse in a systematic manner what is being achieved by Government spending and to provide a basis on which more informed decisions can be made on priorities within and between spending programmes. Each Expenditure Review is undertaken by a joint steering committee representing the relevant spending Department or Office and the Department of Finance.

### **Terms of Reference**

The purpose of the Compensatory Allowance Scheme (CAS) Expenditure Review, as set out in its Terms of Reference, is to analyse systematically -

- the extent to which the scheme is achieving its objectives; and
- if so, whether this is being done in a cost-effective fashion;
- whether there is justification for continuing with the expenditure; and
- if so, to suggest improvements to the scheme.

To achieve this, the CAS Expenditure Review Committee, using the Department of Finance template, analysed the operation of the scheme, principally for 2001-2004.

### **Compensatory Allowance Scheme**

The continuation of farming in the less favoured regions of the European Economic Community (EEC) was declared a priority in the early 1970s in order to ensure continued agricultural land use, the viability of rural communities and the maintenance of the countryside. To achieve this, given that farmers in those regions earned lower farm incomes because the permanent natural handicaps affecting their holdings led to higher than normal production costs or lower than normal output or both, the EEC introduced a system of supporting the incomes of such farmers, namely the CAS.

The CAS has operated in broadly the same format since 1975 and in 2003 compensatory allowance payments were made to approximately 100,000 farmers located in the Less Favoured Areas (LFAs) of Ireland. Since its introduction, the most significant EU-wide change to the scheme has been the move from payment based on animals to an area-based system in 2001. Other noteworthy amendments to the scheme in Ireland included the introduction and subsequent removal of an off-farm income clause and a significant increase in the areas designated as Less Favoured.

### **Objectives**

Three CAS objectives are outlined in the EU Rural Development regulation of 1999. They overlap to a somewhat confusing degree and do not cover the fundamental issue of income support. As other EU Member States had re-stated those objectives to suit their own requirements, the review recommended that an income support objective be added here (since no other objective can be achieved without such) and that the three regulation-stated objectives be redefined more clearly and with less overlap as two. The re-stated objectives proposed are:

- supporting farm incomes in Less Favoured Areas,
- ensuring continued agricultural land use, thus contributing to a viable rural community, and
- maintaining and promoting sustainable farming systems which in particular take account of environmental protection requirements and preserve the countryside.

## **Methodology**

The methodology applied in this review involved the following:

- use of questionnaires;
- desk research;
- consultation with farming organisations and consideration of views put forward;
- interviews with scheme managers and administrators; and
- review by external evaluator with subsequent consideration of comments.

## **Findings**

### *Inputs*

In 2003 CAS expenditure totalled €236 million (excluding administration costs), 50% of which was funded by the European Union (EU). The scheme required the part-time involvement of 407 technical and administrative staff (equivalent to 99 full-time staff), in eight different divisions or units of, or associated with, the Department of Agriculture and Food at a yearly cost of €5.76 million.

### *Efficiency and Effectiveness*

The Steering Committee examined both the cost and quality of the service provided by the Department of Agriculture and Food in its delivery of the CAS for the period 2001 to 2004 in order to measure scheme efficiency and effectiveness.

**Efficiency:** Comparison of scheme administration costs with those found to be value for money by a Comptroller and Auditor General's study in 1998 and an absence of any audit disallowances for 2001-2004 indicate that the scheme is being operated cost-effectively and, therefore, efficiently according to the Review's Terms of Reference.

**Effectiveness 1:** Analysis of customer service issues such as fairness, courtesy, information provision, ease of application, query handling, timely payment and levels of representations, PQs, complaints and appeals found service to be of a high quality.

**Effectiveness 2:** Whether scheme objectives are being achieved was analysed also as will be seen below. The review found that they are.

### *Outputs/Impacts in relation to Achieving Objectives*

The review established in relation to the first objective above that there is a basis for supporting the incomes of farmers in Ireland's LFAs as they experience lower returns from farming due to the natural handicap difficulties they face. Having determined this, the review ascertained that CAS payments contribute 19% to farm income in LFAs.

While the extent to which these payments impacted on the remaining two objectives was more difficult to quantify, the review provided confirmation in relation to the second objective that:

- there is a positive correlation between the CAS payments and (a) continued agricultural land use (b) population maintenance in rural areas and (c) slow-down in the rate of decline in agricultural employment;
- the scheme contributes indirectly but positively to provision of infrastructure and services and to cultural and social viability in rural areas;
- accordingly, this objective of ensuring continued agricultural land use and contributing to the maintenance of a viable rural community is being met.

In relation to the third objective, the review confirmed that:

- the level of compliance by scheme applicants with Good Farming Practice was high and rising;
- the LFA animal stocking density had fallen already as a result of the CAS change to an area-based scheme;
- a third of CAS applicants are so committed to environmental protection /improvement that they are participating in REPS;
- two-thirds of the scheme applicants farm so extensively that they qualify for Extensification Premium; and
- finally, that, following a reduction in the length of polluted river channel during the first two years of the area-based CAS, further environmental improvements can be anticipated confidently in the future on a slow and steady rather than swift and sweeping basis (environmental damage suffered over many years not being susceptible to reversal in a few).

The scheme, therefore, is also achieving this objective of sustainable farming.

### **Recommendations**

Having established that the Department is administering the scheme efficiently and effectively already and that it is achieving its objectives, the review feels that continued expenditure of public monies on the scheme as currently resourced is warranted. Nevertheless, the review made the following recommendations in order to improve the scheme delivery even further:

- 1. Scheme Objectives:** *To be re-stated as shown above (P25).*
- 2. Supporting Farmers' Incomes:** *Department to consider whether and, if so, how CAS payments should be redistributed amongst applicants to best meet the scheme objectives (P45).*
- 3. Viable Rural Communities:** *Department to consult with other departments/bodies to enable performance indicators relating to provision of infrastructure and services and cultural and social viability in rural areas to be drawn up (P55).*
- 4. Environmental Protection:** *Department to consult with other departments/bodies to enable performance indicators relating to environmental issues not covered by those proposed in Chapter 7 to be drawn up (P63).*
- 5. Administration:** *Scheme information to be provided better by way of elimination of unnecessary repetition and separate colour-coding for each scheme in Helpsheet (P72).*
- 6. Administration:** *Greater uptake of payment by Electronic Funds Transfer to be encouraged via an imaginatively marketed new Department campaign (P73).*
- 7. Administration:** *Scheme administration to be improved by the location of key divisions in one place (P74).*
- 8. Compensatory Allowance Schemes in Other EU Member States:** *To be reviewed by the Department during periods such as that leading up to the mid-term review of Ireland's CAP Rural Development Plan 2007-2013 so that best practice elsewhere can be adapted in a distinctively Irish way to meet distinctive Irish needs (P81).*
- 9. Performance Indicators:** *To be continued or added to in order to measure better how the CAS is meeting its objectives and to be reviewed annually in light of experience, of scheme changes and of external changes impacting on the scheme (P86).*

## Chapter 1

### Introduction to the Review

#### **1.1 Introduction**

We set out the background to the Expenditure Review process here, following which we introduce the review team and list the Terms of Reference for the Compensatory Allowance Scheme Expenditure Review, as agreed by the review Steering Committee. Finally, the chapter also includes a brief outline of the structure and methodology of this particular review.

#### **1.2 Background to the Expenditure Review Process**

The Comptroller and Auditor General (Amendment) Act 1993, the Strategic Management Initiative and the Public Service Management Act 1997 emphasised the need for increased efficiency and effectiveness in the use of public resources and thus set the background for the Expenditure Review process. In addition, the Co-ordinating Group of Secretaries, established under the Strategic Management Initiative, recognised in their report<sup>1</sup> a “*need for a systematic analysis of what is actually being achieved by the £12 billion in Government resources spent annually.*” in order to “*provide for a schedule of reviews of expenditure...with the aim of ensuring that each programme of expenditure is subject to a thorough review at least once every three years.*” and to “*report on results achieved against operating plans and the lessons to be drawn for the future.*”

In May 1997 the Department of Finance established the Expenditure Review Initiative in order to increase the efficiency and effectiveness of all Government expenditure. This was to be achieved by carrying out an analysis of what each specific programme actually achieved and by using the results of that analysis to ensure better decisions were made in future regarding the spending of public monies. As indicated in a recent NESR Report<sup>2</sup>, this moved public sector management away from the traditional focus on inputs to an emphasis on outputs and the achievement of results.

Under this Initiative, the Department of Agriculture and Food is carrying out Expenditure Reviews on its major spending programmes. Their aim is (i) to assess the objectives, efficiency and effectiveness of the programmes and to identify ways to improve their delivery (ii) to identify indicators which will improve monitoring of the performance of the programmes and of their success in meeting their objectives.

As €235 million approximately was spent under the Compensatory Allowance scheme in 2004, representing 8.6% of overall Department expenditure and 14.3% of direct payments to farmers in that year, an expenditure review of the scheme certainly seems justified.

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<sup>1</sup> Government of Ireland (1996). “*Delivering Better Government - A Programme of Change for the Irish Civil Service*”. Stationery Office, Dublin.

<sup>2</sup> National Economic and Social Council (2002). “*Report No. 109, Achieving Quality Outcomes: The Management of Public Expenditure*”. Stationery Office, Dublin.

### 1.3 Review Team

Reviews are usually undertaken by spending Departments or Offices under the aegis in each case of a joint steering committee representing the relevant Department/Office and the Department of Finance.

The process is overseen by the Central Steering Committee (CSC) on Programme Evaluation, chaired by the Secretary General of the Department of Finance. The Expenditure Review Initiative is overseen also within the Department of Agriculture and Food by a Management Committee (MAC) subgroup, chaired at Assistant Secretary level.

For this review, a Steering Committee comprising the following representatives from the relevant executive and policy divisions of the Department of Agriculture and Food (DAF) and the Public Expenditure Division (PED) of the Department of Finance was established:

Malachy Breslin, Higher Executive Officer, Headage/Disadvantaged Areas Division, DAF;  
Gordon Conroy (author of review), Assistant Principal, Economics and Planning Division, DAF;  
Mick Cronin, Principal Officer, CAP Rural Development Division, DAF;  
Brendan Ellison, Assistant Principal, PED, Department of Finance who was replaced subsequently by Terry Jennings, Assistant Principal, PED, Department of Finance;  
Pat Lynch (chair), Principal Officer, Headage/Disadvantaged Areas Division, DAF;  
Helen Murphy, Agricultural Inspector, Economics and Planning Division, DAF;  
Joe Noonan, Agricultural Inspector, Integrated Controls, DAF; and  
John Roughneen, Assistant Principal, Headage/Disadvantaged Areas Division, DAF.

The Steering Committee held its first meeting in August 2004. Following that meeting, Terms of Reference for the review were prepared in consultation with the PED of the Department of Finance, submitted for consideration by both the Secretary General of the Department of Agriculture and Food and the Assistant Secretary General of the PED in the Department of Finance, agreed and forwarded then to the Secretary of the CSC on Programme Evaluation. Further meetings of, and discussions between, the Steering Committee were held up to December 2005 to provide both specific input and general direction to the review and to sign it off.

### 1.4 Terms of Reference

The Terms of Reference agreed (each followed here by chapter and pages in which that Term of Reference is addressed) were as follows:

#### **1. Identifying the objectives of the Compensatory Allowance Scheme.**

Per Article 13 (a) of Council Regulation (EC) No 1257/1999<sup>3</sup> the objectives of the Compensatory Allowance Scheme are:

- “- to ensure continued agricultural land use and thereby contribute to the maintenance of a viable rural community,
- to maintain countryside,

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<sup>3</sup> Council Regulation (EC) No 1257/1999 on support for rural development from the Agriculture Guidance and Guarantee Fund (EAGGF) and amending and repealing certain regulations. This regulation is commonly referred to as the Rural Development regulation.

- to maintain and promote sustainable farming systems which in particular take account of environmental protection requirements.”.

(Ch 3, Ps23-25)

## **2. Examining the current validity of these objectives and their compatibility with the overall strategy of the Department of Agriculture and Food.**

These objectives will be examined in order to measure their current validity and compatibility with the Department’s Statement of Strategy 2005-2007<sup>4</sup>, Ireland’s CAP Rural Development<sup>5</sup> and National Development Plans<sup>6</sup> 2000-2006 and the EU Commission’s proposals for a new Rural Development framework<sup>7</sup> from 2007 on.

(Ch 3, Ps26-29 )

## **3. Defining the outputs accruing from the scheme and identifying the level and trend of those outputs.**

The outputs arising will be defined and their level and trend identified and measured.

(Mainly Ch 2, P19; Ch 5, Ps35-45; Ch 8, Ps70-73)

## **4. Examining the extent to which, and the effectiveness with which, these objectives have been achieved.**

The contribution of the Compensatory Allowance Scheme towards achievement of each of the scheme objectives will be examined and assessed for effectiveness.

(Chs 5 to 7, Ps35-63)

## **5. Identifying the level and trend of scheme costs and staffing resources and thus commenting on the efficiency with which the scheme has achieved its objectives.**

For the period since 2001, when an area-based scheme replaced an animal-based scheme, costs incurred (including administration, salary, travel and overtime costs) will be identified so that the efficiency with which the scheme achieved its objectives can be determined.

(Ch 8, Ps64-74)

## **6. Evaluating the degree to which the objectives warrant the allocation of public funding (EU and National) on a current and ongoing basis, having due regard to available budgetary resources, and examining the scope for alternative policy or organisational approaches to achieving these objectives on a more efficient and/or effective basis.**

The extent to which the scheme warrants the continued allocation of public funds and possible alternative approaches for achieving the scheme objectives on a more efficient and/or effective basis will be evaluated. In the course of this evaluation, account will be taken of previous reviews or evaluations of the scheme, of other schemes with similar objectives, of how the Compensatory Allowance schemes

<sup>4</sup> Department of Agriculture and Food (2005). “Statement of Strategy 2005-2007”. Department of Agriculture and Food. Available at <http://www.agriculture.gov.ie>.

<sup>5</sup> Department of Agriculture, Food and Rural Development (2000). “CAP Rural Development Plan 2000-2006”. Stationery Office, Dublin.

<sup>6</sup> Department of Finance (2000). “Ireland’s National Development Plan 2000-2006”. Stationery Office, Dublin.

<sup>7</sup> Proposal for a Council Regulation on support to Rural Development by the European Agricultural Fund for Rural Development. Available at [http://europa.eu.int/comm/environment/forests/pdf/050223\\_pres\\_dg\\_agri.pdf](http://europa.eu.int/comm/environment/forests/pdf/050223_pres_dg_agri.pdf).

operate in other Member States and of the EU Commission proposals for a new Rural Development framework for the period 2007-2013.

*(Ch 4, Ps30-34, on schemes with similar or possibly conflicting objectives; Ch 5, Ps44-45, on possible different payment options; Ch 9, Ps75-81, on how scheme operates in other MSs; Appendix 1, Ps93-98, on previous evaluations)*

### **7. Specifying potential future performance indicators that might be used to better monitor the performance of the scheme.**

Suitable performance indicators will be identified, thus allowing the performance of the scheme in achieving its objectives to be monitored better in future.

*(Ch 10, Ps82-86)*

## **1.5 Review Structure**

### Executive Summary

#### Chapter 1. Introduction to the Review

Introduces review background, team, terms of reference, structure and methodology applied.

#### Chapter 2. The Compensatory Allowance Scheme

Outlines the EU background and operation of the scheme since its inception, how the scheme works in Ireland and the possible impact of a new Draft EU Regulation.

#### Chapter 3. Scheme Objectives

Examines scheme objectives and how they might be re-articulated and assesses the extent to which they are compatible with current national and EU policy.

#### Chapter 4. Other Schemes with Similar or Possibly Conflicting Objectives

Considers other schemes which seem to overlap or conflict with the CAS.

#### Chapter 5. Supporting Farmers' Incomes

Examines the extent to which the CAS supports, and should continue to support, the income of participating farmers in order to achieve the scheme's stated objectives.

#### Chapter 6. Ensuring Continued Agricultural Land Use and thereby Contributing to the Maintenance of a Viable Rural Community

Examines the extent to which the scheme contributes to ensuring continued agricultural land use and thereby to maintaining a viable rural community.

#### Chapter 7. Maintaining and Promoting Sustainable Farming Systems which in particular take account of Environmental Protection Requirements and Preserve the Countryside

Considers the degree to which the CAS contributes to maintaining sustainable farming systems which impact positively on the environment and preserve the countryside.

#### Chapter 8. Administration and Delivery of the Compensatory Allowance Scheme

Assesses the efficiency and effectiveness with which the scheme is delivered. Briefly outlines administration procedures and appraises both the cost of, and quality of service provided by, those procedures.

#### Chapter 9. Operation and Objectives of the Compensatory Allowance Scheme in Other EU Member States

Outlines key features of the scheme as it operates in some other EU Member States and compares these with Ireland's CAS.

## Chapter 10. Development of Existing and New Compensatory Allowance Scheme Performance Indicators

Proposes continuation of the existing, and addition of some new, performance indicators to measure better the extent to which (i) the scheme meets its objectives and (ii) the Department provides value for money in operating it.

## Chapter 11. Key Findings and Recommendations

Outlines the review findings and its recommendations on increasing the efficiency and effectiveness with which the scheme is being operated.

Appendices 1 to 5 as detailed in 1.6 following

### **1.6 Methodology**

The methodology followed in the review is similar to that proposed in the template Terms of Reference, as issued by the Department of Finance's Expenditure Review Central Steering Committee. The review team drafted its Terms of Reference in accordance with this template so that the issues highlighted would be analysed.

In order to answer the questions raised in the Terms of Reference, the review made use of the following primary and secondary data:

#### Questionnaire to heads of the relevant units or divisions/Staff costing

The questionnaire at Appendix 3, Ps102-103, was circulated to heads of units or divisions. Their replies enabled the administration costs of delivering the scheme to be calculated, using the methodology, and yielding the result, set out at Appendix 4, P104.

#### Integrated Administration and Control System (IACS) Data<sup>8</sup>

This included data such as numbers of applicants and amounts paid, data in relation to scheme inspections and relevant data pertaining to other schemes.

#### The National Farm Survey<sup>9</sup> (NFS)

The 2003 NFS included information on costs, revenues, total farm income and the total area farmed. The data was broken down into various categories, including a differentiation between farmers in receipt, and not in receipt, of scheme payments (see Appendix 5, P105, on this review's use of the NFS in calculating farmers' incomes).

#### The Census of Population and Census of Agriculture

Both the Census of Population and the Census of Agriculture contained relevant demographic and agricultural data useful in examining the extent to which the scheme contributed to the achievement of its objectives.

#### Existing Literature

The review looked at the existing literature and other relevant material including key reports in relation to the scheme. Appendix 1, Ps93-98, sets out in particular the key findings of previous scheme evaluations.

#### Stakeholders' Views

The views of the following stakeholders, who were asked to state orally or in writing what they thought of the scheme's operation, are summarized in Appendix 2, Ps99-101:

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<sup>8</sup> This relates to the Integrated Administration and Control System figures covering all land declared by approximately 130,000 farmers as indicated on their annual Area Aid applications.

<sup>9</sup> The NFS is an annual survey based on a stratified sample of over 1,200 farms, and conducted by Teagasc. It is designed by the Central Statistics Office (CSO) and Teagasc to collect and analyse information in relation to Irish farming conditions.

The Irish Cattle and Sheep Farmers' Association (ICSA), the Irish Co-operative Organisation Society (ICOS) Ltd, the Irish Creamery Milk Suppliers' Association (ICMSA), the Irish Farmers' Association (IFA), Macra na Feirme, the National Hill Farmer's Association (NHFA) and Teagasc's Rural Economy Research Centre.

Finally, in line with the Expenditure Review process, the draft review was the subject of an independent evaluation conducted by Raymond Burke Consulting. Mr. Burke provided a timely, relevant and clear analysis of the draft and offered a wide range of helpful comments on how it could be presented more clearly and logically so as to have more impact and be understood better. The Steering Committee thanks him for these very useful comments and has made all appropriate changes in this final draft of the review.

In addition to providing valuable suggestions for amendments to the content of the draft review, Mr Burke made the following key findings concerning it:

- The Steering Committee had prepared a thorough and analytical review and evaluation of the Compensatory Allowance Scheme.
- The cost of the scheme represented almost 9% of the Department's expenditure and 14.3% of direct payments to farmers and thus deserved to be reviewed.
- The review was well structured with good and comprehensive footnotes.
- The analysis provided followed the broad and suitable Terms of Reference set.

## Chapter 2

### The Compensatory Allowance Scheme

#### 2.1 Introduction

This chapter sets out briefly the EU background to the scheme's introduction and operation to the present time. It then describes how LFAs were designated in Ireland, their location, the payment rates applicable to them, the totals and numbers of beneficiaries paid yearly in those areas and the eligibility criteria and penalties applicable to the scheme here. Finally, it addresses the changes proposed under the recent Draft EU Rural Development Regulation, the progress of negotiations thereon and the likely impact of the final outcome of those negotiations on Ireland.

#### 2.2 Background to the Compensatory Allowance Scheme

The origins of the Common Agriculture Policy (CAP) stretch back to the establishment of the European Economic Community<sup>10</sup> via the signing of the Treaty of Rome<sup>11</sup> in 1957. Part three of that Treaty outlined the EEC's policies in relation to a number of areas, with agriculture featuring prominently. Articles 38 to 47 outlined the EEC's policy in relation to agriculture, with Article 39 acknowledging that it was the Community's aim "*to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture.*" It further stated that, in establishing the CAP, account would be taken of "*...natural disparities between the various agricultural regions.*" and that the Council could authorise the granting of aid "*for the protection of enterprises handicapped by structural or natural conditions;*".

In relation to economic and social cohesion, Article 130 stated that the Community "*shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least-favoured regions, including rural areas*". Finally, the Treaty stated that the Community's policy on the environment would contribute to "*preserving, protecting and improving*" its quality.

#### 2.3 The Compensatory Allowance Scheme 1975-2005

The Treaty thus created the policy background which facilitated the introduction in 1975 of a scheme of income support for farmers in the disadvantaged regions of the EEC and its development over the three decades since then.

The CAS was introduced under EEC Council Directive 268/75<sup>12</sup>. In the preamble to the directive, the EEC expressly stated that steps should be taken to "*ensure the continued conservation of the countryside in mountain areas and in certain other less-favoured areas*". It highlighted the fact that farmers in such areas were subject to "*permanent natural handicaps*" and were prevented consequently from achieving a "*level of income similar to that enjoyed by farms of a comparable type in other regions*" and asserted

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<sup>10</sup> The term European Economic Community (EEC) was used up to 1988, from which time until 1993 the Community was referred to as the European Community (EC). From 1993 the term European Union (EU) has been used. The appropriate term is used throughout this review.

<sup>11</sup> Treaty Establishing the European Community, 25 March 1957, as amended by subsequent Treaties.

<sup>12</sup> EEC Council Directive 268/75 of 28 April 1975 on mountain and hill farming and farming in certain less-favoured areas.

that the “*decline in agricultural incomes*” compared with other regions and the “*poor working conditions*” would lead to “*land abandonment*” and would “*jeopardize the viability and continued habitation*” of the areas.

To prevent this, the Directive introduced a “*special system of aids to assist the less-favoured farming areas*” and set out its objectives in Article 1 as being “*to ensure the continuation of farming, thereby maintaining a minimum population level or conserving the countryside in certain less-favoured areas*” and “*to encourage farming and to raise farm incomes in these areas*”.

From its introduction until the move to an area-based scheme from 2001 onwards, the scheme remained largely unchanged. Arising from overproduction in the EU during the quarter-century involved, however, and the consequent negative impact on the environment, a new area-based CAS was introduced under the EU CAP Rural Development framework for 2000-2006. Article 14 of Council Regulation (EC) No 1257/99 provided that “*compensatory allowances shall be granted per hectare of areas used for agriculture to farmers*”. This new regulation led to the replacement of Ireland’s Cattle, Sheep, Goat and Equine Headage schemes and thus shifted our CAS from the traditional animal-based system to an area-based system instead.

The objectives of the CAS were restated in this new Rural Development regulation as follows:

- “- *to ensure continued agricultural land use and thereby contribute to the maintenance of a viable rural community,*
- *to maintain countryside,*
- *to maintain and promote sustainable farming systems which in particular take account of environmental protection requirements.”*

The regulation did not define supporting farm incomes as an objective. However, by providing for payment of compensatory allowances, it clearly acknowledged that the incomes of farmers in the LFAs had to be supported in order to achieve the goals set out above.

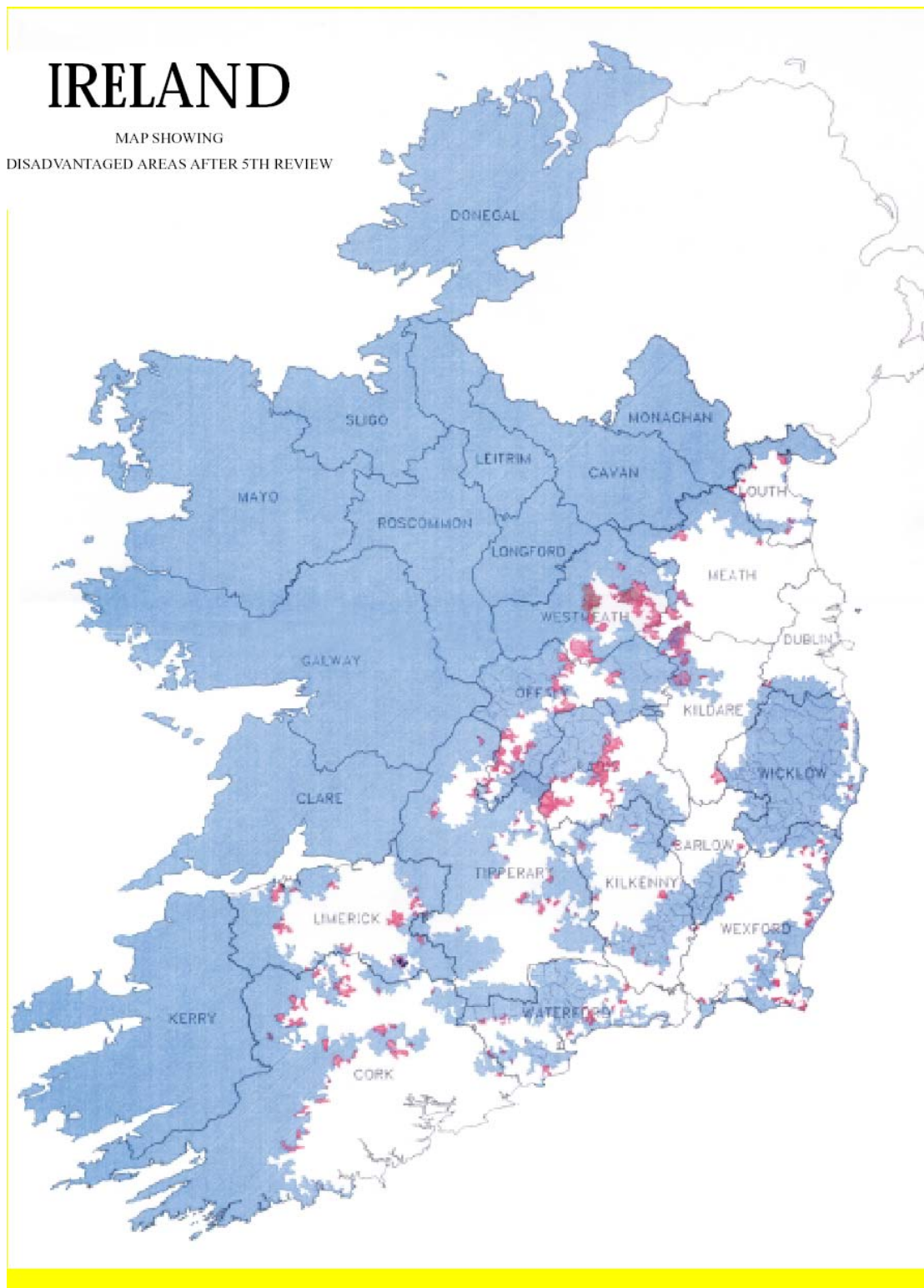
## **2.4 Less Favoured Areas in Ireland**

Article 3 of EEC Council Directive 268/75 set out the broad LFA qualifying criteria as follows:

*“..mountain areas, in which farming is necessary to protect the countryside...they shall also include other areas where the maintenance of a minimum population or the conservation of the countryside are not assured.”*

Article 2 outlined the procedure by which Member States were to seek EEC approval of areas they were proposing for LFA status.

## Map of Ireland's Less Favoured Areas



Ireland's original proposed list of disadvantaged areas was published in an annex to EEC Council Directive 272/75<sup>13</sup>.

<sup>13</sup> EEC Council Directive 75/272/EEC of 28 April 1975 concerning the Community list of less-favoured farming areas within the meaning of Directive No 75/268/EEC.

EC Council Directive 330/85<sup>14</sup> subsequently outlined detailed guidelines which Ireland interpreted in order to designate land with the following characteristics as Less Favoured:

- less than 7.8% of land ploughed;
- stocking density must be less than one adult bovine livestock unit per forage hectare;
- family farm income per male farm worker must not exceed 80% of the national average;
- population density must not be more than 27 persons per square kilometre; and
- the percentage of the total working population engaged in agriculture must be at least 30%.

On the basis of Ireland's original designation, 3.980 million hectares were deemed disadvantaged, accounting for 57.8% of Ireland's total area. Ireland added to its Less Favoured Areas in 1976, 1981, 1985, 1991 and 1996. The total area now designated as less favoured is 5.155 million hectares comprising 74.8% of Ireland's total land area<sup>15</sup>.

Within Ireland LFAs are known as disadvantaged areas and are currently classified under Council Regulation No 1257/99 as follows:

- a) mountain areas (Article 18) - none in Ireland as our mountains are too low;
- b) other areas which are in danger of abandonment and where conservation of the countryside is essential (Article 19) - see five criteria above; nearly all of Ireland's LFAs are in this category;
- c) areas affected by specific handicap (Article 20) - such as island position, excessive ambient salinity, violent wind and low soil potential; less than 1% of Ireland's LFAs is in this category.

Under category b) above Ireland's LFAs are divided into:

- about 4.075 million hectares of More Severely Handicapped Areas (i.e. land meeting the 5 criteria for designation but also with potential not exceeding 4 on a land assessment scale of 1 to 9 and with a level of agricultural income of less than 60% of the national average); and
- about 1.053 million hectares of Less Severely Handicapped Areas (i.e. land meeting the 5 criteria for designation but not the two further criteria just set out).

Under category c) above Ireland has 0.027 million hectares of Coastal Areas with Specific Handicaps which meet the criteria set out in relation to that category.

Within Ireland's More Severely and Less Severely Handicapped Areas some 1.501 million hectares of land is designated as Mountain Type Grazings because it is of poor quality (normally a gley type or peat with impeded drainage and a low pH, totally unsuitable for any type of arable production) growing inferior type vegetation such as heathers, sedges, bracken, mosses etc - although these Mountain Type Grazings are normally found in elevated areas, some are found in lowland bogs also because their soils fit this description precisely.

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<sup>14</sup> Council Directive of 27 June 1985 concerning the Community list of less-favoured farming areas within the meaning of Directive No 75/268/EEC (Ireland).

<sup>15</sup> Source "Categories of Disadvantaged Areas" available at <http://www.agriculture.gov.ie>.

The criteria for classifying Ireland's Less Favoured Areas into these categories were agreed with the EU Commission - as were different payment levels graduated upwards from the Less Severely Handicapped Lowlands and Coastal Areas to the More Severely Handicapped Lowlands and finally to the Mountain Type Grazings.

## 2.5 Individual CAS Payment Rates

Table 2.1: Individual CAS Payment Rates

Less Severely Handicapped Lowland and Coastal Areas with Specific Handicaps
€76.18 per forage hectare to a maximum of 45 hectares
More Severely Handicapped Lowland
€88.88 per forage hectare to a maximum of 45 hectares
Mountain Type Grazings in Less or More Severely Handicapped Areas
€101.58 per hectare on first 10 forage hectares
€88.88 per hectare on remaining forage hectares up to 45 hectares

Where a farmer farms a combination of the above types of lands, he or she will be paid within the overall payment ceiling of 45 forage hectares on Mountain Type Grazings firstly, on More Severely Handicapped Lowland secondly and on Less Severely Handicapped Lowland and Coastal Areas with Specific Handicaps thirdly so as to maximise the amount he or she can be paid. In respect of any commonage claimed within the 45 forage hectares ceiling, he or she will be paid only on the percentage share of commonage used.

## 2.6 Total Amounts Paid Yearly under the CAS 2001-2004

Table 2.2: CAS No Applicants Paid/Amount Paid in each County (in ascending order of No of Applicants Paid per County in 2001) and in the State since Scheme became area-based in 2001

County	2001		2002		2003		2004	
	No Applicants Paid	Amount Paid €	No Applicants Paid	Amount Paid €	No Applicants Paid	Amount Paid €	No Applicants Paid	Amount Paid €
Dublin	115	289,354	118	297,249	116	290,231	123	288,838
Kildare	402	935,834	401	951,868	414	957,936	432	939,464
Louth	668	1,304,114	683	1,351,245	687	1,340,968	726	1,340,803
Carlow	738	1,844,932	742	1,864,535	728	1,811,349	747	1,751,069
Meath	1,148	2,510,537	1,174	2,577,822	1,210	2,614,181	1,248	2,612,896
Waterford	1,331	3,782,141	1,406	3,603,308	1,407	3,561,018	1,416	3,509,588
Wexford	1,349	3,112,850	1,364	3,009,518	1,358	2,943,776	1,373	2,853,230
Laois	1,544	3,670,380	1,589	3,745,806	1,576	3,680,959	1,636	3,674,498
Wicklow	1,586	5,152,138	1,687	5,126,329	1,694	4,949,760	1,700	4,674,609
Kilkenny	1,706	4,323,266	1,718	4,307,936	1,725	4,269,848	1,747	4,268,501
Offaly	2,180	5,036,593	2,119	4,942,359	2,167	5,013,179	2,301	5,063,056
Westmeath	2,360	5,557,643	2,309	5,504,782	2,407	5,596,407	2,510	5,635,054
Longford	2,458	5,619,661	2,457	5,619,916	2,405	5,527,500	2,460	5,500,230
Limerick	2,723	6,204,465	2,788	6,305,330	2,782	6,300,137	2,888	6,320,000
Leitrim	3,501	7,987,694	3,535	8,152,770	3,465	8,059,162	3,527	8,050,281
Monaghan	3,854	7,800,132	3,939	7,998,593	3,943	7,951,114	4,087	8,075,094
Sligo	4,076	9,084,048	4,110	9,197,751	4,056	9,052,305	4,115	9,028,775
Tipperary	4,096	10,515,649	4,232	10,725,790	4,268	10,701,796	4,351	10,614,831
Cavan	4,831	11,004,435	4,929	11,138,071	4,858	10,924,091	4,923	10,836,353
Roscommon	5,870	13,073,345	5,914	13,175,863	5,802	12,978,919	5,884	12,917,911
Clare	6,178	15,839,569	6,186	15,928,097	6,131	15,666,253	6,212	15,608,486
Cork	6,767	17,994,217	6,872	18,197,973	6,867	18,049,658	7,044	18,050,756
Kerry	7,491	20,243,306	7,585	20,420,942	7,435	20,089,814	7,633	20,173,297
Donegal	7,850	19,557,159	8,008	19,964,607	7,907	19,751,953	8,092	19,897,069
Mayo	11,864	25,968,405	11,948	26,174,891	11,726	25,871,760	11,940	25,946,461
Galway	12,264	27,515,271	12,268	27,711,208	12,130	27,282,963	12,366	27,315,204
<b>Total in State</b>	<b>2001</b> <b>98,950</b>	<b>235,927,138</b>	<b>2002</b> <b>100,081</b>	<b>237,994,559</b>	<b>2003</b> <b>99,264</b>	<b>235,237,037</b>	<b>2004</b> <b>101,481</b>	<b>234,946,354</b>

## 2.7 Conditions of Eligibility

In order to be eligible for payment under the CAS a person must:

- be aged 18 years or over and currently hold a herdnumber issued by the Department of Agriculture and Food;
- occupy and farm a minimum of 3 hectares of land in a Less Favoured Area;
- permanently reside within 70 miles by road of the holding on which the compensatory allowance is being claimed;
- undertake to remain in farming for 5 years from first payment of a compensatory allowance;
- comply with Good Farming Practice as set down by the Department of Agriculture and Food in its booklet “Good Farming Practice”<sup>16</sup>;
- comply with the EU Hormones Directives 96/22/EC and 96/23/EC<sup>17</sup>;
- have a holding with a minimum stocking level of 0.15 livestock units per hectare - unless exempted from compliance with this because a REPS plan requires a lower stocking level;
- in relation to any mountain commonage farmed be *either* a participant under REPS or any National Scheme that may be in place *or* be compliant with the relevant Commonage Framework Plan; and
- co-operate with Department staff in relation to any inspection or request for any documentation.

## 2.8 Penalties

Where an applicant over-declares forage area but does not do so as a result of serious negligence or intentionally, no penalty will be imposed for the over-declaration provided it does not result in a higher payment.

Where the over-declaration would have resulted in a higher payment if it had not been detected, however, the following penalties shall apply:

<b>FORAGE AREA OVER-DECLARATION IN DISADVANTAGED AREAS</b>	<b>CONSEQUENCE OF OVER-DECLARATION</b>
Over-declaration of up to 3% of eligible forage area found or of a maximum of 2 hectares	Area found is used for payment
Over-declaration of more than 3% of eligible forage area found or of more than 2 hectares - but not of more than 20% of eligible forage area found	Area found is reduced for payment purposes by twice the difference between the area found and the area declared
Over-declaration of more than 20% of eligible forage area found	No compensatory allowance payable for the year of application

<sup>16</sup> Department of Agriculture, Food and Rural Development (2001). “*Good Farming Practice-Summary Booklet*”. Available at: [http://www.agriculture.gov.ie/publicat/good\\_farming\\_b.pdf](http://www.agriculture.gov.ie/publicat/good_farming_b.pdf)

<sup>17</sup> The two directives are Council Directive 96/22/EC of 29 April 1996 concerning the prohibition on the use in stockfarming of certain substances having a hormonal or thyrostatic action and of  $\beta$ -agonists and Council Directive 96/23/EC of 29 April 1996 on measures to monitor certain substances and residues thereof in live animals and animal products.

Where an over-declaration is as a result of serious negligence, no compensatory allowance is payable for the year of application regardless of whether or not the over-declaration would have made a difference to payment.

Where an over-declaration is made intentionally, no Compensatory Allowance is payable for the year of application and for the following year regardless of whether or not the over-declaration would have made a difference to payment.

Where an applicant does not remain farming for five years from first payment of compensatory allowance, he or she must refund all compensatory allowances received since (and including) that first payment - unless the applicant's successor undertakes to honour the applicant's five year undertaking.

Where an applicant does not comply with Good Farming Practice, such penalties as are set out in the "Good Farming Practice" booklet will be applied.

Where hormone residues etc are found etc, the penalties set out in the Hormones Directives will be applied.

Late application penalties will be applied at the rate of 1% for each working day the application is late after 16 May 2005 and up to and including 10 June 2005. No payment can be made in respect of an application received after 10 June 2005.

A claim of *force majeure*, if accepted by the Department as proven, may exempt an applicant from any of the penalties set out above.

## **2.9 Proposed Changes under the Draft EU Rural Development Regulation**

In mid-2004 the EU Commission published a Draft Regulation on the EU's Rural Development framework for the period 2007-2013 which proposed that Member States would implement national rural development strategies through a range of measures. The draft indicated that the problems to be addressed comprised economic, social and environmental concerns and divided the measures proposed into three priority areas of competitiveness, land management and wider rural development.

This Draft had to be introduced for the 2007-2013 framework period in any event – but was preceded, and influenced, by an EU Court of Auditors report completed in 2003 on EU support for less favoured areas<sup>18</sup> which placed particular stress on the need to revise the criteria for designation of LFAs. That report recommended that the Commission should "*perform a complete and in-depth review of existing classifications of all LFAs*".

This review considered the impact which this regulation, when finalised through negotiation, might have on the structure of the CAS from 2007 onwards. It was the view of the review Steering Committee that the outcome of those negotiations would not have a major impact on the shape of Ireland's CAS scheme, going forward, in that the purpose and aims of the scheme would remain largely the same - provided, of course, that EU funding for the CAS could be maintained at its present level (an outcome to be sought in negotiation but not guaranteed).

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<sup>18</sup> Court of Auditors, (2003). "*Special Report No 4/2003 concerning rural development: support for less favoured areas, together with the Commission's replies*". Available at: [http://www.eca.eu.int/audit\\_reports/special\\_reports/docs/2003/rs04\\_03en.pdf](http://www.eca.eu.int/audit_reports/special_reports/docs/2003/rs04_03en.pdf)

The most obvious major change proposed in the draft regulation, as far as the CAS was concerned, lay in the criteria used to designate Less Favoured Areas. In this regard, the draft regulation proposed within the second priority area of land management a redefinition of ‘intermediate’ LFAs (the category into which practically all Ireland’s LFAs fall) concentrating on “*significant natural handicaps, notably a low soil productivity or poor climate conditions and where maintaining an extensive farming activity is important for the management of the land*”.

This failed to mention previous socio-economic criteria applied in Ireland, such as low or dwindling population mainly dependent on farming or low productivity (measured by farm income, percentage of the working population in farming, low stocking density etc). An EU Commission document, derived from the draft regulation, proposed that to be designated as less favoured in future each administrative area must meet at least one of the following five conditions:

- the average cereals yield would have to be less than 60% of the EU-25 average with arable land representing at least 60% of the Utilised Agricultural Area<sup>19</sup> (UAA);
- permanent grassland representing at least 60% of the UAA;
- a combination of low yielding arable land and permanent grassland representing at least 60% of the UAA;
- a stocking density not exceeding 1 livestock unit<sup>20</sup> (LU) per hectare of forage area with forage area (i.e. permanent grass and fodder crop land) representing at least 60% of the UAA;
- extensive olive orchards with a planting density not exceeding one hundred trees per hectare and representing at least 60% of the UAA.

It proved impossible, however, to achieve agreement in 2005 on this methodology given that some Member States would have lost large percentages of their less favoured areas under it. Accordingly, the Commission has agreed to let the present criteria for the designation of less favoured areas stand until 2010, with proposals for the criteria to apply from 2010 onwards to be brought forward in 2008.

Meanwhile, however, this review is based on the premise that the aims and shape of the CAS will remain largely unchanged for 2007-2013 - a reasonable proposition that reflects the general desire at EU level.

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<sup>19</sup> The National Farm Survey defines UAA as ‘area under crops and pasture plus the area (unadjusted) of rough grazing. It is the total area owned, plus area rented, minus area let, minus area under remainder of farm’.

<sup>20</sup> Livestock Units are used to determine the stocking density of a farm with bovines accounting for 0.6 or 1LU depending on age. Ewes account for 0.15 LU each.

## Chapter 3

### Scheme Objectives

#### 3.1 Introduction

Before the introduction of the Compensatory Allowance Scheme (CAS), its advocates set out the objectives which implementing it was intended to achieve. This review sets out to examine, amongst other things, those objectives and to assess the extent to which they have been achieved by the scheme. However, before doing that, it is worth looking closely at the background to the scheme. This can be done best by posing questions such as: How has the current scheme evolved? Why has it evolved in the way it did? Are there any scheme objectives that should have been set out but were not? How does scheme policy fit in with overall national and EU policy?

In doing this it is useful to:

- outline the objectives as per the original EU directive or regulation;
- introduce the 1999 EU regulation, commonly referred to as the Rural Development regulation, in which the objectives were restated;
- re-articulate the new objectives in a more meaningful way for Ireland; and
- ascertain the extent to which they are compatible with current national and EU policy.

We will examine here the above issues, following which the review will concentrate on the extent to which the scheme has contributed to the achievement of its objectives etc.

#### 3.2 Original Objectives of the Scheme

As indicated in Chapter 2, in the mid-1970s it was quite obvious that in terms of income there were two main classes of farmers operating across the EEC, those in disadvantaged areas and those in non-disadvantaged areas. The income of those in disadvantaged or Less Favoured Areas (LFAs) was significantly less than that of those in non-LFAs. As a consequence, farmers operating in the LFAs found it increasingly difficult to sustain an adequate lifestyle whilst continuing to work as farmers. As there was no evidence available to suggest that the existing income gap was narrowing, there was a very real danger of depopulation approaching a scale that would jeopardise the viability, continued habitation and conservation of the countryside.

It was acceptance of this stark reality which led to the EEC decision in 1975 to introduce a Compensatory Allowance scheme with the stated purpose of raising incomes in certain “*less favoured areas*”. The scheme objectives were wide-ranging and comprised economic, social and environmental elements. They were explicitly expressed in 1997 in a European Commission<sup>21</sup> document as follows:

- to offset the impact of permanent natural handicaps on production costs;
- to combat large scale depopulation of farming and rural areas, leading to land abandonment; and
- to protect and maintain the countryside and the rural environment.

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<sup>21</sup> European Commission (1997). “CAP 2000, Rural Developments”. Directorate General for Agriculture (DG VI), July 1997.

### 3.3 Restatement of those Objectives in the 1999 Rural Development regulation

Evaluations of the extent to which the scheme was achieving its original objectives generally found that the scheme was a factor in ensuring that those economic and social goals were being attained. The scheme was lessening the disastrous impact on farm incomes of the permanent natural handicaps suffered as a consequence of farming in Less Favoured Areas. In addition, it was combating large-scale depopulation of rural areas, preventing land abandonment and thereby avoiding the environmental degradation that could have resulted from such abandonment.

However, a general view emerged, backed up by many evaluations of the scheme, that it was not entirely protecting and maintaining the countryside. Whether by reason of 'the law of unintended consequences' or the combination of the CAS with other EU schemes such as the Ewe, Suckler Cow and Special Beef Premium Schemes which came into being after the CAS was introduced and which, together with the CAS, encouraged greater production, the very success of the CAS in avoiding land-abandonment pushed the pendulum towards precisely the opposite direction, i.e. overgrazing of the LFAs.

It was not surprising, therefore, that notwithstanding that the scheme had saved Ireland from one danger, some evaluations found that linking the scheme payments to production had led us into another danger entirely. Kearney et al<sup>22</sup> and Fitzpatrick Associates<sup>23</sup>, for example, drew attention to evidence of damage being done to hill and mountain areas as a result of sheep overgrazing.

Such negative environmental impacts in Ireland and elsewhere, together with an increase in environmental concerns generally throughout the EU, played a major part in the scheme transformation which comprised part of the 1999 reform of the Common Agriculture Policy. This broader reform included the 1999 Rural Development regulation which consolidated and added to earlier agri-environmental measures, changed the CAS from an animal headage payment scheme to one under which payments were made on an area basis and emphasised compliance with good farming practice as a payment eligibility requirement.

Administering scheme payments on an area basis, as opposed to the previous headage basis, was a fundamental change to the operation of the scheme. In its analysis of the revamped scheme in 2003, the AFCon Report<sup>24</sup> recognised as much and mentioned, among other things, the positive environmental effect of this fundamental change.

Apart from making that change in the basis for payment, the 1999 Rural Development regulation also restated the objectives of the scheme as follows:

- ensuring continued agricultural land use and thereby contributing to the maintenance of a viable rural community,
- maintaining the countryside, and
- maintaining and promoting sustainable farming systems which in particular take account of environmental protection requirements.

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<sup>22</sup> Kearney, B, Boyle, G, Walsh, J (1995). "Evaluation of the Compensatory Allowances scheme in Ireland", Brendan Kearney and Associates, Dublin.

<sup>23</sup> Fitzpatrick Associates, Economic Consultants (1997). "Operational Programme for Agriculture, Rural Development and Forestry (OPARDF) 1994-1999. A Mid-Term Review Report". (unpublished)

<sup>24</sup> AFCon Management Consultants in association with University College Cork (2003). "CAP Rural Development Plan 2000-2006, Mid-Term Evaluation". AFCon Management Consultants in association with University College Cork, September 2003.

This regulation did not set out explicitly as an objective the supporting of farm incomes in the Less Favoured Areas. The underlying rationale for the existence of the scheme, however, still rests on the reality that farmers in the LFAs have lower incomes than their counterparts in other areas and need to be compensated accordingly by way of income support. Indeed, according to Bryden et al<sup>25</sup>, who have carried out extensive research in this area, retaining people in rural areas is dependent on ensuring that they have an ‘adequate’ level of income.

### 3.4 Re-articulation by Ireland of the Scheme Objectives

There is a strong argument in favour of subsuming the three regulation-stated objectives of the scheme into two, on the basis that the main elements of the second objective are covered in both the first and third objectives, rather like a sandwich whose meat in the middle cannot be distinguished very clearly from the bread on either side of it.

Objectives one and two are concerned with ensuring that enough people, particularly farmers, continue to live, work and farm in rural areas and to contribute to the economic and social viability of rural areas in order to maintain the countryside.

Objectives two and three also overlap to a large extent, with maintaining the countryside having much the same meaning as promoting sustainable farming systems given that the latter includes environmental considerations. Each covers the continuation of farming and the environment, essentially encompassing a situation where both exist in harmony.

Given this overlap, this review feels that for purposes of analysis and evaluation the three objectives should be re-stated more clearly as two objectives instead.

Bearing in mind, however, what is stated in the final paragraph of section 3.3 above, the review feels that it is unrealistic to consider these objectives without taking into account also the essential pre-requisite for their achievement, i.e. income support to the extent required to keep LFA landowners farming in an environmentally-friendly way.

We propose, therefore, to set income support as a scheme objective also. If others characterise it as a mechanism rather than an objective, we would simply point out that (i) the scheme cannot work without it (ii) measuring its success or failure is more important than what it is called and (iii) some other EU Member States, such as Austria, France, Germany etc, have had no difficulty in declaring this as a scheme objective.

**Recommendation 1:** *Accordingly, we recommend that Ireland adopt the three scheme objectives set out below:*

- *supporting farm incomes in Less Favoured Areas,*
- *ensuring continued agricultural land use, thus contributing to a viable rural community, and*
- *maintaining and promoting sustainable farming systems which in particular take account of environmental protection requirements and preserve the countryside.*

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<sup>25</sup> Bryden, J, Hawkins, E, Gilliant, J, MacKinnon, N and Bell, C (1992). “Farm Household Adjustment in Western Europe 1987-1991”. The Arkleton Trust (Research) Ltd.

### 3.5 How does the Scheme fit in with Current Policy?

We now examine how the scheme fits in with current national and EU policies by assessing the extent to which the scheme's rationale is compatible with the following documents:

- the Department of Agriculture and Food's Statement of Strategy 2005-2007;
- the National Development Plan 2000-2006 and the CAP Rural Development Plan 2000-2006;
- the 1999 White Paper on Rural Development;
- the Report of the Agri Food 2010 Committee and the subsequent Report by the Agri Vision 2015 Committee; and
- the explanatory memorandum to the EU Commission's proposals for a new Rural Development framework.

- **Department of Agriculture and Food, Statement of Strategy 2005-2007**

The Department's Statement of Strategy 2005-2007 lists six high level goals. In relation to the rural environment, it indicated that it aims to "*promote the development of the rural economy and of environmentally friendly and sustainable systems of agriculture and food production.*" The statement lists fourteen different strategies in relation to this high level goal and a number of performance indicators in relation to the strategies, including one in relation to the "*income levels of farm households*".

The statement indicates that strategies will contribute "*to a vibrant rural economy and society*". It includes, as one of those strategies, the promotion and maintenance of the maximum number of rural households. Its vision specifies that it will "*promote the development of a rural economy which sustains the maximum number of farm families and rural households*", and will enable "*those who are engaged in this sector to participate fully in the general economic, social and cultural development.*"

Finally, in relation to the environment, it indicates its intention to "*promote the development of the rural economy and of environmentally friendly and sustainable systems of agriculture and food production.*" It recognises that the rural economy is significantly shaped by agricultural systems and that there is a responsibility to ensure that such systems are developed in an environmentally sustainable manner. In this regard, the statement outlines a number of strategic actions that the Department will implement in order to achieve its overall goal in relation to the environment.

- **National Development Plan 2000-2006 and CAP Rural Development Plan 2000-2006**

Both the National Development Plan (NDP) 2000-2006 and the CAP Rural Development Plan (RDP) 2000-2006 highlight the importance of ensuring that rural dwellers have sufficient income. In relation to rural development, Ireland's NDP identifies eight strategic areas that are highlighted for attention, including continuing direct income support for farmers in designated disadvantaged areas.

The NDP 2000-2006 indicates that its investment strategies are supportive of the Government's commitment to "*ensuring the economic and social well being of rural communities, to providing the conditions for a meaningful and fulfilling life for all people living in rural areas and to striving to achieve a rural Ireland in which there will*

*be vibrant sustainable rural communities*". It specifically states that the viability of the population in rural areas will be achieved through the continuation of the Compensatory Allowance Scheme. The NDP acknowledges the agri-environmental measures provided for in the Agenda 2000 reforms. It also recognizes that all EU-funded measures are operated in accordance with "*good agricultural practices in relation to the environment*". An indication of the Government's commitment to the achievement of the NDP goals is its promise to spend funds in excess of €8.5 billion which will impact on rural development over the period of the plan.

The CAP RDP, which forms part of the NDP, states that the intention is "*to continue to provide income support to farmers in less favoured areas with a view to maintaining the population in these areas and to help provide adequate levels of incomes for farmers in these areas.*" It also recognises the importance of agriculture to Ireland's economy. It highlights that in 1998 its contribution to GDP was twice the EU average and that the agri-food sector contributes 11.8% of total employment<sup>26</sup>. The plan indicates that support for farmers in Less Favoured Areas will continue with a view to maintaining the population in those areas.

The plan acknowledges the importance of the agriculture sector in relation to Ireland's rural environment. It mentions *The National Strategy for Sustainable Development* and highlights the main environmental challenges faced by Ireland, as identified by the Department of the Environment, Heritage and Local Government.

- **1999 White Paper on Rural Development**

The White Paper on Rural Development, entitled "*Ensuring the Future - A Strategy for Rural Development in Ireland*", was launched in August 1999. It set out a vision and a framework for the development of rural communities in Ireland into the next millennium and marked a new approach and commitment by Government to rural development.

The Paper recognises the importance of raising the incomes of rural dwellers and indicates the Government's commitment to the maintenance of viable rural communities. It states that this would be pursued through "*economic development supported by service and infrastructure provision to ensure optimal use of resources for the benefit of the rural community while protecting the environment, and social policy to address disadvantage and social inclusion needs in a sustained manner*".

It also reveals the Government's commitment to ensuring "*the maintenance of the rural population*" and recognises that there are growing concerns for the protection of the environment. It envisages a rural Ireland in which the environment is respected and in which rural development takes place in a sustainable manner.

- **Agri Food 2010 Committee and Agri Vision 2015 Committee Reports**

Mr. Joe Walsh, the then Minister for Agriculture, Food and Rural Development, established the Agri Food 2010 Committee in June 1999 with the following Terms of Reference:

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<sup>26</sup> It is worth noting, however, that current statistics highlight the continuing decline of agriculture in Ireland. The 2003/04 Annual Review and Outlook indicate that in 2003 the contribution of agriculture to GDP fell to approximately 1.2 times the EU average and that employment in the agri-food sector fell to 9% of total employment.

*“to propose a strategy for the development of Irish agriculture and food over the next decade, following the agreement on Agenda 2000, and in light of the changes and challenges, which are likely to evolve nationally and internationally over that period.”*

The Agri Vision 2015 Committee was established, again by Minister Walsh, this time in January 2004, and included in its terms of reference was the intention to:

*“review the strategy and recommendations contained in the Agri Food 2010 Report in the context of developments since the report was completed.”*

The 2015 Report acknowledges the importance of agriculture to the Irish economy and indicates that agriculture *“is an essential, though not the only large influence on the life and viability of the rural community.”* While it does not explicitly mention the CAS, the report emphasises that the recommendations and strategy of the 2010 Committee continued to be valid. Accordingly, this review has examined the relevant references made by the 2010 Committee to the CAS.

That Committee stresses both the vital role that agriculture has to play in the rural economy and the importance of raising the incomes of rural dwellers. The Committee indicates that this role *“will primarily be determined by the numbers of viable farm households in rural areas and their level of farm and household incomes”*. On this basis, the Committee recommends that, in order to create and maintain viable farm households, the Government should include in its aims the provision of income for the poorest farm families. It also recommends that the CAS payments be targeted at lower-income farmers.

The Agri Food 2010 Committee recognises the impact of agriculture on Ireland’s physical environment. While it acknowledges that much of this impact is positive, it raises concerns about the negative impacts agriculture can have. The Committee accepts that the awareness of farmers in this regard has increased in recent years but states that more must be done in terms of reducing those negative environmental impacts.

- **Explanatory memorandum to the EU Commission’s proposals for a new Rural Development framework**

The explanatory memorandum to the EU Commission’s proposals for a new Rural Development framework summarises the issues to be addressed by a new rural development policy. These include the problem of lower incomes amongst the population of rural areas and the memorandum proposes to continue payments to farmers in *“mountain areas”* and *“other areas with handicaps”*.

This memorandum identifies the environmental challenges that need to be addressed in the new framework. It proposes that the land management axis, under which the CAS will fall, should receive at least a total 25% of EU funding.

It is the Steering Committee’s view that all the foregoing relevant policy documents examined and quoted above demonstrate clearly that the CAS is indeed compatible with current national and EU policies.

### **3.6 Conclusions**

This chapter briefly reiterated the scheme's background, following which it examined the objectives of the scheme as set out in the relevant EU regulations. The current objectives as outlined in the Rural Development regulation are slightly confusing and somewhat repetitive. In order to facilitate appropriate analysis of the objectives set out in that regulation, we have proposed their re-articulation in a more meaningful way for Ireland by the merging of three objectives into two and by the addition of the further objective of supporting LFA farmers' incomes (with how those incomes are supported to be examined in Chapter 5).

Following this, we looked at the extent to which the scheme's objectives fit in with current national and EU policy by way of examining a number of the most relevant policy documents at national and EU level. We concluded from this examination that the rationale and objectives of the scheme are supported by those documents.

## Chapter 4

### Other Schemes with Similar or Possibly Conflicting Objectives

#### **4.1 Introduction**

In the context of public expenditure, schemes and expenditure programmes must contribute to achieving the overall goals of the expenditure division, department and Government. If, however, a number of schemes have similar objectives, it is equally important that they do not overlap to the extent that they significantly undermine the effectiveness and efficiency of overall Government expenditure.

It is for this reason that the Terms of Reference of this review require us to examine other schemes with similar objectives and to consider the extent, if any, to which these schemes and the CAS overlap wastefully. Having done that, we shall then examine also schemes which the CAS has been represented in the past as affecting adversely, i.e. the Early Retirement Scheme (ERS) and CAP Afforestation Scheme.

This chapter of the review therefore:

- outlines the schemes that may achieve similar objectives and examines whether any of these schemes could supplant the CAS or could be subsumed into the CAS; and
- assesses the extent to which the ERS and Afforestation Scheme are or are not affected adversely by the CAS.

This review has identified three schemes which, some would argue, overlap with the CAS to a certain extent, in that they contribute to achieving objectives covered by the CAS. These schemes are:

- the Farm Assist Scheme;
- the Rural Social Scheme; and
- the Rural Environment Protection Scheme<sup>27</sup>.

#### Farm Assist

Farm Assist is a means-tested income support scheme for farmers, with supporting their income as its sole objective. It is similar to Family Income Supplement but has a more generous means test. In addition, one does not need to be available for work in order to qualify for Farm Assist. The scheme commenced in 1999 and in 2004 had approximately 8,700 beneficiaries receiving in excess of €62 million.

In order to qualify for Farm Assist, one must be a farmer aged between 18 and 66 who can satisfy a means test. The means test takes account of virtually every form of income but assesses some forms in different ways and disregards various amounts. There are different rules applying to the means-testing, depending on the source of the income. CAS payments received are subject in their entirety to the means test.

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<sup>27</sup> The REPS was introduced in Ireland in 1994 to provide grant payments to farmers who voluntarily agree to follow a farming plan for the protection of the landscape, wildlife habitats and endangered species of flora and fauna.

### Rural Social Scheme (RSS)

The RSS was established in July 2004 to provide income support for farmers and fishermen who are currently in receipt of long-term social welfare payments and to provide certain services of benefit to rural communities.

The scheme allows those low-income farmers and fishermen who are unable to earn an adequate living from their farm holdings or fishing to earn a supplementary income. At 31 December 2004 this nationally funded scheme had 970 applicants, with funding provided by the end of 2004 totalling €10 million.

The intention of the RSS is that all of the work undertaken will be beneficial to the local community. The types of projects carried out by applicants under the RSS are likely to include:

- village and countryside enhancement projects;
- social care, care of the elderly and community care for both pre-school and after-school groups; and
- maintenance and caretaking of community and sporting facilities.

Participants are required to work 19.5 hours per week and these hours will be based on a farmer/fisherman-friendly schedule. The payment is in addition to a person's Farm Assist or Social Welfare payment. The scheme itself is not means-tested. However, such a test is effectively incorporated into the qualification criteria as recipients of scheme payments must be in receipt of either Farm Assist or other specific Social Welfare payments, eligibility for which requires means-testing.

### Rural Environment Protection Scheme (REPS)

REPS is a scheme designed to reward farmers for carrying out their farming activities in an environmentally friendly manner and to bring about environmental improvement on existing farms.

The objectives of the Scheme are to<sup>28</sup>:

- establish farming practices and production methods which reflect the increasing concern for conservation, landscape protection and wider environmental problems;
- protect wildlife habitats and endangered species of flora and fauna; and
- produce quality food in an extensive and environmentally friendly manner.

There are currently about 45,000 farmers participating in REPS, with a cross check against the 2003 CAS beneficiaries revealing that in excess of 31,000 of these were also in receipt of CAS payments. The farmers participating in REPS operate to standards that go beyond that expected of farmers compliant with Good Farming Practice as required by the CAS.

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<sup>28</sup> Department of Agriculture and Food (2005). "Schemes and Services 2005". Corporate Affairs Division, Department of Agriculture and Food.

## 4.2 Is there an Overlap of Scheme Objectives?

As the first two schemes, the Farm Assist and the Rural Social Scheme, are basically forms of income support to farmers (and fishermen also in the case of the RSS), the review will examine them together.

While the CAS is not solely a form of income support, supporting farmer's incomes is the essential operational mechanism by which it attempts to achieve the scheme objectives. It is obvious, however, that the CAS does not overlap in any meaningful way with these other two income support schemes for the following reasons:

- the CAS has just over 100,000 beneficiaries and thus applies to a sizeable proportion of Ireland's estimated 136,000 farming population<sup>29</sup> whereas the Farm Assist and Rural Social Scheme apply to only 8,700 (6.4% of total farming population) and 970 (0.7%) farmers and/or fishermen respectively. If it were left to both of these schemes only to support farmers' incomes, over 90,000 farmers currently benefiting from the CAS would not have their incomes supported at all.
- Neither the Farm Assist Scheme nor the RSS have any environmental aspect to them. Indeed, it was clearly never intended that either scheme should have such an aspect. One of the objectives of the CAS, on the other hand, is that scheme beneficiaries should maintain and promote sustainable farming systems which in particular take account of environmental protection requirements. To this end CAS applicants are required to comply with Good Farming Practice, thus ensuring that the scheme has significant environmental benefits.
- The CAS is restricted to the LFAs whereas the other two schemes are not.

It is evident from the above analysis that all three schemes overlap - but only to the extent that they support farmers' incomes. The marked differences between the natures of the schemes, their objectives, their numbers of beneficiaries and their areas of application and the fact that means-testing of two of them ensures that the impact of the third (the CAS) is taken into account in those two mean, in the view of the Steering Committee, that they do not overlap in any significant or wasteful way and that none of the three schemes can or should supplant, or be subsumed into, any other of the three.

An assessment of the third non-CAS scheme highlighted above, the REPS, as a scheme that might possibly overlap with the CAS was also carried out. REPS has environmentally friendly farming as its main goal and rewards farmers financially for complying with detailed environmental conditions. As its objectives are solely environmental, it enforces stricter environmental requirements than the CAS and applies in both LFAs and non-LFAs alike.

In 2003, nevertheless, a total of 31,373 CAS beneficiaries were also in REPS, representing about two-thirds of the total number participating in that scheme. There is, therefore, a significant overlap between the participants of both schemes, with the overlap far more significant on the REPS side (66% of applicants approximately) than on the CAS side (only about 31%).

Insofar as the EU itself funds both the CAS and REPS, it obviously sees these two schemes as complementary to each other rather than overlapping. The CAS encourages

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<sup>29</sup> Central Statistics Office (2002). "June Agricultural Survey". Available at: [www.cso.ie](http://www.cso.ie)

extensive farming through its area-based approach and contributes thereby to Good Farming Practice - which is defined as the normal practice in relation to the environment which competent farmers would follow. REPS, on the other hand, aims at achieving a more ambitious environmental standard than GFP and, in so doing, compensates farmers for actions that go well beyond the practices which they would follow normally.

The CAS, therefore, is used by the EU to help all LFA farmers to continue farming in an extensive, environmentally friendly way which aids the rural environment while REPS is employed by the EU to encourage a number of farmers inside and outside the LFAs to move to a different level of environmental protection, principally by way of following nutrient and grassland management plans and honouring whichever biodiversity option undertakings are most appropriate to their holdings.

This analysis of the essential difference between the two schemes is supported by the large disparity between the numbers of participants in each in Ireland, a pointer which indicates schemes with different agendas and target participations rather than seriously-overlapping measures.

This review, therefore, shares the EU view of both schemes as being complementary rather than overlapping with each other.

Between them they certainly ensure that a significant percentage of agricultural land in Ireland is farmed in a manner which is compliant with the sets of environmental standards deemed appropriate for different types of holdings - but only the CAS addresses also the wider social and economic problems faced by farmers in the LFAs.

### **4.3 Schemes that may be Affected Adversely by the CAS**

#### Early Retirement Scheme

As mentioned already, the Early Retirement Scheme (ERS) has been identified as a scheme upon which the CAS impacted negatively.

The purpose of the ERS is to encourage older farmers to retire and to transfer their holdings to younger farmers. The scheme objectives, as outlined in the 2005 Schemes and Services<sup>30</sup> booklet, are as follows:

- to provide an income for farmers (between the ages of 55 and 66) who decide to stop farming;
- to encourage the replacement of such older farmers by farmers able to improve where necessary the economic viability of the remaining agricultural holding; and
- to re-assign agricultural land to non-agricultural uses where it cannot be farmed under satisfactory conditions of economic viability.

This transfer to younger farmers is viewed as a means of replacing the older and, generally speaking, less formally qualified farmers with younger and more qualified farmers. It is intended that this will help address the structural imbalance in Irish farming and ultimately that it should ensure more productive land use.

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<sup>30</sup> Department of Agriculture and Food (2005). “*Schemes and Services 2005*”. Corporate Affairs Division, Department of Agriculture and Food.

The question to be asked by this review is the following: Is the CAS likely to prevent farmers in the LFAs taking up the option of the Early Retirement Scheme?

This review feels that the answer is that the CAS does not have this effect. Farmers receiving Compensatory Allowances can factor into the considerations they seek from the persons to whom they are transferring their holdings the value of those payments. This means therefore that, in addition to receiving Early Retirement Pensions, these farmers will receive also from the transferees (in either the sale price or letting rent of each holding) the equivalent of the Compensatory Allowances that they would have continued to receive had they not entered the Early Retirement Scheme.

#### CAP Afforestation Scheme

Direct payments to farmers (including the CAS) have been represented in the past as a brake on farmer participation in the CAP Afforestation Scheme and as explaining in part the shortfall between Ireland's yearly forestry planting target of 20,000 hectares and the 14,000 hectares per annum actually achieved between 1996 and 2003.

Paragraph 11 of the Executive Summary of *'A Review and Appraisal of Ireland's Forestry Development Strategy - Final Report'*<sup>31</sup> accepts, however, that the replacement in 2005 of the Extensification and other premium schemes by the Single Payment Scheme will "*change the determinants of farmers' decisions with respect to forestry to an extent that will be sufficient to provide adequate land for an afforestation programme of 20,000 ha per annum*" - i.e. the minimum annual target recommended in paragraph 8 of that Summary.

From our reading of Chapter 5 of Bacon's Review, and the summary thereof just referred to, therefore, we are satisfied that the CAS does not adversely affect the CAP Afforestation scheme.

#### **4.4 Conclusions**

We identified three schemes (Farm Assist, Rural Social Scheme and REPS) which, it could be argued, have similar objectives to the CAS to see whether there is wasteful duplication between the CAS and those schemes. Having reviewed the purposes and participation levels of these schemes, however, the Steering Committee concluded that these schemes complemented rather than overlapped with the CAS.

Finally, the review also examined the Early Retirement and CAP Afforestation Premium Schemes to see whether they are affected adversely by the CAS and concluded that they are not.

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<sup>31</sup> Peter Bacon & Associates (2004). *"A Review and Appraisal of Ireland's Forestry Development Strategy - Final Report"*. Peter Bacon and Associates, Economic Consultants, in Association with Deloitte.

## Chapter 5

### Supporting Farmers' Incomes

#### 5.1 Introduction

We set out here the extent to which, and the ways in which, the scheme has contributed to supporting farmers' incomes in the Less Favoured Areas (LFAs).

The EU directive establishing the CAS assumed that farmers in the LFAs had lower incomes and decided that making payments to those farmers was the most effective way to offset their higher costs and lower production levels.

We interrogate available data here, therefore, to establish:

- whether farmers in the Less Favoured Areas do indeed experience lower incomes, thus justifying such payments;
- the extent to which the scheme contributes to farm incomes in LFAs; and
- the contributions made by the scheme payments to incomes based on different categorisations.

As we believe that National Farm Survey (NFS) data is the most suitable for purposes of this investigation, we use 2003 Teagasc NFS data here unless otherwise indicated. Appendix 5, P105, on 'The Calculation of Income' outlines the basis for this.

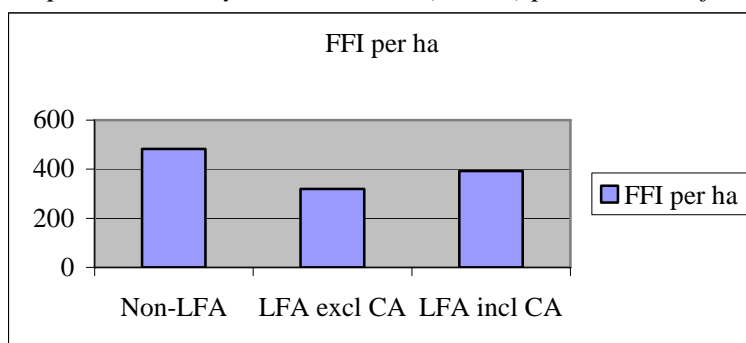
#### 5.2 Farm Income per Hectare

We now look at Family Farm Income (FFI) per hectare of Utilised Agricultural Area (UAA) to see whether the assumption that LFA farmers have higher production costs and lower production potential because of the "*permanent natural handicaps*" affecting the areas in which they farm is true for Ireland.

*Table 5.1: Comparisons of Revenue, Costs and FFI in Euros*

	Revenue per ha	Costs per ha	FFI per ha
<b>Non-LFA</b>	1,579	1,097	482
<b>LFA excluding Compensatory Allowance (CA)</b>	1,056	737	319
<b>LFA including CA</b>	1,129	737	392

*Graph 5.1: Family Farm Income (Euros) per hectare of UAA*



Graph 5.2: Revenue and Costs (Euros) per hectare of UAA

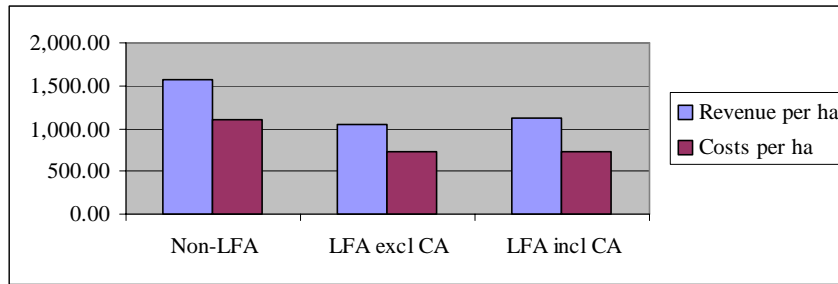


Table 5.1 and Graphs 5.1 and 5.2 above reveal that:

- revenue, costs and FFI figures per hectare in the LFAs are all two-thirds of the corresponding figures outside those areas;
- FFI per hectare in the LFAs comes to 81% of FFI outside those areas after compensatory allowances paid are taken into account;
- costs-to-revenue ratios are 69.8% pre-CA in the LFAs and 69.5% outside them;
- costs per hectare are higher outside the LFAs (not necessarily contradicting the EU-assumed higher LFA costs - since they were based on a comparison between non-LFA costs and the LFA costs which *would have to be laid out to secure non-LFA incomes* rather than between actual costs on both sides).

We can conclude from these tables and graphs, therefore, that (i) farm incomes per hectare in Ireland's LFAs are indeed lower than they are outside those areas and (ii) compensatory allowance payments are needed, therefore, to address this problem.

### 5.3 Farm Income per Hectare and Farm System and Holding and Farm System

We now analyse FFI per hectare and farm system and per holding and farm system to see whether such analysis supports that CAS rationale.

Table 5.2: Comparison in Euros of FFI per hectare in non-LFAs versus FFI per hectare in LFAs for different farm systems

Farm System	FFI per ha in non-LFAs	FFI per ha (excl CA) in LFAs	FFI per ha (incl CA) in LFAs
Dairying	807	657	725
Dairying + Other	488	392	454
Cattle Rearing	460	180	265
Cattle + Other	268	205	278
Mainly Sheep	308	270	351
Mainly Tillage	396	433	472
All Systems	482	319	393

Table 5.2 above shows:

- overall (All Systems) LFA FFI to be two-thirds of FFI elsewhere;
- LFA FFI to be only 82% of FFI elsewhere after compensatory allowance payments are taken into account;
- Dairying, Dairying + Other and Cattle Rearing LFA FFIs, both before and after compensatory allowances are taken into account, to be lower than FFIs for those systems elsewhere;
- Cattle + Other and Mainly Sheep LFA FFIs starting out lower than elsewhere but ending up higher after payment of compensatory allowances;
- Mainly Tillage LFA FFI to be higher than elsewhere both before and after payment of compensatory allowances.

*Table 5.3: FFI in Euros in non-LFAs versus LFAs for different farm systems*

<b>Farm System</b>	<b>FFI in non-LFAs</b>	<b>FFI (excl CA) in LFAs</b>	<b>FFI (incl CA) in LFAs</b>	<b>% of income gap filled by CA</b>
Dairying	32,513	26,230	28,934	43%
Dairying + Other	25,585	20,916	24,184	70%
Cattle Rearing	9,007	4,887	7,168	55%
Cattle + Other	9,572	5,752	7,774	53%
Mainly Sheep	10,142	10,292	13,388	N/a
Mainly Tillage	24,433	31,532	34,354	N/a
All Systems	20,484	10,910	13,435	26%

Table 5.3 above shows:

- overall (All Systems) LFA FFI per holding to be only 53% of FFI elsewhere;
- overall LFA FFI to be only 66% of FFI elsewhere after compensatory allowances paid are taken into account;
- Dairying, Dairying + Other, Cattle Rearing and Cattle + Other LFA FFIs, both before and after payment of compensatory allowances, to be lower than non-LFA FFIs for those systems;
- Mainly Sheep and Mainly Tillage LFA FFIs to be higher than elsewhere both before and after payment of compensatory allowances.

As both tables show LFA FFIs to be considerably lower than those outside the LFAs, they support once more both the rationale for the CAS and the need for CAS payments to narrow when necessary the income gap between the LFAs and non-LFAs.

#### **5.4 CAS Contributions to Farm Incomes**

We measure here the percentages of LFA FFIs represented by the compensatory allowances paid under the scheme.

*Table 5.4: Contribution that scheme payments make to FFI (including CA) in LFAs*

<b>System</b>	<b>Dairying</b>	<b>Dairying + Other</b>	<b>Cattle Rearing</b>	<b>Cattle +Other</b>	<b>Mainly Sheep</b>	<b>Mainly Tillage</b>	<b>All Systems</b>
FFI (incl CA) €	28,934	24,184	7,168	7,774	13,388	34,354	13,435
CA €	2,704	3,268	2,281	2,022	3,096	2,822	2,525
<b>CA as a % of FFI</b>	<b>9</b>	<b>14</b>	<b>32</b>	<b>26</b>	<b>23</b>	<b>8</b>	<b>19</b>

Table 5.4 above shows that:

- the CAS payments represent 19% overall (All Systems) of LFA FFI;
- this has increased from the 16% estimated in 1998 by the Department's Analysis and Evaluation Unit, probably because of an increase in CAS payment rates since 1998;
- the CAS contributions to different farm systems range from €2,022 to €3,268 without deviating by more than 30% from the average of €2,525 (reflecting the fact that payments are capped at 45 hectares per applicant);
- those contributions range widely from 8% to 32% of FFI, however, deviating by 68% upward and 58% downward from the average of 19% depending on farm system;
- the largest CAS contributions in FFI percentage terms (23%, 26% and 32%) go to the low-income cattle and sheep farmers who comprise 59% of all farmers in Ireland;
- the lowest CAS contributions in such percentage terms (8%, 9% and 14%) go to the much higher-income dairying and tillage farmers who comprise 38% and 3% respectively of Irish farmers;
- in absolute terms, however, the highest, third highest and fourth highest contributions (€3,268, €2,822 and €2,704) go to those same higher-income dairying and tillage farmers;
- in absolute terms also, the lowest contributions (€2,022 and €2,281) go to the lowest-income Cattle + Other and Cattle Rearing farmers.

This table shows fairly clearly the extent to which the scheme contributes to farm incomes in the Less Favoured Areas.

The tables at section 5.3 above and this table, however, disclose (a) wide variations in the CAS contribution percentages to FFI (b) payment of the largest CAS contributions to the highest-income farmers and (c) payment of the lowest CAS contributions to the lowest-income farmers - and raise the possibility, therefore, of CAS over-compensation in relation to some farm systems.

Before addressing that possibility, we would stress that such over-compensation does not arise directly from the type of farm system pursued. The average level of CAS payment relating to each farm system depends primarily on the average size of holding under that system and, to a lesser extent, on the particular location within the LFAs (since the rates of payment are higher in certain LFAs than in others) of most of the holdings operating that system.

While it is true

(a) that under the current CAS rules it is logical that the largest farms situated in the areas attracting highest payment rates per hectare at the time of introduction of the new area-based CAS should now attract the largest CAS payments; and

(b) that socio-economic reasons may be advanced to justify receipt by higher-income LFA farm enterprises of the largest CAS payments;

it does not follow automatically that either outcome is correct or that the current CAS rules producing them should remain unchanged while the CAS exists - particularly if the smallholders affected adversely by those rules are in the majority in the LFAs and need to be kept in those LFAs for as long as possible if the CAS is to succeed.

It may be asked, for example, whether it is possible that “farming the subsidy” has resurrected itself in a new way under the current CAS rules. Doing so under the animal-based CAS required the keeping of a considerable number of animals in order to qualify for the CA maximum. Under the area-based system, however, it is much easier to buy or rent rough grazing and put the equivalent of a single ewe per hectare on it for four months of the year in order to qualify for the maximum CA - especially for farmers already operating higher-income systems who can afford to do this.

If this is happening, we accept that farmers, no less than any other citizens, are perfectly entitled to maximise the advantages of their aid system in this way as long as the rules permit it. Nevertheless, we feel that we need to ask whether the rules should continue to permit it or should be changed to make it less feasible and to produce different outcomes to those mentioned at (a) and (b) above. The answer to this may depend on one’s view of the CAS – whether it is to support the retention of the *maximum number of farmers in the LFAs* or the *maximum number of large farms in those areas* or a *combination of both*. If the first view is held, then some suggestions as to how the CA rules might be changed to achieve retention of the maximum number of farmers follow.

The first might be to reduce appropriately the payment rates per hectare to those in the Dairying, Dairying + Other, Mainly Tillage and, possibly, the Mainly Sheep systems - the identification of whom would not be a very difficult task given the richness of information in the Department’s SPS and other computer systems.

The second might be to exclude entirely from CAS payments holdings operating certain farm systems - perhaps the Dairying and Mainly Tillage systems given their higher average Family Farm Incomes and the low percentages of FFI (only 8% and 9% respectively) represented by the CAS contributions to such holdings and given that these contributions as percentages of the total household incomes of such holdings may be very much lower than 8% or 9%.

A third way might be to impose a total household income limit on all holdings which, once exceeded, would cause CAS payments to the holding concerned to cease - or, indeed, a combination of two or more of the methods suggested here.

## **5.5 CAS Contributions per Farm Size and Age**

Previous evaluations recommended tailoring payments to size of holding or age of farmer. To aid future policy analysis, therefore, we now examine the contributions of scheme payments to FFIs in terms of farm size and age.

- **Size of Farm**

Table 5.5: Contribution of CA to FFI (Euros) based on size of farm

Size(ha) of farm	2 - < 10	10 - < 20	20 - < 30	30 - < 50	50 - < 100	>=100	Hill Farms	All Systems
FFI (incl CA)	2,043	5,537	9,079	17,857	30,013	51,375	10,165	13,435
CA	857	1,587	2,222	3,123	3,637	4,873	2,869	2,525
CA as % of FFI	42	29	24	17	12	9	28	19

Table 5.5 above shows, with the possible exception of hill farms characterized by large areas of rough grazing, that:

- the smaller the farm, the bigger the *percentage* contribution to FFI;
- the bigger the farm, the smaller the *percentage* contribution to FFI;
- the smaller the farm, the smaller the *actual* contribution to FFI;
- the bigger the farm, the bigger the *actual* contribution to FFI.

This raises the question, asked previously by Kearney et al, as to whether small holdings should receive higher CAS payments and large holdings should have their payments redirected partly or totally to those smaller holdings.

Given that the Department's Compendium of Irish Agricultural Statistics 2004 (Table L1) showed 61% of holdings nationwide as being under 30 hectares in 2002, we can safely assume that in the LFAs the percentage of holdings in this category is even higher and that most LFA farmers, therefore, are farming such small holdings.

This being so, it seems to us that opting in future to pay larger allowances to the majority of LFA holdings at the expense of the bigger holdings (for which the CAS payments represent quite small percentages of FFI in any event) would maximise the impact of the scheme in terms of keeping as many farmers as possible in the LFAs.

- **Contribution based on age of Farmer**

Previous evaluations recommended that CAS payments should not be made to farmers over age 55 because of a perceived conflict between the CAS and the Early Retirement Scheme then in place. As section 4.3 indicates that such a conflict does not exist, however, we do not feel that payments need to be analysed on an over age 55 basis.

Given past evaluation interest in farmers aged over 65 who can qualify for State Pensions, however, we look now at the position of such farmers vis-à-vis the CAS.

Table 5.6: FFI (Euros) for farmers both under and over 65 years of age.

	Non LFA	LFA (excl CA)	LFA (incl CA)	% of income gap filled by CA
Under 65	22,430	11,990	14,594	25
Over 65	11,950	6,324	8,504	39

Table 5.6 above shows LFA FFIs of €14,594 for farmers under 65 years of age and of only €8,504 for farmers over 65 years old after CAS payments are taken into account.

It seems likely from these figures that it might be more financially beneficial for some farmers to take the State Pension *and leave farming* once they reach age 66 - particularly if their FFIs, including compensatory allowances received, are counted in a means-testing exercise which reduces proportionately their non-contributory pensions.

The question of whether or not CA payments should continue to be made to farmers aged 66 or over, therefore, may need to be addressed. In an era when ageism is being criticised and others are being encouraged to work until they are 70, however, it will be argued almost certainly by many that:

- €8,504 a year is not a fortune for anyone, let alone a person over 65;
- many farmers probably have social and vocational rather than financial motivations to go on farming well beyond age 65;
- if anything is to be done in relation to the LFA farmers aged over 65, it should be done by way of gentle persuasion rather than cold coercion (a view apparently shared by the Agri Food 2010 Committee which recommended the setting up of a working group to look at the issue of replacing the CAS with a retirement scheme for over 65s).

## 5.6 Part- and Full-Time Farmers<sup>32</sup>

*Table 5.7: Part-Time/Full-Time Farmers*

Year	Full-Time (000)	Part-Time (000)	Total (000)
1991	124	45	169
1993	106	53	159
1995	101	52	153
1997	99	49	148
1999	88	56	144
2000	79	62	141
2001	80	59	139
2002	79	57	136

Sources: 1993, 1995, 1997, 1999 - Farm Structure Survey; 1991, 2000 - Census of Agriculture; 2001, 2002 - Estimates from the June agricultural survey.

Table 5.7 above shows a significant increase in the number of part-time farmers (from 27% to 42%) between 1991 and 2002 together with significant decreases in the number of both full-time and all farmers.

The Agri Vision 2015 Report indicated that this increase is driven by difficulty in expanding farm businesses and increased availability of off-farm employment.

Given what has happened already and the Agri Vision 2015 Report's prediction that this trend will continue, particularly in light of decoupling, we now examine the CAS contributions to both part- and full-time farming by way of Table 5.8 below.

<sup>32</sup> The CSO defines a full-time farmer as a farmer who indicates that their sole occupation is farming, whereas a part-time farmer indicates that farming is either a major or subsidiary occupation.

Table 5.8: FFI (Euros) for both part-time and full-time<sup>33</sup> farms in both sets of areas

	Non LFA	LFA (excl CA)	LFA (incl CA)
Part-Time	6,665	4,429	6,568
Full-Time	31,727	24,301	27,625

This table shows that the scheme payments:

- comprise 33% of the FFI of part-time farmers in the LFAs;
- raise the average income on such farms from €4,429 to €6,568 - only €97 below the average income of part-time farms outside the LFAs;
- raise the FFI of full-time LFA farmers by 12% of their final €27,625 which is just €75 below the 2003 average industrial wage of €27,900 (though this is not strictly comparable with FFI).

This pre-off-farm income analysis seems to suggest that CAS payments on average constitute too high a percentage of FFI on part-time LFA holdings to be dispensed with while contributing significantly to bringing the FFI on full-time LFA holdings almost up to the level of the average industrial wage.

## 5.7 Off-farm Income

It is important to note, however, that none of our analysis of the tables and graphs in this chapter takes off-farm income into account since none of those tables etc takes it into account either.

Farm households are increasingly reliant on income from sources outside of farming - indeed between 1973 and 1995 the proportionate contribution of off-farm employment to total household income (earnings of all persons, ignoring income transfers) generally doubled across all farm sizes<sup>34</sup>.

In order to supplement farm income, many farm households choose to generate income from sources outside of farming. In 2003 50% of all farms had off-farm employment for either the farmer and/or spouse<sup>35</sup>, with the Household Budget Survey<sup>36</sup> indicating that average off-farm income accounts for 61% of total farm household income, up from 49% five years earlier. In addition, on 74% of farms the farmer and/or spouse has some source of off-farm income, be it from employment, pension or social assistance<sup>37</sup>.

While off-farm income was not as common in 1979, its presence obviously played a major part in the imposition by the Department on CAS applicants at the time of an off-farm income limit. That limit was subsequently removed, following a High Court<sup>38</sup> ruling, but for reasons unrelated to that ruling.

<sup>33</sup> It is worth noting that this data is based on Teagasc's definition of a full-time farmer. It differs from that of the CSO and indicates that a "full-time farm" is a farm that requires at least 0.75 of a standard labour unit to operate.

<sup>34</sup> Lafferty, S, Commins, P, and Walsh, J A (1999). "Irish Agriculture in Transition - A Census Atlas of Agriculture in the Republic of Ireland". Teagasc, Dublin.

<sup>35</sup> 2003 NFS.

<sup>36</sup> Central Statistic Office (2002). "Household Budget Survey 1999-2000". Available at: www.cso.ie

<sup>37</sup> 2003 NFS.

<sup>38</sup> Thomas Greene and Others versus The Minister for Agriculture, Ireland and The Attorney General, 1981.

Though it would have been legally possible to reintroduce it solely as an off-farm income limit or as an entire household limit, provided married and unmarried couples were treated equally, this has not been done - notwithstanding that both Kearney et al and Fitzpatrick Associates recommended the imposition of a total household income limit in order to ensure a more equitable distribution of scheme payments.

It may be appropriate to revisit this issue now, however, given that the continuing general rise in the level of off-farm income referred to here:

- (i) almost certainly means that there are farms with quite substantial total household incomes receiving CAS payments which comprise much smaller percentages of those total household incomes than they used to comprise; and
- (ii) definitely means that the average CAS percentage contributions to total household incomes are much lower than the percentage contributions to Family Farm Incomes.

These percentage contributions can be calculated very roughly by inferring from the Household Budget Survey estimate showing average off-farm income at 61% of average total farm household income that each average Family Farm Income per holding figure quoted in the earlier tables of this chapter represents 39% (i.e. 100% less 61%) of average total farm household income. If that is so, then the average CAS contributions to FFIs shown in Table 5.4 above, for example, can be translated into average CAS contributions to total household incomes (by multiplying each by 0.39) as follows:

- Overall (All Systems): from 19% to 7.5%;
- Mainly Tillage: from 8% to 3.1%;
- Dairying: from 9% to 3.5%;
- Dairying + Other: from 14% to 5.5%;
- Mainly Sheep: from 23% to 9%;
- Cattle + Other: from 26% to 10.1%; and
- Cattle Rearing: from 32% to 12.5%.

These imputed average contributions cannot be accurate, of course, for every category shown given that the levels of off-farm income almost certainly differ between sectors.

Nevertheless, we believe that they need to be shown (a) to give a roughly approximate idea of the CAS contributions to the total household incomes of LFA farmers both in general and under different farm systems and (b) to facilitate more informed consideration of whether or not the present distribution of CAS payments needs to be altered and a total household income limit introduced, above which no household would receive CAS payments.

We tend to the view that these imputed average contribution figures, indicating as they do that the CAS percentage contributions to total household incomes are even lower than the CAS percentage contributions to FFIs on higher-income holdings, strengthen rather than weaken the cases for re-distribution of the CAS payments and for the introduction of a total household income limit.

If such a limit is to be introduced, we recommend that it be set at a generous 250 income units level (comprising the 200 units level used throughout the entire country under other Department schemes plus another 50 units factored in because of the natural handicaps suffered in the LFAs).

We do not believe that such a limit, equivalent to €63,500 as we understand it (€254 x 250 units), would see many LFA households into which this amount flows leave farming because of the loss of only about 4% on average of that amount.

### **5.8 Index-linking of CAS Payment Levels**

This was raised with us by a number of scheme stakeholders because of the perceived erosion in the value of CAS payments brought about by inflation. Though well-disposed to the idea, we do not think it is practical. The cost of index-linking and the need to seek approval of it in the context of an EU co-funded scheme present formidable obstacles, in our view, to achievement of this aspiration. That view need not hinder future consideration of the concept, however, if it becomes practical.

### **5.9 The Multiplier Effect**

We note here that it is accepted economic theory that transfers into countries or regions, once spent by their original recipients on goods and services they need, spread out throughout those areas and achieve added value of perhaps 50% or more by that spread. The funding received from the EU towards the CAS each year, therefore, has an impact in Ireland of about one and a half times the amount received - and, in turn, the €235 million yearly flowing into the Less Favoured Areas from Brussels or Dublin has a much larger eventual impact on the LFA economy as a result of this multiplier effect. This considerable cumulative impact should not be forgotten when looking at the apparently modest amounts individual CAS applicants receive.

### **5.10 Conclusions**

We verified at sections 5.2 and 5.3 above that there are significant per hectare and per holding income discrepancies between Family Farm Incomes in LFAs and non-LFAs which provide a clear rationale for supporting farm incomes in the Less Favoured Areas and an equally clear justification for the CAS as currently resourced.

At section 5.4 above we established the contributions of scheme payments to FFIs under various farm systems at 19% or €2,525 on average, with the highest *percentage* contributions of 23% to 32% going to those involved in the lower-income cattle and sheep farm systems, the highest *actual* contributions going in general to those involved in the higher-income dairy and tillage farm systems and the lowest *actual* contributions going to the lowest-income of all (cattle) farm systems.

At section 5.5 above we established firstly that, generally speaking, the scheme's percentage contribution to FFI decreased as the farm size increased whereas the actual contribution to FFI increased as the farm size increased and secondly that average LFA Family Farm Incomes for farmers over 65 years old were fairly low at €8,504 compared to €14,594 for farmers under 65 even though the CAS did contribute 26% of FFI to farmers over 65 years of age.

At section 5.6 above we found that for part-time farmers the scheme contributed a significant 33% to LFA FFI and that for full-time farmers it contributed 12%, bringing the LFA FFI for part-time farmers close to that of their counterparts outside the LFAs and the LFA FFI for full-time farmers close to the average industrial wage.

At section 5.7 above we looked at the impact of off-farm income on the CAS contributions to farms in the LFAs *on a total household income basis* rather than *on the FFI income basis* covered in earlier sections of this chapter and found the contributions to be much lower as percentages of total household incomes.

At section 5.8 we looked at the idea of index-linking CAS payments and stated it was not practical at present.

At section 5.9 we alluded to the multiplier effect and the resulting CAS added value brought to Ireland and to the LFAs by it.

We have broadly achieved our aims in this chapter, therefore, by establishing that farm incomes in the LFAs are indeed lower than elsewhere and thereby justify the scheme, by showing the extent to which the scheme contributes to farm incomes and by disclosing the contributions made by scheme payments to incomes under different categorisations.

In doing so, however, we found that the following questions arose:

- should payments be based only on a farmer's LFA location?
- is there CAS over-compensation under some farm systems?
- are some farm systems treated less fairly than others under the CAS?
- should CAS payments to large holdings be redirected partly or wholly to other, smaller holdings?
- should LFA farmers over 65 years of age be persuaded to forgo their CAS payments?
- should a total household limit of 250 income units be applied so that households with incomes in excess of that limit would not be paid compensatory allowances?
- should CAS payment levels be index-linked?

Without making recommendations, we offered observations in respect of each of these questions, outlining possible approaches towards answers, some of which overlap with others (for example, those relating to different farm systems and to farm sizes).

**Recommendation 2:** *We now recommend, however, that consideration be given by this Department to an analysis of the questions raised above to examine whether scheme payments could be redistributed more effectively to meet scheme objectives.*

## Chapter 6

### Ensuring Continued Agricultural Land Use and thereby Contributing to the Maintenance of a Viable Rural Community

#### 6.1 Introduction

The objective of ensuring continued agricultural land use and thereby contributing to the maintenance of a viable rural community can be split into two parts:

1. Ensuring continued agricultural land use: As such use is quite specific, its continuation or otherwise can be measured easily by way of analysis of data. To what extent the CAS, as distinct from a range of non-CAS factors, affects the continuation or non-continuation of such use, however, is difficult to determine.
2. Maintenance of a viable rural community: This is an altogether more abstract concept than land use and, accordingly, much harder to measure. The 1999 White Paper on Rural Development, however, conveniently lists four main indicators as key to viable rural communities. By examining the impact of the CAS on each such indicator, therefore, we try to establish whether the scheme is helping to maintain viable rural communities in the LFAs. Once again, of course, assessing the impact of the CAS relative to the impact of other factors is practically impossible.

Both the original wording and the re-wording by us of this scheme objective clearly assume that ensuring continued agricultural land use in itself *will lead automatically to maintenance of a viable rural community*. While it was open to us, therefore, to concentrate on proving the former and to pass on proving the latter by stating that it must follow on logically from the former, we resisted that temptation.

As a result, however, though blessed with data relating to two of the key factors in maintaining viable rural communities, namely population and employment growth, we find ourselves short of the material needed to assess the other two key factors of provision of infrastructure and services and cultural and social viability. We must rely, accordingly, on deduction, economic theory and a limited literature in order to reach conclusions relating to these. This is not a perfect solution - but then few solutions are.

#### 6.2 Continued Agricultural Land Use

In examining whether the scheme contributes to continued agricultural land use, we look at data from the following sources:

- Central Statistics Office (CSO) general database;
- Census of Agriculture<sup>39</sup>; and
- the Integrated Administration and Control System<sup>40</sup> (IACS).

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<sup>39</sup> The Census of Agriculture is conducted in accordance with the Statistics (Census of Agriculture) Order 1991 (S.I. No. 126 of 1991). Its objective is to identify all operational farms in the country and to obtain details on the agricultural activities undertaken on them.

<sup>40</sup> This relates to the Integrated Administration and Control System figures covering land declared by approximately 130,000 farmers on their annual Area Aid applications.

## Central Statistics Office General Database

Table 6.1 below shows that between 1995 and 2002 the number of farms in Ireland declined from 153,000 to 136,500 while the area farmed remained reasonably constant at approximately 4.4 million hectares. This decline in farm numbers coupled with the maintenance of the overall area farmed indicates that the average farm size increased during this period. The CSO's Agricultural Labour Input Survey provides further proof of this by indicating that the average farm size rose from 22.3 hectares in 1975 to 29.3 hectares in 1999.

*Table 6.1: Number of farms and Level of Utilised Agricultural Area (UAA) for the period 1995 to 2002*

<b>Year</b>	<b>Number of Farms (000)</b>	<b>Area Farmed (000 hectares)</b>
1995	153	4,389
1996	150	4,341
1997	148	4,432
1998	146	4,415
1999	144	4,418
2000	141	4,443
2001	139	4,410
2002	136	4,372

Source: CSO

## Census of Agriculture Data

Having established that between 1995 and 2002 agricultural land use in the State remained reasonably constant even though the number of farmers declined, we moved on to the use of Census of Agriculture data (which is broken down conveniently on a county basis) to analyse agricultural land use trends in our LFAs. We decided this could be done best by dividing the State into 3 groups of counties as follows:

- Category 1: counties that are 100% disadvantaged (and, therefore, attracting most CAS payments);
- Category 2: counties that are between 50% and 100% disadvantaged (attracting less, but still considerable, CAS payments);
- Category 3: counties that are less than 50% disadvantaged (attracting least CAS payments).

We believed analysis on this basis would indicate fairly clearly the extent to which scheme payments have succeeded or otherwise in ensuring or influencing positively continued agricultural land use.

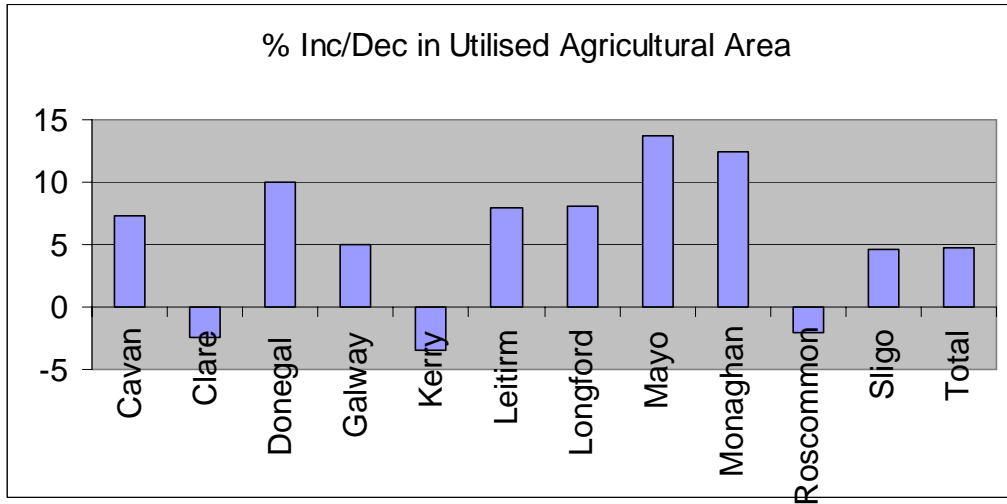
### Category 1

Some 11 of Ireland's 26 traditional counties are designated as 100% disadvantaged and, therefore, fall into this category. Graph 6.1 below indicates that in the period 1991 to 2000:

- the total Utilised Agricultural Area (UAA) of those 11 counties increased by 4.7%;
- 8 of the counties showed an increase in UAA;
- 3 of the 8 showed double-digit increases;

- only 3 of the 11 counties, i.e. Clare, Kerry and Roscommon, showed UAA decreases, each decrease being of a considerably lower magnitude than the UAA increases in the other 8 counties.

*Graph 6.1: Increase or Decrease in UAA between 1991 and 2000 for all Counties with 100% of their land designated as disadvantaged*

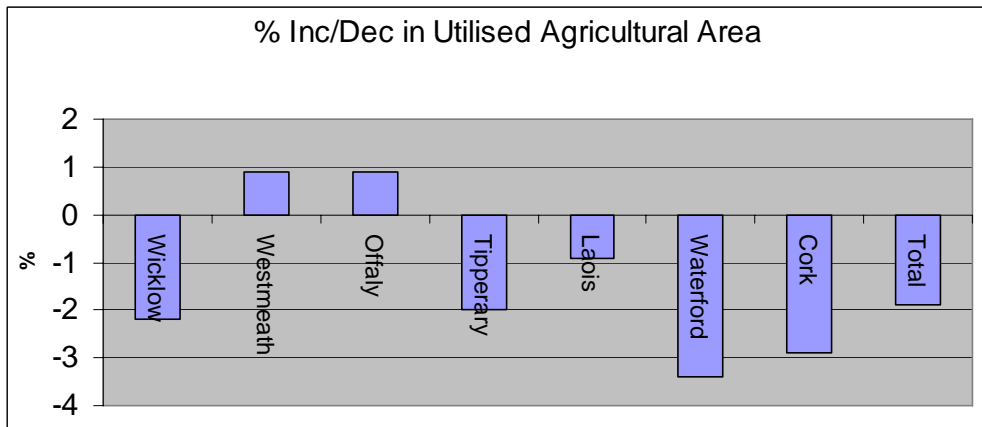


Category 2

The 7 counties with between 50% and 100% of their land classified as disadvantaged come within this category. Graph 6.2 following reveals that between 1991 and 2000 in these counties:

- UAA decreased by 1.9%;
- 2 of the 7 counties showed marginal UAA increases;
- the remaining 5 counties showed UAA decreases, with the largest decrease of 3.4% in Waterford.

*Graph 6.2: Increase or Decrease in UAA between 1991 and 2000 for all Counties with between 50% and 100% of their land designated as disadvantaged*

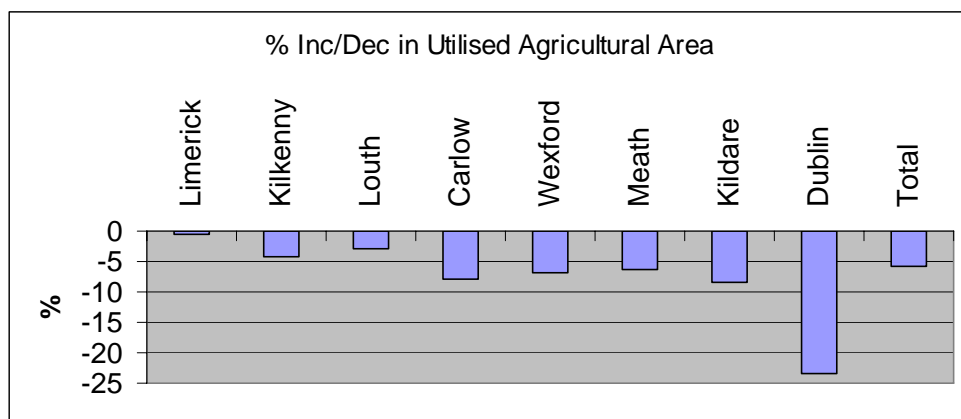


Category 3

Our remaining 8 counties, each with less than 50% of land designated as disadvantaged, fit into this category. Graph 6.3 below discloses that between 1991 and 2000 in these counties:

- UAA decreased by 6%;
- this result was somewhat distorted in relation to the other counties by the 23% Dublin drop arising from the obvious significant ‘pull’ there on agricultural land for development purposes;
- the UAA decrease for those 7 other counties, therefore, was only 5.1%;
- all 8 counties showed UAA decreases.

*Graph 6.3: Increase or Decrease in UAA between 1991 and 2000 for all Counties with less than 50% of their land designated as disadvantaged*



This analysis of Census of Agriculture data clearly indicates the following in respect of the period 1991 to 2000:

- in the 11 counties attracting most CAS payments agricultural land use increased by 4.7%;
- in the 7 counties receiving somewhat less (but still considerable amounts) in CAS payments such use decreased by only 1.9%, with 2 of those counties showing marginal increases in use;
- in all 8 counties receiving least in CAS payments agricultural land use dropped by between 5% and 6%;
- a very strong correlation exists, therefore, between CAS payment levels and the ensuring of continued agricultural land use - the higher the level of CAS payments, the higher the level of maintenance of agricultural land use.

#### Integrated Administration and Control System (IACS) Data

Our analysis of continued agriculture land use can be developed further by looking also at the figures for such land declared on Area Aid applications. These are derived from the Department’s IACS records of land declared for arable and premium aid purposes and, as set out in Table 6.2 following, indicate that the agricultural land declared by farmers over the period 1998-2004 increased for both LFA and non-LFA land.

*Table 6.2: Trend in both LFA and non-LFA millions of hectares declared for Arable and Premium Aid for the period 1998-2004*

Year	Disadvantaged Land	Non-Disadvantaged Land
1998	3.44	1.26
1999	3.46	1.28
2000	3.48	1.28
2001	3.48	1.28

2002	3.50	1.28
2003	3.53	1.30
2004	3.55	1.32

Source: ISD, Department of Agriculture and Food (*includes Commonage whereas CSO figures do not*)

When these figures are broken down between the same 3 groups of counties as above, Table 6.3 below indicates clearly that in the period 2000 to 2003 (the latest year for which this data was available on a county basis):

- an overall increase in agricultural land use;
- an increase in such use in the 11 counties that are 100% disadvantaged;
- an increase also in the 7 counties that are between 50% and 100% disadvantaged;
- a decrease in agricultural land use in the 8 counties that are less than 50% disadvantaged,

thus broadly supporting the conclusion drawn above from the CSO data in respect of an earlier period (that the CAS payments have had a positive effect on ensuring continued agricultural land use in the LFAs).

*Table 6.3: Agricultural Land (including Commonage) Declared 2000-2003*

	2000 (mn has)	2001 (mn has)	2002 (mn has)	2003 (mn has)
<b>100% disadvantaged</b>	2.30	2.30	2.31	2.33
<b>50%-100% disadvantaged</b>	1.41	1.48	1.48	1.50
<b>Less than 50% disadvantaged</b>	1.05	0.98	0.99	1.01
<b>Total</b>	4.76	4.76	4.78	4.83

Source: ISD, Department of Agriculture and Food

### 6.3 Viable Rural Communities

While the concept of “viable rural community” has not been defined specifically by Irish policy documents, the 1999 White Paper on Rural Development does provide insight into what is perceived by the Irish Government as constituting such communities. In outlining the Government’s commitment to ensuring the economic and social well being of, and adequate living conditions for, people in rural areas, this document indicated that a “viable rural community” constituted rural areas where:

- the population is maintained with adequate employment opportunities, both in agriculture and other sectors;
- there is a satisfactory provision of infrastructure and an adequate provision of services; and
- there are social groupings which are economically, culturally and socially viable.

This definition indicates that data showing evidence of population maintenance, of employment opportunities, particularly in the agricultural sector, of infrastructure and service provision and of cultural and social viability in rural areas can be employed usefully, if available, to indicate success or otherwise in the maintenance of viable rural communities.

We will look here, therefore, at how the CAS impacts on each of the following factors which contribute to the maintenance of viable rural communities:

- population of rural areas;
- numbers employed in agriculture;
- adequate provision of infrastructure and services; and
- cultural and social viability.

#### 6.4 Population of Rural Areas

Table 6.4 below shows that there was a population increase in the rural areas of each region between 1996 and 2002, apart from the Mid-East region (the Dublin urbanising influence being evident here again) and that these increases ranged from 2.4% to 6.6%, with an overall increase of 3.0%.

*Table 6.4: Population of Rural Areas 1996-2002 (in `000s)*

<b>Region</b>	<b>1996</b>	<b>2002</b>	<b>% inc/(-dec)</b>
Border	277	289	4.3
Mid-East	188	178	-5.3
Midland	135	141	4.4
Mid-West	184	193	4.9
South-East	229	244	6.6
South-West	253	260	2.8
West	245	251	2.4
<b>Total</b>	<b>1,511</b>	<b>1,556</b>	<b>3.0</b>

Source: CSO

Given that 75% of Ireland's rural areas comprise LFAs and that many of the 7 regions shown very substantially overlap those LFAs, these rural area population increases tend to show that the CAS has had a positive influence on maintaining rural populations during the period 1996 to 2002 (though not necessarily by way of maintaining agricultural employment, as will become obvious at section 6.5 following).

We are confident that these population increases will impact strongly and positively on the viability of LFA rural areas given that success breeds success here as in so many other endeavours, and that such growing populations will exert greater pressure on central government and local authorities alike to provide adequate infrastructure and services for their areas of habitation.

#### 6.5 Numbers Employed in Agriculture

Despite this population growth in rural areas, Table 6.5 below shows in respect of numbers employed in the agriculture sector that:

- in all regions save the South East they fell between 1998 and 2004;
- these falls ranged across the regions from 4% to an atypical 52% in Dublin, with an overall fall of 14%;
- during 2001-2004, the period of primary focus for our review, the rate of fall slowed down markedly from that experienced during the preceding 4-year period running from 1998 to 2001;
- in 1998-2001 the rate of fall was 10% whereas in 2001-2004 it was only 4.5%;

- in 2001-2004 there was actually a *rise* in numbers employed in agriculture in the Border and the Mid West regions;
- only 3 of the 8 regions (South East, West and atypical Dublin) experienced a faster rate of fall during 2001-2004 than they had suffered during 1998-2001.

*Table 6.5: Numbers employed in the Agriculture Sector by region 1998-2004*

	<b>Border</b>	<b>Mid East</b>	<b>Midlands</b>	<b>Mid West</b>	<b>South East</b>	<b>South West</b>	<b>West</b>	<b>Dublin</b>	<b>Total</b>
1998	20	12.8	11.5	15.1	21.5	25	26	4.2	136.1
1999	20.6	13.3	11.4	14.8	21.1	24.9	27.1	4.2	137.4
2000	18.7	12.2	10.4	14.6	22.7	23.2	26.9	4.1	132.8
2001	19	11.2	9.5	13.3	22.2	19.9	23.8	3.6	122.5
2002	19.4	10.7	10	15.3	21.3	22.1	21.8	3.4	124.0
2003	17.3	11.1	9.6	13	20	22.5	19.7	3.3	116.5
2004	19.3	11.1	9.4	14.3	21.9	19.3	19.7	2	117.0
% Inc (- Dec)	(-4)	(-13)	(-18)	(-5)	2	(-23)	(-24)	(-52)	(-14)

Source: CSO

The overall fall in agricultural employment revealed by this table for the entire period between 1998 and 2002 illustrates the progressively weakening role of agriculture in Ireland's economy generally, a trend that is predicted to continue. The recent Agri Vision 2015 Report estimated a further decline of 22% in the number of farms from the 2002 figure of 136,000 to 105,000<sup>41</sup> by 2015, with an inevitable drop in the farming population.

This table, however, does not prove that the CAS is failing in one of its aims. Nor does it contradict Table 6.4. Taken together indeed, Tables 6.4 and 6.5 illustrate a common pattern in successful, rapidly-developing economies - the transition from a predominantly rural to a predominantly urban society during which, on the one hand, agricultural employment inevitably shrinks as a result of mechanisation, growth in farm sizes and the lure of other employment and, on the other hand, sufficient employment opportunities arise or are created in or near rural areas (4.5 for every 1 lost in agriculture during 1991-1996, for example, per Chapter 2 of the 1999 White Paper on Rural Development) not just to absorb the overflow from farming but to provide employment also for urban dwellers in the LFAs and even to attract incomers into those areas. Hence the population increases in rural areas at the same time as agricultural employment decreases.

The tables show what is happening and what is going to go on happening and, while Table 6.5 does not seem to bear the same good tidings as Table 6.4 bears, they need to be used in our view not so much to bemoan the inevitable but to spur us towards framing policies or measures which will turn that inevitable into the acceptable at the very worst or the desired at the very best.

Is the CAS such a policy or measure? As indicated earlier, it contributes on average 19% to LFA farm incomes, to maintaining the level of agricultural land use and to

<sup>41</sup> These figures cover all categories including part-time farms.

maintaining LFA rural populations. By extrapolation from these indicators, we conclude that:

- the CAS is contributing also to the maintenance of agricultural employment *at a higher level than would exist if the scheme were not in place* - a not insignificant contribution, even if modestly described, and one whose existence is evidenced to an undeterminable extent perhaps by the slow-down in the rate of decline in such employment during 2001-2004;
- the CAS is playing a role also in keeping urban dwellers in, and attracting incomers to, the LFAs given that they would be repelled rather than attracted by a rural environment comprising abandoned farms sinking into disuse and environmental degradation;
- the CAS, in influencing positively the population growth in rural areas even while agricultural employment is falling, is helping to maintain the long-term viability of rural communities in the LFAs.

## **6.6 Adequate Provision of Infrastructure and Services**

The provision of rural infrastructure is acknowledged in the current National Development Plan as being crucial to the success of the rural economy. Reflecting both this dependence and the economic importance of rural areas, the plan provides for a total investment of €2,796 million in respect of the rural transport infrastructure, rural water schemes and the renewal of small towns and villages.

While the CAS does not have a direct impact on such provision, its influence in ensuring continued land use, in maintaining rural population and in slowing down the rate of decline in agricultural employment will create pressure, as outlined at section 6.4 above, for such provision from the public purse.

Without the CAS, the viability of many farms in the LFAs would be threatened, land use would decline, rural population and agricultural employment alike would fall precipitately and, as these decline, the pressure for rural infrastructure and services would recede also, resulting in a probable downgrading of infrastructure and services *not just for farmers but also for all other rural dwellers and for the villages and towns in the LFAs.*

## **6.7 Cultural and Social Viability**

A factor which is very difficult to measure but which, nevertheless, is of the greatest importance in the maintenance of viable rural communities is the presence in those communities of non-state services such as churches, shops, garages etc and of opportunities for cultural and social interactions ranging from the sublime to the mundane (and perhaps occasionally even to the ridiculous!).

Theatre, film, television, music-making and music-listening in all its forms, native, popular and classical, bookshops, cafés, restaurants, pubs, discos, night-clubs, bingo, active or passive participation in sports, access to swimming-pools, strands and beaches, outdoor pursuits, horse- and greyhound-racing etc, community organizations, self-improvement groups and so on - without this array of attractions provided in the proportions required to satisfy young, middle-aged and old alike (but particularly the young, without whom there will be no middle-aged or old eventually), no community can be truly viable.

Humans are innately gregarious. They hunger for these sorts of interactions and will not stay long in any place where they are missing. Such interactions, indeed, are the seasoning on the food of life and that food will soon pall in any area where that seasoning is missing. Survival is possible without it, of course, but most will not settle for mere survival in a LFA if by moving elsewhere they can live what they rightly perceive to be a fuller life.

Given a paucity of data or literature on cultural and social viability, it is not possible for us to determine conclusively how much of that seasoning is to be found currently in the LFAs - but the following pointers may allow us to make some tentative assumptions on this front:

- observation of the entertainment pages of Ireland's provincial press indicates a great variety and considerable quantity of opportunities for cultural and social interactions of many kinds;
- a Teagasc study by Frawley and O'Meara<sup>42</sup> carried out during 2002-2003 in five different kinds of rural areas in County Galway - and representative, therefore, of all our LFAs - indicated that, notwithstanding low participation levels in voluntary organisations, dissatisfaction with a lack of local employment, with a lack of public transport to ease commuting burdens and with poor water quality (matching precisely the two priority spending areas identified in the White Paper on Rural Development) amongst the households surveyed:
  - \* 94% expressed satisfaction with their churches;
  - \* 74% enjoyed a medium or high level of social interaction activities despite a lower level of satisfaction with leisure outlets;
  - \* 67% were satisfied with their shopping facilities;
  - \* 54% were happy with their leisure outlets;
  - \* "the level of satisfaction with their own areas was relatively high";
  - \* there was "a high level of safety perception" in relation to their areas;
  - \* the overall responses received constituted according to the survey authors "a major endorsement of rural life by those who live there";
- the yearly transfer of €235 million from the EU and central government into the LFAs, boosted considerably by the multiplier factor mentioned earlier as it is spread throughout the service and other sectors, must have a stimulating effect on the rural communities affected originally by receipt of the payments or subsequently by their circulation through and beyond those communities to other rural areas;
- the average 19% boost to farm incomes represented by the CAS, the usefulness of which some doubt because it is so low a percentage of farm income, could very well be the difference in many LFAs between the farmers involved living lives of relative frugality with very few of the interactions mentioned above and living lives where this additional income allows them to participate fully in those interactions. This difference, indeed, could increase significantly the likelihood that they will stay living in the LFAs instead of deserting them for what could be perceived as a fuller life elsewhere.

In the light of the foregoing considerations, we accept that the CAS payments are making a positive contribution to the cultural and social viability of the LFAs and thus to the maintenance in them of viable rural communities.

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<sup>42</sup> Frawley, J, and O'Meara, N (2004). "Development in Diverse Rural Areas - A Case Study in County Galway" from "Rural Development Conference Proceedings 2004", Teagasc.

## 6.8 Conclusions

Agricultural land use in Ireland remained fairly constant between 1995 and 2002 per Table 6.1 above and grew between 1998 and 2004 per Table 6.2 above.

Graphs 6.1 to 6.3 above showed that between 1998 and 2001 in the 11 counties receiving most CAS payments, agricultural land use increased; in the 7 receiving less, but still considerable, CAS payments, it decreased slightly (increasing marginally in 2); and in the 8 receiving least CAS payments, it decreased most. Table 6.3 above, derived from another source in respect of a later period, confirmed the trend shown in Graphs 6.1 to 6.3.

As far as the scheme objective of ensuring the continuation of agricultural land use is concerned, therefore, the CAS seems to be working fairly well in our LFAs.

We identified from the 1999 White Paper on Rural Development population maintenance, maintenance of agricultural employment, provision of infrastructure and services and cultural and social viability as the keys to ensuring the maintenance of viable rural communities.

Tables 6.4 and 6.5 above showed that although agricultural employment fell between 1998 and 2004 the rate of fall slowed down between 2001 and 2004 and that the overall population of rural areas and the populations in the rural areas of 6 out of our 7 regions (the sole exception being atypical Dublin) rose between 1996 and 2002.

In sections 6.6 and 6.7 above we addressed the provision of infrastructure and services and cultural and social viability and concluded from examination of a range of relevant pointers, but most particularly from a Teagasc study of 5 LFA rural areas in County Galway, that the CAS has influenced, and is influencing, positively each of the key factors which ensure the maintenance of viable rural communities, thus working fairly well also in achieving this scheme objective in our LFAs.

How much of what we show as happening above is attributable to the CAS or to other non-CAS factors is impossible to say. We nevertheless conclude that the CAS is succeeding in its objective of ensuring continued agricultural land use and thereby contributing to the maintenance of a viable rural community.

**Recommendation 3:** *To enable performance indicators relating to provision of infrastructure and services and to cultural and social viability in rural areas to be drawn up, we recommend that the Department consult with Teagasc, the Department of Community, Rural and Gaeltacht Affairs and other relevant departments or bodies to see where relevant data may be found and accessed regularly. Otherwise it is hard to see how success or otherwise in the CAS objective of maintaining a viable rural community can be measured.*

## Chapter 7

### Maintaining and Promoting Sustainable Farming Systems which in particular take account of Environmental Protection Requirements and Preserve the Countryside

#### 7.1 Introduction

We evaluate here the extent to which the scheme contributes to sustainable farming systems which take account of the environment and preserve the countryside. We do this by using secondary data from the Department of Agriculture and Food and from organisations such as the Environmental Protection Agency in order to:

- outline the relationship between agriculture and the environment;
- summarise agriculture's role in the provision of public goods; and
- analyse the contribution of the CAS to environmental protection and preservation of the countryside.

#### 7.2 Agriculture and the Environment

Ireland's unique rural landscape owes much of its character to agricultural activities carried on through the centuries. Though there are other factors which impact on the countryside like urbanisation, industrial development, transport infrastructure, tourism development, afforestation and peat extraction<sup>43</sup>, the fact that over 64% of Irish land is farmed illustrates the enormous impact which agriculture has on our Irish landscape and environment. It is vital, therefore, that farming is not pursued here at a cost to the environment.

Throughout the 1970s and 1980s the influence of agriculture on the environment became increasingly harmful because of a growth in intensive farming practices. The need arose, therefore, to reconcile long term environmental objectives with short to medium term agricultural goals.

Even though the Treaty of Rome indicated that the Community's policy on the environment was to contribute to "*preserving, protecting and improving*" its quality, environmental concerns ran a long way behind economic growth and social policy imperatives in 1957. In addition, while the 1975 directive introducing the CAS set "*conserving the countryside*" as one of its objectives, it did so mainly in the negative sense of preventing its desertion by farmers so that it would not become environmentally degraded as a result of such abandonment, rather than in the more positive sense of using the CAS to encourage LFA farmers to improve, or at the very least to avoid disimproving, their environment.

Analysts started to draw attention to the negative effect that EU agriculture policy was having on the environment. Clinch<sup>44</sup> pointed out that the heavily subsidized EU agricultural policy had a number of negative environmental effects, linking much of it to intensive farming methods. Bayliss<sup>45</sup> indicated that environmental concern could be

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<sup>43</sup> The Heritage Council (1999). "*Impact of Agriculture Schemes and Payments on Aspects of Ireland's Heritage*".

<sup>44</sup> Clinch, J P (1999). "*Environmental Policy Reform in the EU*", *Environmental Studies Research Series (ESRS) Working Paper 99/06*". Department of Environmental Studies, University College Dublin.

<sup>45</sup> Bayliss, K (2002). "*A Brief Introduction to Agricultural and Environmental Policies in the EU*". Available at [http://are.berkeley.edu/~baylis/EEP%20141\\_files/CAP.doc](http://are.berkeley.edu/~baylis/EEP%20141_files/CAP.doc).

traced back to the 1980s when increasing fears that intensive production methods were having a negative impact on the EU's environment began to surface. She highlighted three ways this was manifesting itself as follows:

- increasing nitrate and phosphate levels in water;
- the disappearance of wildlife habitats; and
- increasing amounts of toxic chemicals being found in wildlife.

Midmore et al<sup>46</sup> highlighted the fact that in more recent times environmental issues increased enormously in political potency. The European Commission<sup>47</sup> acknowledged with a heightened sense of urgency how important farming was to the environment given that over half the land in the EU was farmed. Bayliss<sup>48</sup> further drew attention to the fact that in 1984 an EEC Commission Green Paper had recognized the need for agricultural policy to take the environment into account - to little effect, however, for quite a while thereafter as far as we can judge.

All these concerns were reflected eventually in a major shift in the EU's agricultural/environmental policies as evidenced by the following regulatory landmarks:

- the 1992 CAP reform which introduced specific measures to encourage environmentally friendly farming, including in particular the Rural Environment Protection Scheme (REPS)<sup>49</sup> and the Extensification Premium to encourage extensive farming<sup>50</sup>;
- the Treaty of Amsterdam (17 June 1997) which affirmed the EU's commitment to sustainable development;
- the Agenda 2000 CAP reform which gave birth to the horizontal and Rural development regulations, both of which added to earlier environmental reforms;
- the June 2001 Gothenburg European Council which agreed to include amongst its objectives the aim that the CAP should contribute to sustainable development; and
- The decoupling of the CAS from production and the coupling of it with the requirement to abide by Good Farming Practice from 2001 on and the introduction of decoupled premia payments from 2005 on.

It is expected that the radical overhaul of the CAS from 2001 on will lead to a greater flow of environmental benefits from the scheme. Prior to assessing the extent to which these benefits actually are coming on stream, however, we will examine first the relationship between agriculture and the provision of public goods.

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<sup>46</sup> Midmore, P, Sherwood, A M and Roughley, G (1998). *"Greening LFA Payments: The Environmental Dimension of Agricultural Support in Disadvantaged Areas of the United Kingdom"*. Paper presented to the Conference on Livestock production in the European LFAs, Bray, Ireland, December 1998.

<sup>47</sup> European Commission, (2003). *"Agriculture and the Environment"*. Directorate General for Agriculture. Available at <http://europa.eu>

<sup>48</sup> Bayliss, K (2002). *"A Brief Introduction to Agricultural and Environmental Policies in the EU"*.

<sup>49</sup> The REP scheme was introduced to address the key aspects of agricultural production which are either environmentally unsustainable or on which conservation emphasis had not been placed previously.

<sup>50</sup> The Extensification Premium was introduced by the EC from 1993 onwards for farmers who operated within pre-determined stocking density limits. The premium is paid to producers with eligible suckler cows and male bovines provided they respect the following stocking densities: high rate - less than 1.4 LUs per hectare; low rate - between 1.4 and 1.8 LUs per hectare.

### 7.3 Agriculture and the issue of Public Goods

The role that agriculture plays in the provision of public goods is linked closely to the environmental requirements of EU-funded schemes such as the CAS and - as evidenced in the Department's current Statement of Strategy - is one on which more and more stress is being placed at present.

Public goods are goods that would not be provided in a free market because they have two particular characteristics:

- they are non-excludable, meaning that no individual can be excluded from their benefits;
- they are non-rival, meaning that one person's consumption of the goods does not affect consumption by others.

A common example of a public good is national defence. It is impossible to charge people for defence as there is no mechanism available to exclude a person from its benefits. Also the fact that one person is being defended does not stop others being defended. Goods, such as defence, which possess these characteristics but lack profitability will generally be underprovided in a free market, causing market failure and creating thereby a rationale for government intervention.

The Agri Vision 2015 Committee indicated that the public goods which are intrinsically associated with agriculture and its future role in their provision will constitute an important rationale for government or supra-government intervention in the agriculture sector, a fact that is acknowledged also in the Department's current strategy statement.

The Committee's report provides examples of a number of public goods which arise from agricultural activities as follows:

- rural landscape;
- cultural features;
- heritage features;
- biodiversity;
- carbon sinks; and
- wildlife habitats.

This link between agricultural activity and the production of public goods is reflected in what is called the European model of agriculture. This model has three elements as outlined by Dr. Franz Fischler<sup>51</sup>, the then EU Commissioner for Agriculture, Rural Development and Fisheries, in an address on 17 April 2001. He indicated that the Agenda 2000 reforms, in addition to introducing additional environmental regulations, also created what became known as the European model of agriculture. The first two elements of this model are competitiveness and sustainability and the third is multifunctionality, about which Fischler said:

*“Multifunctionality is not a disguise for subsidies, but rather a concept that tries to take into account the various services that farmers provide. Not only do farmers produce food, although this is certainly their most important function, they also provide other services that our society wants, such as the maintenance*

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<sup>51</sup> Fischler, Dr F. (2001). “Address to the Federation of Indian Chambers of Commerce and Industry, 17 April, 2001”. Available at <http://www.ficci.com/ficci/media-room/speeches-presentations/2001/apr/apr17-franzfischler.htm>.

*of landscapes or the protection of our environment. The free market can hardly provide these services, therefore the public sector has to guarantee that farmers are rewarded for their services”.*

The 2015 Agri Vision Committee suggested that as European agriculture, in its multi-functional role, is associated with the provision of the above-mentioned public goods, the continued EU support for agriculture can be justified on these grounds in addition to the classic income support grounds. Other influential factors justifying this support include both the legal obligation to integrate environmental protection requirements into the CAP and the additional demands placed on agriculture by consumers aside from the traditional one of food production.

The fact that the CAS is area-based and the requirement that all scheme recipients comply with GFP both contribute to multi-functionality and the provision of public goods by agriculture. They ensure also that the scheme fits comfortably within the EU's rural development framework for 2007 to 2013 - given that two of the three major objectives of rural development policy proposed for that period are enhancing the environment and countryside and improving the quality of life in rural areas.

#### **7.4 Protection of the Environment**

We now focus on the extent to which the CAS contributes to environmentally friendly farming. The degree to which it contributes, however, is clouded by both the issue of causality and, and to a lesser extent, the difficulty in measuring environmental improvements because of the length of time it sometimes takes for changes in the environment to become evident.

With regard to causality, it is difficult to distinguish between the extent of the scheme's impact and the extent of impact of other factors. Questions to be asked in this regard, for example, might be: Are there other EU-funded schemes which impact positively or negatively on the environment? What, if any, credit can be attributed to the CAS in, say, the case of a reduction in river pollution? What, if any, is the impact of the scheme on reducing stocking rates?

The second difficulty in relation to assessing the impact of the scheme is the length of time it takes for environmental improvements or disimprovements to become apparent. While negative environmental effects like river pollution can become apparent very quickly, others often accumulate so gradually and stealthily that it can be years before they are detected - and this is true also in respect of some positive effects which become evident only quietly and relatively unnoticed over longish periods.

While acknowledging these two limitations on our analysis, we now examine the contribution of the CAS to enhancement of the environment by looking at the following:

- compliance with Good Farming Practice (GFP);
- water quality;
- stocking rates; and
- overlap with other EU-funded schemes.

## Compliance with Good Farming Practice (GFP)

One of the conditions imposed on recipients of payments under the CAS is that they must farm in an environmentally friendly fashion, thereby contributing to the achievement of environmental sustainability. The scheme requires applicants to comply with Good Farming Practice (GFP). GFP is defined as "*the standard of farming which a reasonable farmer would follow in the region concerned*"<sup>52</sup> and is set out in the booklet entitled "*Good Farming Practice*", Annex 2 of the CAP RDP 2000-2006 and the two EU Hormones Directives.

The monitoring of compliance with GFP is effected by way of both internal and external cross-reporting of non-compliance and CAS inspections carried out by the Department<sup>53</sup>. The GFP booklet sets out the criteria that farmers are expected to adhere to in relation to the environment, animal welfare and hygiene and includes conditions in relation to the following key elements:

1. protection of watercourses and wells;
2. nutrient management;
3. grassland management;
4. maintenance of wildlife habitats;
5. maintenance of external farm boundaries;
6. careful use of pesticides and chemicals; and
7. animal welfare.

CAS inspections carried out in respect of 2003 applications have revealed a very high level of compliance with GFP. Of the 5,912 applicants inspected, 199 or just 3.4% were found to be non-compliant with specific elements of GFP. The figures for non-compliance in 2004 fell to 2.3% of the total CAS applicants inspected, revealing an even greater level of compliance.

This high level of compliance amongst scheme participants ensures, therefore, that a substantial proportion of Ireland's agricultural land is being farmed in accordance with acceptable environmental standards.

## Water Quality

As agriculture is a significant user of water and accounts for approximately 30% of total use in Europe<sup>54</sup>, the relationship between farming and water sources must be managed carefully. Increased levels of farming intensity have led in the past (i) to a significant increase in water usage, giving rise to growing environmental problems<sup>55</sup> and (ii) to impacts on the quality of water which agriculture did not even use but which, nevertheless, suffered collateral damage from farming practices.

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<sup>52</sup> Commission Regulation (EC) No 445/2002 of 26 February 2002 laying down detailed rules for the application of Council Regulation (EC) No 1257/1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF).

<sup>53</sup> Following the introduction of Council Regulation (EC) No 1259/99 of 17 May 1999, commonly referred to as the horizontal regulation, farmers in receipt of all premia payments were required to adhere to good farming practices - all inspections carried out by the Department, therefore, must include a check on compliance with GFP guidelines (EU regulations require that at least 5% of CAS applicants be inspected each year).

<sup>54</sup> European Commission (2003). "*Agriculture and the Environment*", Directorate General for Agriculture. Available at <http://europa.eu>.

<sup>55</sup> European Commission (1999) "*Agriculture, Environment, Rural Development: Facts and Figures - A Challenge for Agriculture*". Available at <http://europa.eu>.

The Environmental Protection Agency<sup>56</sup> (EPA) pointed in 2000 to declining water quality "*as the primary environmental challenge facing Ireland today.*" after indicating in a 1999 report<sup>57</sup> that Ireland's surface water quality was continuing to deteriorate because of eutrophication and suggesting that there was strong evidence that nutrient loss from agriculture was the main cause of eutrophication.

While the 2002 EPA report on water quality<sup>58</sup> suspected that agriculture was still responsible for most recorded instances of slight and moderate pollution in Irish rivers and streams (with domestic or non-agricultural sewage accounting for the bulk of the remainder), that report indicated also that:

- the incidence of serious pollution arising from agriculture, while still significant, had reduced in recent years;
- for the first time since national surveys had commenced, there had been a decrease in the length of polluted river channel.

The report attributed this improvement to a number of factors, including REPS and the Control of Farmyard Pollution scheme. While the report did not mention the old CAS, it is anticipated that the new, restructured CAS and its requirement of environmental compliance, especially with elements of GFP relating to water management, will have a positive impact in future on improvement of water quality in the Less Favoured Areas. Indeed, the further decline noted by the EPA<sup>59</sup> in the length of polluted river channel to 67 kilometres during the 2000-2002 period (in which the new CAS had come into play) and described by the EPA as a "major improvement" on an earlier period may be the harbinger of such a sustained improvement.

### **Stocking Rates**

High stocking rates lead to a high use of artificial fertiliser and an increase in the amount of animal waste produced, both of which can have an adverse impact on soil quality and the environment. The move to an area-based CAS and the decoupling of EU-funded premia schemes will have a positive impact on the environment as a result of the consequent predicted decline in animal numbers. FAPRI-Ireland<sup>60</sup> estimated that Ireland's suckler cow herd would fall by 30% relative to the baseline<sup>61</sup> by 2010, with beef production and sheep numbers both falling by 12%. These anticipated decreases will have strong positive environmental effects because of the reduction in animal numbers towards the level of optimum environmental benefit and the resulting lower overall level of animal emissions.

Indeed, the move to an area-based CAS appears to have had a fairly immediate effect already on stocking density in the LFAs. NFS figures reveal that between 2001 and

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<sup>56</sup> Environmental Protection Agency (2000). "*Ireland's Environment - a Millennium Report*". Environmental Protection Agency.

<sup>57</sup> Toner, P, and Doris, Y. (1999). "*Water Quality in Ireland 1995-1997*". Environmental Protection Agency.

<sup>58</sup> McGarrigle, M. L. et al (2002). "*Water Quality in Ireland 1998-2000*". Environmental Protection Agency.

<sup>59</sup> Environmental Protection Agency (2004). "*Ireland's Environment 2004 - the State of the Environment*". Environmental Protection Agency.

<sup>60</sup> FAPRI-Ireland Partnership (2003). "*An Analysis of the Effects of Decoupling of Direct Payments from Production in the Beef, Sheep and Cereal Sectors*". Teagasc, Dublin.

<sup>61</sup> The baseline scenario was a projection of the future status of the agriculture sector under the assumption that there would be no change in current agricultural policy.

2003 that stocking rate dropped by 0.04 livestock units per hectare while over the same period non-LFA farmers increased their rate by 0.05 livestock units per hectare.

We would expect this trend towards reduced stocking density to continue in the LFAs given the very low stocking density of 0.15 livestock units per hectare required under the CAS and the effect of decoupling under the other schemes alluded to above.

This will ensure, on the one hand, maintenance in future of extensive farming in the LFAs and avoidance thereby of land abandonment and the ensuing risk of environmental degradation and, on the other hand, fewer animals in the LFAs and correspondingly fewer environmental problems in the future such as those associated previously with high stocking densities. Put another way, farming in the LFAs will continue at a level that is at one and the same time environmentally necessary and environmentally sustainable.

### **Overlap with other EU-funded Schemes**

#### Rural Environment Protection Scheme (REPS)

Enright<sup>62</sup> pointed out that agri-environmental schemes such as REPS are particularly appropriate to LFAs given that extensive approaches to farming are often traditional to those areas. He indicated that participation in REPS would result in positive environmental benefits and contribute to the promotion and maintenance of sustainable farming systems.

In 1999 30%, or 26,340, of farmers in the CAS participated in REPS. This figure rose to 29,873 in 2002 and to 31,373 in 2003. The fact that 31% of CAS applicants are participating in REPS and obliged, therefore, to operate environmental plans for their holdings, coupled with the excellent compliance record of all CAS applicants in relation to Good Farming Practice, bodes well for the future of the LFA environment.

#### Extensification Premium Scheme

Table 7.1 below indicates that over two-thirds of our 100,000 CAS applicants farmed extensively enough in 2002 and 2003 to qualify for EU Extensification Premium. Given the environmental benefit of such extensive farming, this proven very high proportion of CAS applicants practicing it indicates that the CAS is succeeding in its environmental protection objective.

*Table 7.1: 2002/03 CAS beneficiaries who also received the Extensification Premium*

	2002	2003
<b>High Rate-Number</b>	54,333	56,384
<b>-Area</b>	1.90 mn ha	1.96mn ha
<b>Low Rate-Number</b>	14,983	13,645
<b>-Area</b>	0.56 mn ha	0.53 mn ha

Source: Department of Agriculture and Food

<sup>62</sup> Enright, P (2004). "Farming at the margins: Exploring the impact of Compensatory Allowances in Ireland". Paper presented to the "Europe at the Margins: EU Regional Policy, Peripherality and Rurality" conference, Angers, 15 and 16 April 2004.

## 7.5 Conclusions

The impact which the CAS has on the environment is very difficult to determine because of the causality problem and that of the time-lag in detecting environmental improvements or disimprovements.

Despite these complications, it is evident from the data examined that the scheme is contributing to a positive impact on the environment. The level of compliance with Good Farming Practice amongst scheme applicants is very high and rising. LFA average stocking density has dropped already as a result of the change from an animal-based to an area-based CAS and is very likely to continue dropping. Almost a third of CAS applicants are so committed to environmental protection and improvement that they are participating in REPS. Over two-thirds of all CAS applicants farm so extensively that they qualify for EU Extensification Premium.

There is EPA evidence of a reduction in the incidence of serious pollution by agriculture and of a first-ever recorded decrease in the length of polluted river channel - pre-dating, it is true, the restructured CAS. The EPA has noted a further reduction in length of polluted river channel, however, in the first two years of the new CAS. Given the subsequent reduction in stocking density attributable to that restructured CAS and the recorded high level of compliance with the GFP requirements including those relating to water management under the scheme, further CAS-influenced improvements on the water quality front are anticipated.

The decoupled nature of the scheme and its requirement of compliance with GFP means that it fits in perfectly with the new European model of agriculture - under which, going forward, it will be expected (and will be able) to provide the public goods of environmental protection and conservation of the countryside and meet the scheme objective of ensuring these.

**Recommendation 4:** *To enable performance indicators relating to environmental factors such as recovery from hill overgrazing, wildlife habitats, pesticide usage etc to be drawn up, we recommend that the Department consult with the Department of the Environment, Heritage and Local Government, the Environmental Protection Agency and other relevant departments or bodies to see where relevant data may be found and accessed regularly. In the absence of such indicators, we cannot see how the scheme's success or otherwise in protecting the environment and preserving the countryside can be comprehensively monitored.*

## Chapter 8

### Administration and Delivery of the Compensatory Allowance Scheme

#### 8.1 Introduction

We examine here the systems employed by the Department of Agriculture and Food in delivering the Compensatory Allowance Scheme (CAS) and evaluate the *level of efficiency* of those systems. In doing this, we define:

- *efficiency* as the level of output which should be generated by the level of input to the scheme;
- *output* as the number of applications processed each year; and
- *input* as the yearly cost of processing those applications.

In this evaluation we try to answer questions such as: Are we using the minimum level of input to the scheme for the level of output required? Are we achieving the required level of output? Are we delivering it on time? If not, why not?

We do this by looking at the activities and costs associated with scheme administration and the most recent scheme audits.

We evaluate here also the *quality of service* provided by the Department in operating the scheme.

Good quality service requires not just efficiency but efficiency delivered:

- fairly and courteously;
- in accordance with the principles of natural justice;
- by setting out clearly for applicants their entitlements, how they can gain them and when they may expect to receive them;
- by issuing eligibility queries to, or replying to such queries from, applicants promptly and with the same respect for their rights as for their obligations;
- by promptly paying claims due or refusing undue claims on foot of clearly-explained ineligibility grounds; and
- by having applicants' complaints and appeals dealt with promptly, independently and impartially.

We evaluate *quality of service*, therefore, by scrutinising insofar as we can these elements of good quality service.

#### 8.2 Research Methodology

In measuring the *level of efficiency* with which the scheme is being administered, we identified the activities and costs involved in operating the CAS by way of a questionnaire to heads of divisions or units in, or associated with, the Department of Agriculture and Food in which they were asked to detail those activities and costs (see Appendix 3, P102). Completing the questionnaire certainly required thought, time and effort on the part of each head of division concerned and we take this opportunity to thank all of them and their staff for their co-operation in doing so.

In measuring *quality of service*, we considered issuing a questionnaire also to a representative sample of scheme applicants but eventually decided, in light of the fact that a Ewe Premium questionnaire issued some years ago had attracted a very low reply rate, that this might be too time-consuming and would not be cost effective. Accordingly, we used the following data already collected, or easily accessed, by the Department instead for this purpose:

- quality and timeliness of scheme information in application, Helpsheet and Terms and Conditions;
- ease of application;
- delivery of scheme payments in line with targets agreed in the Protocol on Direct Payments to Farmers;
- numbers of Parliamentary Questions, Ombudsman queries and complaints related to the CAS;
- number of appeals against Department decisions on the CAS received by the Agriculture Appeals Office and the percentages of such appeals upheld and disallowed.

### 8.3 Administration Process

Before looking in detail at both efficiency and quality service issues, however, it may be useful to analyse broadly the scheme's administration by breaking it down into three distinct stages:

1. submission of applications;
2. processing of applications; and
3. payment process.

#### 1. Submission of Applications

The CAS does not have its own separate application form. Instead, as part of what is now the Single Payment Scheme etc application process, each farmer eligible for the CAS is:

(1) sent a Single Payment Scheme etc application form with the previous year's details printed thereon together with a Helpsheet and Terms and Conditions in respect of all the schemes (including the CAS) covered by that application and maps covering changes in land parcels declared;

(2) asked to apply under the CAS (named the Disadvantaged Areas Scheme from 2005 on) by putting shading in the circle in section 7 of that application form<sup>63</sup> as shown below

<p>7. I wish to apply under the Disadvantaged Areas Scheme 2005 for payment on the Disadvantaged Area forage area within the State declared in this application <input type="radio"/></p>
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(3) requested to forward the completed application form to either the Single Payment Unit of the Department or one of its District Livestock Offices (DLOs) on or before the appointed closing date of 16 May in 2005 (forms received in the DLOs being sent on to the Single Payment Unit for processing).

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<sup>63</sup> Each year all CAS and premia and arable aid (from 2005 Single Payment Scheme etc) applicants must submit an Area Aid (now Single Payment Scheme etc) application form - available on the Department's website - and must enter thereon, where not pre-printed already, name, address, herd number etc and schemes entered together with details of all land parcels farmed by them in that calendar year.

The application form itself is relatively simple and comprises two pages, front and back.

The applicant must enter on the front page, if they are not pre-printed there already, the following standard details:

- name;
- address;
- herd number;
- telephone number(s);
- Personal Public Service Number; and
- date of birth.

Up to 2004 applicants, where appropriate, had to declare forage area for livestock premium purposes or apply for arable aid or Extensification Premium. From 2005 onwards, however, they no longer have to deal with these defunct schemes - but are required instead to apply, as appropriate, on the remainder of the front page of the application to activate, use, transfer or consolidate Single Payment Scheme entitlements or to join the schemes, including the CAS, listed there.

The back page of the application requires applicants to declare details of all land parcels in their holdings in respect of the year in question so that those details can be used later to calculate CAS and other entitlements.

The process, which seems relatively straightforward as far as the application form itself is concerned, can be complicated by the acceptance of late applications. These are acceptable in respect of the CAS up to and including 10 June 2005. For each working day after 16 May 2005 the application is late, however, a percentage reduction is made in any related aid payable. Applications received on or after 11 June 2005 will not qualify for any payment at all unless proof of posting in time to be received by 10 June 2005 can be provided or a case of *force majeure* can be put forward and proven to the Department's satisfaction.

## 2. Processing of Applications

Following receipt in the Single Payment Unit, applications together with any correspondence are opened, assigned a sequence number, scanned by a scanning company and returned to the Unit on a daily basis. The relevant details from application forms are captured, with Land Parcel Identification System<sup>64</sup> (LPIS) numbers assigned to land parcels for recognition purposes. New parcels of land that had not been assigned LPIS numbers previously are forwarded to a mapping company which digitises each such parcel and allots a unique number to it. After all relevant details are captured, applications are further processed, with applicants notified in writing by the Single Payment Unit of errors on, or problems relating to, applications.

At least 5% of CAS applications are selected for on-the-spot inspection on a risk analysis basis which also covers elements of representativeness and randomness<sup>65</sup>.

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<sup>64</sup> The LPIS number is a unique alphanumeric identifier which outlines the exact location of a parcel of land. This alphanumeric code also facilitates identification of the disadvantaged status of the land.

<sup>65</sup> Article 69 of Commission Regulation (EC) No 817/2004 states that at least 5% of applicants are subject to inspection yearly to ensure compliance with the eligibility criteria governing the scheme. Inspections may be carried out on the ground or by remote sensing.

A proportion of the applications selected, together with any necessary maps, are forwarded *via* the relevant District Livestock Offices now (but directly in future) to the local Integrated Controls Inspectorate personnel to enable them to carry out the on-farm inspections. On completion of inspections, the inspection report forms are returned to the Single Payment Unit staff for input by them. Applications are cleared for payment after such input and after all outstanding problems are resolved.

The remaining applications selected for on-the-spot inspection are forwarded by the Single Payment Unit to a remote sensing contractor so that the holdings can be viewed by satellite in order to establish the accuracy of the land parcel declarations insofar as area and use are concerned. If in order on return to the Unit, such applications are processed for payment. If not in order, it is usual for an on-farm inspection to be arranged in order to resolve any problems - with the procedures outlined for such inspections above being followed here also.

### 3. Payment Process

The payment of grants under the CAS is agreed in accordance with commitments made under the Protocol on Direct Payments to Farmers<sup>66</sup>. Unlike many other grant schemes operated previously by the Department, under which payment used to be made in two moieties, the CAS payments are made in full after commencing in the last third of September or upon resolution of outstanding problems, whichever is the later. Payment is effected in one of two ways:

- by post: this is the traditional method whereby the pay order is posted to the applicant;
- by Electronic Funds Transfer (EFT): EFT is a system whereby the Department makes payments by transferring them directly to farmers' bank accounts, details of which have been obtained at an earlier stage. Approximately one-third of CAS applicants receive payment by EFT.

Prior to issuing payment, a check is made against the Department's overpayment file to ensure that there are no payments due to the Department for offset against the applicant's CAS payment.

### **8.4 Efficiency 1: Scheme Staffing Requirements**

As indicated earlier, an area-based scheme replaced an animal-based scheme in 2001. This review, by issuing a questionnaire to those involved in the delivery of the scheme, has identified staff costs incurred by the Department etc (including administration, salary, travel and overtime costs) from that date.

As the full-time equivalents of 99 staff (representing input from 211 administrative and 196 technical or professional staff) deliver the CAS, the heads of the following eight divisions or units in, or associated with the work of, the Department of Agriculture and Food, were asked to complete the questionnaire so that the total administration cost of the scheme could be determined:

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<sup>66</sup> This Protocol, agreed in 2001 between the Department of Agriculture and Food and the major farming organisations, sets out among other things specific delivery and service targets for the wide range of direct income payment schemes to farmers, including the CAS.

1. Headage/Disadvantaged Areas Division;
2. Area Aid/Single Payment Unit;
3. Integrated Controls Inspectorate;
4. Information Systems Division (CAS Section);
5. CAP Rural Development Division;
6. Accounts Division;
7. The Agriculture Appeals Office (independent of the Department in function);
8. The District Livestock Offices.

## **8.5 Efficiency 2: CAS-related Responsibilities of Individual Units**

Their functions are summarised as follows.

- Headage/Disadvantaged Areas Division

Main area of responsibility: overall administration of the scheme. This involves:

- drafting scheme application, Terms and Conditions and programming instructions for Information Systems Division (CAS Section) concerning selection of inspection cases, application cross-checks and payment procedures etc;
- co-ordination vis-a-vis Good Farming Practice, Hormones, eligibility, estimates and annual account issues;
- briefings, Parliamentary Questions, representations, audits, Ombudsman and Agriculture Office appeals and negotiations on operational elements of the scheme.

- Area Aid/Single Payment Unit

Main area of responsibility: receiving and processing to payment stage approximately 100,000 applications in respect of the scheme. This involves:

- recording receipt;
- capturing application data;
- preparing files for inspection on-farm or by remote sensing; and
- resolving errors.

- Integrated Controls Inspectorate

Main area of responsibility: carrying out on-farm inspections. A total of 5,912 applicants were inspected in respect of the 2003 scheme year.

- Information Systems Division (CAS Section)

Main area of responsibility: developing and maintaining the CAS IT system on foot of specific instructions from Headage/Disadvantaged Areas Division.

- CAP Rural Development Division

Main area of responsibility: overall policy co-ordination function in respect of the CAP Rural Development Plan, of which the CAS is an integral part. The division is also responsible for EU monitoring, reporting and amendment requirements in respect of the scheme.

- Accounts Division

Main area of responsibility: ensuring payments issue to all eligible applicants. This includes:

- managing errors on payment files;
- processing and verifying manual payments; and
- cancelling and re-issuing pay orders and processing Electronic Fund Transfers.

- The Agriculture Appeals Office

Main area of responsibility: provision of an independent appeals service to farmers who are dissatisfied with decisions of the Department of Agriculture and Food regarding their entitlements under certain schemes, including the CAS.

- The District Livestock Offices

Main area of responsibility: supporting the overall operation of the CAS. This involves:

- accepting applications towards the end of the application period and routing them to the Area Aid/Single Payment Unit;
- receiving from the Area Aid/Single Payment Unit and routing to local Integrated Controls Inspectorate personnel the on-farm inspection cases;
- dealing with stocking density and general eligibility and payment queries;
- facilitating appeals (in which Regional HEOs play a significant role).

*(Given the wind-down of the District Livestock Offices, much of the above work will be dealt with by others in future.)*

## **8.6 Efficiency 3: Resource Costs**

The total administration cost of operating the CAS in respect of the scheme year 2003<sup>67</sup>, as derived from questionnaire data, was €5.76 million, 56% of which was attributed to the cost of carrying out on-farm inspections. The €5.76 million total represents 2.4% of the grants paid (€235.2 million) in respect of the scheme year 2003. Aside from increases in wage costs and variations in inspectorate costs (mainly due to difficulties associated with the Foot and Mouth disease), the cost of administering the scheme has remained fairly constant since 2001. Appendix 4, P104, outlines both the methodology used and a breakdown of the costs incurred.

The European Commission was contacted in order to see if they could provide relevant data from other Member States against which Ireland's scheme administration costs could be benchmarked. They could provide no help, however, in this regard.

Accordingly, the review examined instead a 1998 evaluation carried out by the Comptroller and Auditor General<sup>68</sup> (C&AG) and decided it was suitable for use as a benchmark against which the 2003 costs could be measured. The C&AG study effectively calculated the same costs as this review calculated for 2003 and, while their

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<sup>67</sup> Total costs were identified for the period 2001-2004. As 2003 was the most representative of those years, the figures for that year have been used here.

<sup>68</sup> Comptroller and Auditor General (1998). "Report on Value for Money Examination - Department of Agriculture and Food, Administration of the Premium and Headage Grant Applications. Report No. 25".

study was based on an animal-based CAS and covered all headage and premia schemes, the administration process was quite similar. To ensure that the figures were comparable, the C&AG figures were adjusted to allow for inflation.

*Table 8.1: Comparison between 1997 Costs per 1998 C&AG Study and 2003 Costs per this Review*

	C&AG Study 1998	Review 2003
Total Applications	543,000	102,529
Total Administrative Cost	€28.68 mn <sup>69</sup>	€5.76 mn
Admin Cost as a % of Grants Paid	2.3%	2.4%
Unit Cost per Application	€2.82	€6.18

**Note:** All livestock/premia applications are shown for 1997; CAS applications only are shown for 2003; as the C&AG Unit Cost figure for 1997 is the same for both non-CAS and CAS applications, however, it is directly comparable with the 2003 CAS Unit Cost figure.

The C&AG evaluation established that administration costs totalled 2.3% of grants paid and provided good value for money. The 1997 unit cost per application of €2.82 was 6% lower than the €6.18 unit cost of the CAS in 2003. While this appears to indicate that the current cost of administering the CAS is excessive when compared to the 1997 cost, the increase can be attributed to wage inflation and other costs marching ahead of inflation per the Consumer Price Index (CPI) and to the increased complexity of on-farm inspections, particularly in the area of checking compliance with GFP<sup>70</sup>.

This comparison provides conclusive evidence that the level of input to the CAS has been maintained at a rate broadly similar to that which was deemed as value for money by the C&AG in 1998 and which, therefore, by producing a comparable present level of output from the scheme (as set out below), can be regarded as “*economical and efficient*”<sup>71</sup>.

#### **8.7 Efficiency 4: Audit Environment**

The review also examined the audit environment surrounding the CAS in view of the fact that:

- the cost of the scheme is so large and the risks arising so commensurately significant that auditing is important both from EU co-funding and national co-funding perspectives; and
- positive findings can reassure both EU and national taxpayers that the scheme funds are being well-spent while adverse findings can lead, in negative terms, to penalties which increase the scheme’s administration cost and, in positive terms, to a reduction in unnecessary expenditure once any necessary corrective action is taken.

<sup>69</sup> The 1998 figures are converted to 2003 prices for comparison purposes, using the CSO’s Consumer Price Index (CPI).

<sup>70</sup> An interview with the head of the Integrated Controls Division revealed that in 2003 inspections took approximately 50% more time than in 1998. This has obviously had a considerable effect on the increased cost of inspections.

<sup>71</sup> The Comptroller and Auditor General (Amendment) Act 1993 defines the purpose of VFM examinations as being to determine the extent to which funds have been used economically and efficiently.

All audits reviewed have established that the scheme has been operated in accordance with the rules, regulations and guidelines laid down at national and EU level. This is substantiated by the fact that the EU has not imposed any non-compliance penalties for 2001-2004, the period under appraisal in this review.

## **8.8 Quality of Service**

Having established that the Department is administering the scheme in a cost-effective - and, therefore, efficient - fashion, we now focus on quality of service.

The Department of Agriculture and Food's commitment to this is evidenced by (a) the high level goal it has set itself in relation to the CAS of providing an efficient, friendly and timely service at the least cost to the taxpayer<sup>72</sup> (b) its acceptance of the 'Principles of Quality Customer Service'<sup>73</sup> which set out (i) for customers of public service bodies the level of service they can expect to receive when dealing with such bodies (ii) for those bodies themselves the standards they must meet in relation, for example, to quality of service, equality and physicality of access, timeliness, courtesy and appeals (c) its engagement with farm organisations in drawing up the Protocol on Direct Payments to Farmers and agreeing the delivery targets in that Protocol and (d) its role in setting up the Agriculture Appeals Office.

To see whether the Department actually delivers on foot of this overall commitment, however, we now examine from a customer service perspective:

- provision of information;
- application procedures;
- issuing of outgoing, and answering of incoming, queries;
- delivery of payments; and
- overall quality of service.

### Provision of Information

Since 2001 intending CAS applicants have been sent the scheme application Helpsheet and Terms and Conditions each year as part of the Area Aid application etc package - and from 2005 on they will be sent these as part of the Single Payment Scheme etc package.

This undoubtedly provides applicants with (a) timely information on their CAS entitlements, on how to gain them and on when they may expect to be paid them and (b) application forms with the maximum possible amount of pre-printed application data which are relatively simple to complete where the holdings remain unchanged.

During our consultations with the main farm organisations in the course of this review, they stressed the benefits of this process and characterized it as simple, straightforward and successful.

There is some evidence, however, that it is not quite as simple, straightforward and effective as they believe it to be.

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<sup>72</sup> While the scheme is co-funded by the EU, the total administration costs are borne by national funds.

<sup>73</sup> Department of the Taoiseach (2001). "*Principles of Quality Customer Service*". Quality Customer Service Working Group. Available at [www.bettergov.ie](http://www.bettergov.ie).

Firstly, a substantial number of intending CAS applicants fail each year to tick the appropriate box or shade the appropriate circle on the application form in order to enter the CAS and they have to be written to, therefore, by the Area Aid Unit (Single Payment Unit from 2005) and asked if they do indeed wish to enter the scheme - with the very success of the Unit in tackling so swiftly this problem probably largely obscuring from outside eyes its existence in the first place!

Secondly, the specific CAS Terms and Conditions have not been set out very clearly in the Helpsheets which, in any event, is too lengthy. Intending applicants would not have found all they needed to know about the scheme in one compact, coherent, comprehensive section. They would have had to search instead in several parts of the Helpsheets for different bits and pieces of scheme information. This is not acceptable and may be why the AFCon Report indicated that there was “*scope for a clearer dissemination of information on Compensatory Allowances for potential beneficiaries of the scheme.*” Indeed, given the importance of the scheme payments to the incomes of so many farmers, we whole-heartedly agree that it is vital that clearer and more targeted scheme information be made available each year to every intending applicant.

We note that one step in this direction has been taken in the 2005 Helpsheets by the bringing together of all the CAS Terms and Conditions.

**Recommendation 5:** *To get rid of information overload, differentiate between schemes and help applicants focus better on whatever schemes they are joining, however, we recommend a further two steps in 2006 as follows:*

- *elimination of all unnecessary repetition in the Helpsheets;*
- *separate colour-coding for the Terms and Conditions/Notes of each scheme.*

### Application Procedures

The submission of one joint application by applicants eligible under a number of schemes (including the CAS) is undoubtedly less expensive, simpler and less burdensome for applicants and Department alike than the submission of multiple applications. Notwithstanding the problems alluded to in the preceding section, indeed, this single application approach has ensured, in the stakeholder opinion also alluded to in that section as well as in our opinion, a high level of satisfied participation amongst the scheme’s target membership. We see no reason to change this process, therefore, providing the relatively minor problems relating to it are resolved.

### Issuing of outgoing, and answering of incoming, Queries

This single application procedure is not matched, however, with a single query handling procedure within the Department *after* lodgement of applications.

The Area Aid Unit in Ballsbridge deals with land parcel queries, the CAS Section of the Disadvantaged Areas/Headage Division in Castlebar with new general eligibility queries requiring precedent-setting answers and the District Livestock Offices with routine queries in respect of which they have been briefed by Castlebar - while the Information Systems Division (CAS Section) providing IT support is headquartered in Agriculture House, Dublin.

Although, as evidenced elsewhere, this fragmented system has worked efficiently in the past because of the dedication of all the staff involved, it is not ideal. This review has

no doubt, therefore, but that where feasible a single group of divisions dealing in one location with the most important elements of CAS-related administration would be an inherently more efficient way of operating the scheme. It is understood that, with the planned transfer to Portlaoise of the Area Aid Unit from Ballsbridge and of the Headage/Disadvantaged Areas Division's CAS Section from Castlebar, such an outcome will result. This review certainly recommends that it should.

### Delivery of Payments

As outlined already, payment is made in one of two ways, either by the traditional 'cheque in the post' or directly to an applicant's bank account by Electronic Funds Transfer. In 2004 payments under that year's scheme totalling €195.5 million, representing payments to 85,104 applicants, were made by 20 September 2004. This constituted approximately 85% of the estimated final payout in relation to the scheme, and as indicated by the then Minister for Agriculture and Food, Joe Walsh, exceeded the target date for payment set in the Protocol on Direct Payments to farmers<sup>74</sup>. Reports to Protocol Monitoring meetings subsequently confirmed that the remaining 15% was paid also in timely fashion.

**Recommendation 6:** *Given that the more inherently efficient Electronic Funds Transfer payment option is being exercised by only one-third of applicants, we recommend a further campaign by the Department to increase this uptake via inclusion in or with the application issued of an EFT authorisation. Though past efforts have not produced the desired results, we need to try again - perhaps through imaginative marketing by way of, for example, a draw for attractive prizes amongst those responding positively.*

### Overall Quality of Service

Many scheme applicants with queries are likely to use the telephone but the Department does not keep records in relation to the number of such telephone enquiries.

Data and scheme figures, on the other hand, *are* available in relation to Parliamentary Questions, Ombudsman and Agriculture Appeals Office appeals and customer complaints. This information is useful in determining the quality of service associated with the scheme's administration.

In 2003 approximately 35% of Parliamentary Questions in relation to premia etc applications were in connection with the CAS. This percentage corresponds closely with the percentage of overall premia applications received in 2003 represented by the CAS applications and would support the view that the scheme had no higher a dissatisfaction level in 2003 than any of the other premia etc schemes. Indeed, given the tendency of TDs to include all Department premia etc schemes when really asking a Parliamentary Question about one of those schemes only, the dissatisfaction level in relation to the CAS, as measured by PQs, may even be lower.

This possibility is supported by the fact that there were NO complaints received by the Quality Service Unit of the Department or by the Office of the Ombudsman in respect of the CAS in 2003. While the lack of such complaints was not an indication that all

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<sup>74</sup> Department of Agriculture and Food (2004). Press release by Minister for Agriculture and Food, Joe Walsh, on 20 September 2004, available at [www.agriculture.gov.ie](http://www.agriculture.gov.ie).

2003 CAS applicants were happy with the administration of the scheme, it must indicate that they were not very unhappy with it.

The Agriculture Appeals Office received 18 CAS appeals in 2003, of which only 4 were successful. These 18 represented 1.6% of their overall number of appeals received in 2003 and 0.02% of the total number of 2003 CAS applications. Again, while this data does not prove definitely that applicants are happy with the quality of service, it is an indication that they are, on the whole, satisfied with the level of service and the quality of decision-making provided by the scheme administrators.

## 8.9 Conclusions

Comparison between the 1997 and 2003 scheme administration costs shows that the scheme is being operated efficiently.

Inclusion of the Area Based CAS indicator on the Area Aid/Single Payment Scheme etc application is the most efficient way to collect the initial application data since the entering or capturing of this data does not place too great a burden on either applicants or the Department of Agriculture and Food. This process contributes significantly to the relatively low administration cost and high client satisfaction level attributed to the scheme.

We recommend, however, (i) that the Helpsheet accompanying the application posted out to applicants be improved by elimination of unnecessary repetition and by scheme colour-coding (ii) a new campaign to boost the numbers of applicants availing of the Electronic Funds Transfer payment delivery option.

The fact that eight different divisions or units in, or associated with, the Department deal with scheme applications might suggest that the process is more complicated and expensive than necessary. Nevertheless, examination of that process shows that, from application through to payment, the involvement of each unit is essential to operate the scheme.

**Recommendation 7:** *Even so, without in any way reflecting adversely on the efficiency and quality of service now provided by dedicated staff in fragmented locations, the review strongly believes that the location of one group of units in one place only to deal with the most important elements of CAS administration would help reduce administration costs and enhance even further the efficiency and quality of service with which the scheme is delivered.*

While information could be provided more coherently and fragmented query handling co-ordinated better, as just stated here, we conclude, nevertheless, from the evidence which we established above of reasonable cost, timely provision of information, ease of application, satisfactory query handling, prompt payment and low levels of both complaints and appeals that the Department is already delivering an efficient and high quality service.

## Chapter 9

### Operation and Objectives of the Compensatory Allowance Scheme in Other EU Member States

#### **9.1 How the Scheme Operates in Some Other EU Member States**

In accordance with the review's Terms of Reference, we take account here of how the CAS operates in other Member States of the EU - for background information purposes and so that Ireland's CAS (Chapter 2) can be compared with some of the schemes operating elsewhere.

In this chapter we will:

- set out how schemes are operated in some other EU Member States with particular reference to the objectives of, and main conditions governing eligibility for, those schemes; and
- compare some key scheme issues in those countries with CAS key issues in Ireland.

The information in this chapter is drawn from reviews<sup>75</sup> commissioned by the UK's Land Use Policy Group<sup>76</sup> on the operation of the CAS in EU Member States and also from Northern Ireland's Department of Agriculture and Rural Development website ([www.dardni.gov.uk](http://www.dardni.gov.uk)), the first a quasi-Governmental, and the second a Governmental, source in which we place our trust, therefore, in regard to accuracy.

#### Austria

Austria sets out its scheme objectives under a national implementation regulation. They include:

- maintaining agricultural land use and population density;
- aiding settlement and land use management systems where difficult production circumstances apply; and
- remunerating farmers for the provision of public goods in the LFAs.

71% of Austria's Utilized Agricultural Area (UAA) is designated as Less Favoured, representing a total of 1.59 million hectares. In 2001 a total of 116,954 farms received support under the CAS, with an average payment of €2,395 per farm. The main qualifying conditions are as follows:

- support is based on land area, land type (forage or arable), type of holding (with or without livestock) and the extent of the handicap to which the farmer is subject;
- an applicant must farm a minimum of 2 hectares of UAA; and
- he/she must comply with Good Agricultural Practice.

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<sup>75</sup> CJC Consulting with Dax, T. et al (2003). "*The Review of Area-based Less Favoured Area Payments Across EU Member States*", a report for the LUPG May 2003; and CJC Consulting, (2003). "*The Review of Area-based Less Favoured Area Payments Across Great Britain*", a report for the LUPG, May 2003.

<sup>76</sup> The LUPG consists of the Countryside Agency, English Nature, Scottish Natural Heritage, the Environment Agency, the Joint Nature Conservation Committee and the Countryside Council for Wales and aims to advise on policy matters of common concern related to agriculture, woodlands and other rural land uses.

## Finland

In Finland 100% of that country's UAA, amounting to 2.17 million hectares, is designated as Less Favoured. The objectives of the scheme are:

- to ensure the continuation of environmentally sustainable agriculture; and
- to reduce depopulation in the north of Finland where conditions are less favourable for agriculture.

In order to achieve these objectives the scheme aims to compensate farmers for increased costs and lower returns. Participation rates in 2001 indicated coverage of 96% of farms and of 97% of the UAA. The main qualifying criteria are:

- the farmer must be between 18 and 65 years of age;
- the farm must be bigger than 3 hectares;
- the farmer must live on, or within a reasonable distance from, the farm;
- a crop must be harvested; and
- the farmer must comply with Good Agricultural Practice (the EU-mandated environmental objectives of the scheme being complemented by compliance with Finland's own agri-environmental measure).

## France

In France there are two types of LFAs, mountain types and other less favoured areas. The objectives of the scheme are as follows:

- to compensate farmers in LFAs for lower farm income;
- to maintain farming in each French region; and
- to favour smaller farms.

In 2000 LFA payments contributed 4% of net farm income of all French farmers. The contribution was significantly more important to farmers in the mountain areas, however, representing as it did 21% of their net farm income. The main eligibility criteria were as follows:

- the farmer must be less than 65;
- he/she must receive at least 50% of his/her income from agricultural activity; and
- he/she must farm a minimum of 3 hectares of UAA.

## Germany (Bavaria)

Within Germany Rural Development Plans have been developed at individual Bundesland level and Bavaria is taken as a convenient example of a CAS operating under such a plan. It should be noted that, although LFA scheme objectives vary somewhat between different Bundeslander, the core aims are identical as follows:

- maintaining farming in LFAs;
- maintaining cultural landscape for tourism and recreation;
- preventing an income gap between non-LFA and LFA farms; and
- creating and protecting a farm structure which is adapted to the conditions associated with its location.

Bavaria's LFAs are located in the mountainous regions of the Alps and the low mountain area of northern Bavaria and cover 45% of the Bundesland's UAA. In 2001

each applicant received an average payment of approximately €2,520. The main conditions governing eligibility are:

- all farm types within LFAs are eligible, with payments based on arable and grassland areas;
- areas in which certain crops grow, however, do not receive payment;
- the applicant must farm a minimum of 3 hectares of UAA; and
- he/she must comply with Good Farming Practice.

### Greece

The objective of the scheme in Greece, where 69% of the UAA is classified as LFA land, is to compensate farmers for part of the income loss attributed to natural handicaps. This is done in order to maintain a minimum acceptable population level which, through farming activities and continuation of agricultural land use, contributes to the maintenance of the rural landscape, to conservation and to expansion of sustainable farming systems.

In 2001 a total of 109,874 farmers received an average payment of €811. The main eligibility criteria for payment are as follows:

- the applicant must farm 2 hectares and have farming as a main occupation;
- the maximum area allowable for compensation is 15 hectares except for pastures where 50 hectares is the maximum;
- the farmer must be less than 65 and must not be a pensioner; and
- he/she must apply usual good farming practices.

### Spain (Catalonia)

Within Spain a total of 19.8 million hectares, representing 80% of the total UAA, is classified as Less Favoured Areas. In the region of Catalonia 0.62 million hectares, representing 56% of the region's UAA, are so classified. The objectives of the scheme are as follows:

- to give support to farmers in LFAs;
- to improve their quality of life;
- to contribute to the conservation of natural resources; and
- to maintain rural livelihoods.

In 2002 a total of 6,390 applicants received compensatory allowances in Catalonia subject to the following conditions:

- the farm must be totally or partially situated in the LFAs;
- farming must represent the main economic activity of the farmer;
- the farmer must reside within, or adjacent to, the municipality in which the farm is located;
- he/she must farm an area of more than 2 hectares;
- he/she must have a minimum of 0.2 livestock units per hectare and not more than 1 livestock unit per hectare; and
- he/she must comply with Good Farming Practice.

### United Kingdom (England)

Some 2.21 million hectares are designated as Less Favoured in England. The objectives of the scheme are to:

- help preserve the farmed upland environment by ensuring that land in the LFAs is managed sustainably; and
- contribute to the maintenance of the social fabric in upland communities through support for continued agricultural use.

The main eligibility requirements are as follows:

- the farmer must have 10 hectares of eligible land in the LFAs;
- he/she must keep breeding cattle or sheep;
- he/she must maintain a minimum stocking density of 0.15 livestock units per hectare unless agri-environmental considerations require a lower rate; and
- he/she must comply with Good Farming Practice.

#### United Kingdom (Northern Ireland)

In 2001 payments totalling €24.6 million were made to approximately 17,200 farmers in respect of 0.56 million hectares.

The objectives of the scheme in Northern Ireland are the same as those set out in the EU Rural Development regulation.

The main eligibility requirements are as follows:

- the farmer must adhere to the requirements of GFP;
- he/she must farm a minimum of 3 hectares of eligible land;
- his/her holding must not have a stocking rate of more than 1.4 livestock units per hectare; and
- applicants must maintain extensively grazed beef herds and/or sheep flocks on their eligible land for a specified retention period.

#### United Kingdom (Scotland)

In Scotland 84% of agricultural land (excluding commonages), totalling 4.64 million hectares, is designated as Less Favoured. There are no specific LFA objectives set for Scotland apart from those set out in the EU Rural Development regulation.

The main eligibility requirements are:

- the farmer must have 3 hectares of eligible land in the LFAs;
- he/she must keep eligible stock;
- he/she must have a stocking density of at least 0.12 livestock units per hectare and of no more than 2 livestock units per hectare; and
- he/she must comply with Good Farming Practice.

#### United Kingdom (Wales)

Wales has a total of 78% of its UAA designated as LFA land. The objectives of the scheme are:

- to contribute to the maintenance of the social fabric in upland rural communities through support for continued agricultural use; and
- to help preserve the farmed upland landscape by ensuring that land in the LFAs is managed in a sustainable way.

The main conditions governing eligibility are:

- the farmer must have a minimum of 6 hectares of eligible forage area in the LFAs;
- he/she must keep breeding sheep and/or suckler cows;
- he/she must maintain a minimum stocking density of 0.10 livestock units per hectare unless agri-environmental considerations require a lower rate;
- he/she must avoid overgrazing; and
- he/she must comply with existing environmental legislation.

## 9.2 Comparisons with Ireland

In order to compare the schemes as operated in each of the above countries or regions with the CAS in Ireland, this review focuses on two issues, namely:

- the scheme objectives; and
- the bases of payments.

### The Scheme Objectives

The current EU Rural Development regulation outlines three objectives in relation to the CAS. Consequently it is no great surprise that this brief survey finds a high degree of similarity between the CAS objectives set out by the administrations of the 10 countries/regions examined.

The stated objectives of the scheme for many of the areas examined comprise economic, social and environmental objectives, with the general aim being to support farmers' incomes in order to ensure continued agricultural land use, prevent rural depopulation and maintain sustainable systems of farming in the LFAs.

Within this broadly similar approach by all 10 countries/regions looked at, however, some different nuances can be detected as follows:

- With the exception of Northern Ireland and Scotland, all 10 have outlined specific objectives for their schemes which, though derived from the EU Rural Development regulation, are tailored more to their needs *as enunciated by themselves* rather than as enunciated in the regulation (Ireland, like Northern Ireland and Scotland, has not done this);
- Austria's example in this regard is perhaps the most striking in that it alone sets out payment to farmers for the provision of public goods in the LFAs as an objective (Ireland has not done this either);
- Finland and France import explicit regional approaches into their objectives with Finland understandably stressing the importance of reducing depopulation in the north of that country - while France, from quite a different (and perhaps somewhat warmer!) angle, emphasises the importance of maintaining farming in each French region (given Ireland's small size, perhaps it is understandable that such an explicit regional approach has not been articulated very clearly here - though those with long enough memories will remember references in the CAS's earlier days to the need to use it to solve the problems of the '12 Western counties' of Ireland);
- France, Germany, Greece and Spain set out the supporting of farm incomes as specific objectives of their schemes and, by implication, Austria does much the same by setting out payment to farmers for public goods as a specific objective of its scheme (Ireland has not followed the example of these five countries);

- France seems alone in setting out favouring smaller farms as an objective (Ireland does not do so specifically but restricts payments to 45 hectares);
- Germany alone specifies maintenance of the cultural landscape for tourism and recreation as an objective (Ireland does not);
- In the United Kingdom, England and Wales set out objectives which seem to lay more stress - or a more particular stress - on the environment by references to the protection of upland areas (while Ireland may seem not to have done this, our designation of uplands called 'Mountain Type Grazings' - not to be confused with the much higher Mountain LFAs in France and other countries - and our differentiation of payments in their favour would seem to indicate that protection of such areas is at the very least an implied objective of our CAS);
- Northern Ireland requires extensive grazing of their applicants' LFA holdings (we apply a similar rule, but in different terms, to mountain commonages).

### The Bases of Payment

Prior to 2001 there were varying rates of payment between and even within Member States based on different criteria. Payment rates still vary between different Member States or between countries/regions within Member States - but, following the introduction of the 1999 EU Rural Development regulation, the fundamental principle underlying Compensatory Allowance payments everywhere in the EU is that they are now area-based and almost completely decoupled from production (stocking density minima/maxima and/or requirements to harvest crops or to keep certain types of animals being the only vestigial remnants of coupling left).

Overlying this fundamental principle, however, a surprisingly diverse array of payment bases is to be found amongst the 10 countries/regions surveyed here as follows:

- Payment limits per applicant: Catalonia sets a limit of €2,000 and Austria, France, Greece and Spain each confines payment to a certain number of hectares (as does Ireland with its 45 hectares limit) and, by so doing, to an amount calculated in each case by multiplying the relevant number of hectares by the applicable payment rate per hectare;
- Average payment rates and their contribution to farm income: Austria's average payment rate of €395 is strikingly close to Ireland's while Greece's at €11 is much lower than ours. The average payment rate per hectare rather than applicant, however, would give us a better sense of how Irish LFA farmers fare under the CAS compared to their EU counterparts. It is striking also, however, (i) that the overall 4% contribution of the compensatory allowances to the net income of LFA farmers in France seems much lower than the contribution in Ireland and (ii) that the 21% contribution in the French Mountain LFAs - which undoubtedly suffer severer natural handicaps and give rise, therefore, to higher production costs and lower outputs than in Ireland's Less Favoured Areas - seems surprisingly close to the 19% contribution identified by some studies as arising in Ireland. Further examination is needed to tease out these comparability issues but, at first glance, it would seem that Ireland's rates etc are not too unsatisfactory when put in an EU context!
- Payments confined to those with farming as their main occupation: In France, Greece and Spain this is the position (as it more or less used to be in Ireland *via* the cruder mechanism of an off-farm income limit);

- Payments confined on an age basis: Finland, France and Greece do not make payments to farmers aged 65 or over (as has been suggested for Ireland) - while pensioners also are excluded from payment in Greece;
- Payments confined on a residence basis: Finland and Spain require applicants to live on or near their LFA holdings (as does Ireland *via* its requirement that applicants live within daily commuting distance of their holdings);
- Payments confined to applicants with minimum holding sizes, to holdings with minimum stocking levels per hectare or not exceeding maximum stocking levels per hectare and to applicants complying with Good Farming Practice etc: These are common amongst the 10 countries/regions surveyed because some elements of them are mandatory under the relevant EU regulation (Ireland also having minimum stocking level, minimum holding size and environmental compliance requirements in its scheme);
- Payments based on types of farm enterprise: Austria, Finland, Germany and the four parts of the United Kingdom all have these albeit not along precisely similar lines (Ireland's only gesture towards this type of payment limitation being our restriction of payments to LFA forage areas only).

### 9.3 Conclusions

There is much that is of interest in these comparisons between the CAS objectives and payment bases applicable in the countries/regions surveyed and those applicable in Ireland - even though this exercise only takes into account schemes in 10 countries/regions of a Community of 25 and only examines in very broad brush-strokes a limited number of highlights in those schemes.

Nevertheless, brief as it has been, this excursion to other Member States has been of use in bringing a much broader EU-wide perspective to inform the review Steering Committee's consideration elsewhere in this review of some elements of those non-Irish schemes - such as, for example, the setting of farm income support as a specific CAS objective, payment related to farm enterprises and restriction of eligibility to those whose main occupation is farming and/or who are under 65 years of age.

**Recommendation 8:** *While Ireland should not adopt slavishly any particular measure just because another EU Member State has done so, this review recommends that the Department of Agriculture and Food should:*

- *examine other EU CASs during policy review periods such as that leading up to the mid-term review of our CAP Rural Development Plan for 2007-2013 to see whether elements of those schemes not already in Ireland's CAS might be suitable for inclusion in it;*
- *monitor CAS changes coming up at the STAR Committee to see whether they might be worth introducing in Ireland also;*
- *aim in this process to adapt any worthwhile measures from elsewhere into distinctive objectives, payment bases or other terms and conditions specifically framed to meet Ireland's distinctive needs rather than to just copy those measures.*

## Chapter 10

### Development of Existing and New Compensatory Allowance Scheme Performance Indicators

#### **10.1 Introduction**

According to ‘Delivering Better Government’<sup>77</sup> *“for performance management to be integrated into the day-to-day operations of Departments, appropriate performance measures must be developed. These measures would link the day-to-day activities of individuals or teams of Civil Servants to the objectives of their Department or Office.”*

This statement highlights the increasing importance of developing meaningful performance indicators as a fundamental part of developing the Management Information Framework and as a central mechanism of the Expenditure Review process.

The purpose of this chapter is to propose performance indicators for the Compensatory Allowance Scheme which will facilitate more effective measurement of the extent to which the Department is providing value for money in its delivery of the scheme, is providing good quality service to applicants and is achieving the scheme objectives.

The indicators proposed will be numerical measures designed to facilitate easy measurement and to demonstrate whether the scheme is achieving its targets.

Much of the data required to measure compliance with most of the indicators proposed in this chapter is readily available and easily accessible. Indeed, approximately half of those indicators are already in place. Measurement of compliance with a small number of newly-proposed indicators, however, will require collection of primary data.

#### **10.2 What are Performance Indicators?**

Performance indicators are quantifiable measurements that enable the success of an organisation, unit, individual, or, as in this review, a scheme, to be judged. They are being used more frequently by both private and public organisations as a management device to measure performance, with the introduction of the Management Information Framework leading to an increase in their use within Government departments.

In a report<sup>78</sup> issued in order to help individual Departments develop meaningful indicators, the Department of Finance specifies that performance indicators are tools to *“generate information on performance for inclusion in management reports and so to provide a basis for better decision making, more effective use of resources and greater accountability.”*

*“Management Information Framework - Performance Indicators: A Users’ Guide”*<sup>79</sup> sets out the characteristics of good performance indicators. They are outlined below and were kept in mind at all times in the preparation of indicators for the CAS:

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<sup>77</sup> Department of the Taoiseach (1996). *“Delivering Better Government. Second Report to Government of the Co-ordinating Group of Secretaries - A Programme of Change for the Irish Civil Service.”*

<sup>78</sup> Department of Finance (2004). *“Management Information Framework - Report on Performance Indicators”*. Available at [www.bettergov.ie](http://www.bettergov.ie).

<sup>79</sup> Department of Finance (2001). *“Management Information Framework - Performance Indicators: A Users’ Guide”*- Technical Issues Subgroup. Available at [www.irlgov.ie/finance](http://www.irlgov.ie/finance).

- appropriateness - the user should be able to relate the information to the activity, output or outcome being reported. This helps the user form a view on results obtained;
- accuracy - data must be as error-free as possible. Where necessary, the level of confidence in the information should be clarified or the degree of error specified;
- comprehensiveness - all aspects of performance should be captured by the data. This may require a number of indicators at both a quantitative and qualitative level;
- consistency - indicators help users to compare performance over time. This requires a balance between consistency and continuously improving indicators. There should be internal consistency in that, where indicators are grouped, they should not deliver mixed messages on performance;
- manageability - this comprises cost-effective collection of data integrated within reporting structures, with results delivered in an understandable format. Responsibility for collecting, checking and processing the raw data should be established. Management should play an active role in ensuring data quality;
- relevance - indicators must provide information which the user actually wants. Advance consultation helps to ensure that the information provided is understandable and concise;
- timely - the most recent data available should be used and steps should be taken to ensure that the data is available very soon after the period to which it relates and that it is updated regularly and frequently;
- verifiable - as stakeholders may need to be satisfied as to accuracy, objectivity and lack of bias, the results from a performance report should correspond to those from an independent examination;
- validity - indicators should cover actual performance. If it is necessary to focus on an intermediate outcome instead of a final outcome, that should be made clear.

### **10.3 CAS Performance Indicators**

For purposes of this review, the performance indicators proposed are divided into the following categories:

- activity indicators;
- efficiency and quality indicators;
- effectiveness indicators.

#### Activity Indicators

These indicators provide information about throughput and provide an answer to the question: How time-effective are the officials who deal with the administration of the CAS? In that context, data in relation to activity/output of staff operating similar departmental schemes would provide a useful benchmark.

Seven such indicators are proposed in the following table. Much of the data required to facilitate measurement of compliance with these indicators is available within the Department while the data in relation to time can be obtained *via* questionnaires to the heads of the relevant divisions or, preferably, by the introduction on the part of the managers involved of a system of routinely recording such data in order to help them measure the efficiency of their units.

*Table 10.1: Indicators in relation to Activity*

<b>Indicator</b>	<b>Source of Data</b>
Number of applications received	IACS
Number of inspections carried out	IACS
Overall cost of grants paid	IACS
Average size of grant paid	IACS
Average time taken to process application to query to applicant (if issued) stage	Questionnaire or record
Average time taken to respond to query from applicant (if received)	Questionnaire or record
Average time taken to process application to Payment or final decision stage	Questionnaire or record

#### Efficiency and Quality Indicators

Efficiency indicators relate to how well the Department is using its resources to process approximately 100,000 grant applications. Efficiency can be paraphrased as “*doing things right*”. Such indicators are mainly quantitative with an emphasis on productivity, timeliness and financial data.

Quality indicators relate to standard of service delivery and to the extent to which the expectations of customers and stakeholders are being met. They include measurement of reliability and timeliness of delivery.

Data in relation to measurement of compliance with many of the efficiency and quality indicators is readily available within the Department’s IACS database and so will be easy to assemble. In order to measure compliance with the quality indicators relating to cost of delivery of the scheme etc, however, data will need to be collected from other sources. Again this can be collected by way of issuing questionnaires to the heads of divisions or, preferably, from records kept by their managers as part of monitoring the performance of their units or by reference to the Annual Reports of the Agriculture Appeals Office and the Ombudsman.

Together with the three activity indicators listed above relating to the average time taken to issue and to respond to queries and to process grants to finality - which may be used also, as a matter of convenience, as efficiency and quality indicators - the twelve efficiency and quality indicators now proposed in the table below should ensure fairly full and accurate measurement of how efficiently the CAS is being managed and of whether the resulting quality of service is acceptable to its customers.

*Table 10.2: Indicators in relation to Efficiency and Quality*

<b>Indicator</b>	<b>Source of Data</b>
% of applicants paid by 30 September in year of application	IACS
% of applicants paid by 30 June in year following year of application	IACS
% of required number of inspections carried out*	IACS
Total cost of delivery	Questionnaire or record
Unit cost of delivery	Questionnaire or record

Total inspection cost	Questionnaire or record
Unit inspection cost	Questionnaire or record
Number of complaints to Customer Services	Questionnaire or record
Number of appeals to Agriculture Appeals Office	AAO Annual Report
Number of appeals to Ombudsman	Ombudsman's Report
Number of Parliamentary Questions	Questionnaire or record
Number of representations from TDs/Senators	Questionnaire or record

\*The EU requires at least 5% of applications to be inspected.

### Effectiveness Indicators

These indicators relate inputs and outputs to outcomes and should be based on recorded success or otherwise in achieving the scheme's objectives as defined by the EU or re-interpreted by Ireland. Effectiveness can be paraphrased as "*doing the right things.*" Such indicators should help answer the fundamental question: Is the scheme achieving what it set out to achieve?

For purposes of this review, these effectiveness indicators are subdivided into three categories, derived from the goals and objectives of the scheme as set out in Chapter 3 and analysed in subsequent chapters.

#### 1. Income

The National Farm Survey (NFS) will contain all the data needed to enable measurement of compliance with the three indicators proposed below relating to income. While much of that data is not available in the published version of the NFS, Teagasc can provide the relevant figures by drilling down into the data collected but not published.

*Table 10.3: Indicators in relation to Income*

<b>Indicator</b>	<b>Source of Data</b>
FFI in LFAs as a % of FFI in non-LFAs	NFS
% contribution of CA to FFI in LFAs	NFS
The degree in percentage terms to which the income deficit per hectare is compensated by CA payments	NFS

#### 2. Land Use and Population Indicators

Some of the data in relation to three of the five performance indicators proposed under this heading is available from the Department's IACS database and can be used provisionally to measure compliance with those indicators, therefore, on a yearly basis pending confirmation by the next Census of Agriculture as to complete accuracy. The rest of the data relating to the five indicators proposed has to be obtained, however, from the Census of Population and the Census of Agriculture carried out only once every five or ten years respectively. This means that, while there is ample data available to facilitate measurement of compliance *via* these indicators, such measurement cannot take place as often as we would like it to. Given that the CAS, though not formally a multi-annual scheme, typically operates within 7-year frameworks, however, the frequency that is possible may just about suffice.

*Table 10.4: Indicators in relation to Land Use and Population*

<b>Indicator</b>	<b>Source of Data</b>
Change in UAA in LFAs	IACS/C of Ag
Change in UAA in LFAs versus non-LFAs	IACS/C of Ag
Number of farm households	IACS/C of Ag
Net outward migration in rural areas	C of Pop
% of agricultural employment in rural areas	C of Ag

### 3. Environmental Indicators

Compliance with the five environmental indicators proposed in the table below is more difficult to measure as it can take a long time for evidence of any specific scheme impact on the environment to manifest itself. However, some preliminary evidence can be extracted from data, readily available within the Department of Agriculture and Food, relating to compliance with Good Farming Practice and participation in the REPS agri-environmental scheme - and such data can be complemented by further evidence obtained from other sources, such as Environmental Protection Agency (EPA) reports etc, as it becomes available.

*Table 10.5: Indicators in relation to the Environment*

<b>Indicator</b>	<b>Source of Data</b>
% of inspected farmers in receipt of CA compliant with GFP	IACS
% of farmers in receipt of CA also in REPS	DAF
Km of river seriously polluted by agriculture	EPA
Km of river slightly polluted by agriculture	EPA
Number of fish kills arising from agriculture	DCMNR

## 10.4 Conclusions

We propose here the introduction of the performance indicators listed above under various headings so that the performance of the Compensatory Allowance Scheme can be measured frequently, usually on a yearly basis - but in the case of some indicators less often because the required information to measure compliance with them is not available annually.

We recognize that some of these indicators have been in place already for some time now and that our task in relation to this review and this Chapter was made considerably easier by that fact.

We recognize also (see **Recommendation 3** and **Recommendation 4**) that further indicators need to be drawn up relating to factors not covered here.

**Recommendation 9:** *We recommend that the performance indicators listed in this chapter be continued or introduced and that they be reviewed annually in order to see whether they need to be improved, added to or deleted in the light of experience, of scheme changes and of external changes impacting on the scheme.*

## **Chapter 11**

### **Key Findings and Recommendations**

#### **11.1 Introduction (Chapter 1)**

In Chapter 1 we set out the background to the Expenditure Review process; stated why a review of the CAS seemed justified (€235m paid annually representing 8.6% of overall Department expenditure and 14.3% of direct payments); listed the review team; and outlined details of the review's Terms of Reference, structure, methodology and external evaluation.

#### **11.2 The Compensatory Allowance Scheme (Chapter 2)**

This chapter set out the EU background to the scheme's introduction in 1975, the scheme's basic objectives (to provide support to farmers in agriculturally disadvantaged areas so as to offset the lower incomes they suffer because of the natural handicaps of those areas, to ensure continued agricultural land use, to maintain viable rural communities, to promote sustainable farming systems and to conserve the countryside) and its operation in the EU to the present time.

It set out how LFAs were designated in Ireland from 1975 onward until the total areas so designated came to 5.155 million hectares comprising 74.8% of our total land area; showed the location of those areas; listed the payment rates per hectare applicable in Ireland's different types of LFAs; showed the total paid yearly under the new area-based CAS between 2001 and 2004 in each county and nationally - these payments, co-funded 50% by the EU and 50% by Ireland under the CAP Rural Development Plan 2000-2006, coming to some €235 million or so yearly and being made to about 100,000 applicants – and outlined the eligibility criteria for payment and the penalties applicable for failure to comply with those criteria.

Finally, we summarized in the chapter the changes proposed under the EU's new draft regulation on Rural Development and considered their possible future impact. We concluded - and hoped we were right in doing so - that the new draft regulation would not have a major impact on Ireland's CAS in future. It seemed to us, in light of the EU Commission's approach so far to the proposed new criteria for designating LFAs, that the extent of Ireland's LFAs is not likely to change significantly. The co-funding that will be available for the scheme during the 2007-2013 framework period, however, has not yet been negotiated and will be key to operation of the scheme during that period.

#### **11.3 Scheme Objectives (Chapter 3)**

The original 1975 and re-worded 1999 objectives were reviewed.

The latter were worded as follows:

- ensuring continued agricultural land use and thereby contributing to maintenance of a viable rural community,
- maintaining the countryside, and
- maintaining and promoting sustainable farming systems which in particular take account of environmental protection requirements.

It was felt that income support should be an objective given that no other scheme objectives can be achieved without it. A somewhat confusing degree of overlap between the existing three 1999 objectives was noted.

***Recommendation 1: Ireland's CAS objectives to be formulated as follows in order to have income support set as an objective and the three regulation-based objectives re-stated more clearly as two:***

- *supporting farm incomes in Less Favoured Areas,*
- *ensuring continued agricultural land use, thus contributing to a viable rural community, and*
- *maintaining and promoting sustainable farming systems which in particular take account of environmental protection requirements and preserve the countryside (P25).*

We asked whether the scheme objectives fitted in with the Department of Agriculture and Food's Statement of Strategy, the National Development Plan, Ireland's CAP Rural Development Plan, the White Paper on Rural Development, the Agri Food 2010 Committee and Agri Vision 2015 Committee Reports and the EU Commission's explanatory memorandum to its proposals for the 2007-2013 Rural Development framework period. In every case the answer was 'Yes'.

#### **11.4 Other Schemes (Chapter 4)**

The Farm Assist Scheme, Rural Social Scheme and REPS were examined to see if there was wasteful overlap between them and the CAS. The considerable differences between the objectives of, numbers of applicants in and parts of Ireland covered by the four schemes clearly indicated that there was not.

The Early Retirement and CAP Afforestation schemes were scrutinised given that the CAS had been represented in the past as negatively affecting both. As (a) CAS beneficiaries entering the ERS can factor into the sale or letting price of their holdings the compensatory allowances received to then, thus simultaneously benefiting indirectly from the CAS and directly from the ERS, and (b) the most recent Bacon report did not regard the CAS as a threat to afforestation, however, no conflict between the CAS and these two schemes was found.

#### **11.5 Supporting Farmers' Incomes (Chapter 5)**

It was found that:

- Family Farm Income in the Less Favoured Areas was only 53% of FFI elsewhere before CAS payments were taken into account and only 66% of that FFI after those payments were counted;
- the average CAS payment was €2,525 or 19% of Family Farm Income.

This income differential justified the existence of the CAS as currently resourced and showed that payments under it significantly contributed to farm income, positively influencing beneficiaries, therefore, to continue farming in the Less Favoured Areas.

It was noted also that:

- the highest CAS payments generally went to the highest-income (dairy and tillage) farmers and the lowest to the lowest-income (cattle) farmers;
- the highest CAS payments went to farms over 30 hectares and the lowest to farms under 30 hectares - even though 60%+ of farmers in the Less Favoured Areas operated on under 30 hectares;
- Family Farm Income, including CAS payments, of farmers over 65 only came to €8,504 - indicating that in some Pension circumstances it might be more financially beneficial for such farmers to quit farming;
- there seemed to be a case for continuing CAS payments to part-time and full-time farmers when FFI only was taken into account;
- after off-farm income was taken into account, however, the CAS payments as percentages of total household income were very much lower than they were as percentages of Family Farm Income.

This chapter raised the following questions: Should payments be based solely on LFA location? Is there over-compensation under some farm systems? Are some farm systems treated less fairly than others? Should payments be redirected from larger to smaller holdings? Should those over 65 be persuaded to forgo their payments? Should a total household limit be introduced? Should payments be index-linked?

We outlined possible answers and made the following recommendation.

**Recommendation 2:** *The Department to consider whether and, if so, how CAS payments should be redistributed amongst applicants to best meet the scheme objectives (P45).*

## **11.6 Continued Land Use and Viable Rural Communities (Chapter 6)**

There was a positive correlation between scheme payments and continued agricultural land use between 1991 and 2000.

In the eleven counties receiving most CAS payments such use increased by 4.7%; in the seven counties receiving less, but still considerable, CAS payments use decreased by only 1.9%; and in the eight counties receiving least CA payments it decreased by between 5% and 6%.

This shows that the scheme is succeeding in meeting its objective of ensuring continued agricultural land use.

Four indicators of viable rural communities were taken from the 1999 White Paper on Rural Development as follows:

- population maintenance;
- adequate employment opportunities in agriculture and other sectors;
- satisfactory provision of infrastructure and services; and
- cultural and social viability.

Under these headings:

- rural population in all regions other than the Mid-East (influenced by Dublin's urbanising outreach) increased between 1996 and 2002 by percentages ranging from 2.4% to 6.6% and by 3.0% overall;

- agricultural employment fell by 14% between 1998 and 2004 but the rate of decline between 2001 and 2004, the period of primary focus for the review, was only 4.5% compared to 10% between 1998 and 2001;
- CAS-influenced increases in agricultural land use and rural population and the slow-down of the rate of decline in agricultural employment must have a positive effect on provision of infrastructure and services in the LFAs given the increased pressure for such provision which their larger populations will exert on central and local government;
- cultural and social viability in the Less Favoured Areas was evidenced primarily by a Teagasc survey of five different types of rural areas in County Galway that were representative of the LFAs in general;
- it seems very likely that the CAS payments contribute to such viability.

The indicators, therefore, show that LFA rural communities are viable. It is not possible, however, to say how much of their viability is attributable to the CAS.

***Recommendation 3: The Department to consult with other relevant departments and bodies (Teagasc, the Department of Community, Rural and Gaeltacht Affairs etc) in order to establish what data is available for purposes of drawing up performance indicators relating to satisfactory provision of infrastructure and services and cultural and social viability in the Less Favoured Areas (P55).***

### **11.7 Sustainable Farming, Environmental Protection and Preserving the Countryside (Chapter 7)**

The level of compliance with Good Farming Practice amongst scheme applicants is high and rising.

Stocking density has dropped in the Less Favoured Areas since the CAS became an area-based scheme.

Almost a third of scheme applicants are so committed to environmental protection and improvement that they have joined REPS.

Over two-thirds of all scheme applicants are farming so extensively that they qualify for the EU Extensification Premium.

There is preliminary evidence from the Environmental Protection Agency of a reduction in the length of polluted river channel in Ireland during the first two years of the area-based CAP. Further improvement in water quality is anticipated.

The decoupled nature of the scheme and proven reduction in stocking density must result in improved land and water quality in the LFAs. They certainly indicate that the scheme fits very comfortably into the European model of agriculture - as a provider of environmental and other public goods.

There are problems, however, in linking scheme cause to environmental effect, of time-lag between environmental improvements or disimprovements and their detection and of availability of appropriate data to measure such improvements or disimprovements regularly and in a timely manner

**Recommendation 4:** *The Department to consult with other relevant departments and bodies (Department of the Environment, Heritage and Local Government, Environmental Protection Agency etc) in order to establish what data is available for purposes of drawing up environmental performance indicators other than those proposed in Chapter 9 (P63).*

## **11.8 Scheme Administration and Delivery (Chapter 8)**

Scheme administration was described in detail.

Scheme delivery costs €5.76 million or 2.4% of payments yearly, with a unit cost per applicant of €6.18 compared to a 1997 unit cost of €2.82 established by the C&AG. There were no scheme audit disallowances for 2001-2004.

As the unit cost increase of only 6% could be attributed to wage inflation marching ahead of general inflation and to the increased complexity of inspections vis-a-vis checking compliance with Good Farming Practice, it was concluded from these two indicators that the scheme is still being administered cost-effectively and, therefore, efficiently.

Quality of service was examined. Application procedures were found to be efficient in terms of cost, time and simplicity for CAS applicants and Department alike and to be a significant factor in ensuring that the scheme achieved a high level of satisfied participation.

Other quality of service issues assessed were fairness and courtesy, timely provision of scheme information, query handling, levels of PQs, representations, complaints and appeals and, crucially, issue of payment to beneficiaries within agreed deadlines.

This examination and assessment indicated that the Department's scheme delivery service was of a high quality.

Notwithstanding this, we felt that some adjustments could lead to even more satisfactory service and better value for money.

**Recommendation 5:** *Unnecessary repetition in the Helpsheets to be eliminated, with each Helpsheets scheme to be colour-coded differently so as to help applicants focus on whatever schemes they are joining (P72).*

**Recommendation 6:** *Greater uptake of the Electronic Funds Transfer payment option to be encouraged via an EFT authorisation form issued in the context of an imaginatively marketed (draw or other incentive for those responding positively) Department campaign (P73).*

**Recommendation 7:** *Scheme administration to be co-ordinated better by location of key divisions or units (Area Aid Unit as was, CAS Section of Headage/Disadvantaged Areas Division) in one place as soon as possible (P74).*

## **11.9 Schemes elsewhere in the EU (Chapter 9)**

Compensatory Allowance schemes in 10 other EU regions were surveyed briefly.

Differences were noted between the regulation-stated scheme objectives and those set by eight of the ten regions - each of whom re-stated the regulation wording (without contradicting it) in terms more suited to their local conditions.

Five of the ten regions set income support as an objective, two set regional policy aims for the CAS and one stressed the need to favour smaller farms.

Payments were targeted differently from here. Three of the ten regions surveyed required CAS beneficiaries to have farming as their main occupation, three did not make payments to farmers over 65 and one did not make them to pensioners.

Payment levels disclosed left Ireland's average payment level of €2,395 and average contribution of 19% to Family Farm Income looking good.

***Recommendation 8: All EU CASs to be reviewed by the Department during policy review periods such as that leading up to the mid-term review of Ireland's 2007-2013 CAP Rural Development Plan, with changes to be monitored at the Star Committee, so that best CAS practice elsewhere can be adapted in a distinctively Irish way to meet distinctive Irish needs (P81).***

## **11.10 Performance Indicators (Chapter 10)**

The continuation of existing, introduction of new and annual review of all, performance indicators listed in this chapter - comprising activity indicators, efficiency and quality indicators and effectiveness indicators. Developing further indicators per **Recommendations 3** and **4** is addressed here also.

***Recommendation 9: These performance indicators to be introduced in order to measure how the CAS is meeting its objectives and to be reviewed annually in light of experience, of scheme changes and of external changes impacting on the scheme to see whether they need to be improved, added to or deleted (P86).***

## **11.11 Next Steps**

- (1) The Department of Agriculture and Food should implement Recommendation 1 and Recommendations 3 to 9 of this review for scheme year 2006.
- (2) The Department of Agriculture and Food should also set up, during the first quarter of 2006, the Committee proposed in Recommendation 2 - with a remit to report by the end of 2006 on the actions deemed necessary by that Committee in relation to the possible redistribution of CAS payments amongst scheme applicants.

## **Appendix 1**

### **Previous Evaluations of the Compensatory Allowance Scheme**

#### **A1.1 Introduction**

Although this is the first time an evaluation using the Expenditure Review template has been carried out on the CAS, the scheme has been the subject of numerous previous reviews. We will examine here previous evaluations of the CAS, identifying the key recommendations from these reports. We will then assess the extent to which recommendations arising from these evaluations have been implemented.

While many of these evaluations comprised elements that are examined in this review, none of them comprised *all* the elements of an Expenditure Review. Issues covered in previous evaluations included:

- the relevance of the scheme's objectives;
- the effectiveness of the scheme in achieving its objectives;
- whether the scheme warranted the continued expenditure of public monies;
- the development of performance indicators; and
- the presentation of recommendations to enhance the scheme.

#### **A1.2 Previous Evaluations**

As indicated, there have been a number of previous evaluations of the scheme, many of them to meet specific EU monitoring requirements. As the scheme has remained largely the same since its introduction, the findings of the various evaluations are repeated to some extent. This appendix presents the significant findings of the various reports under six separate headings as follows:

- contribution to Family Farm Income<sup>80</sup> (FFI);
- maintenance of the rural population;
- ensuring continued agricultural land use;
- environmental issues;
- conflict with the Early Retirement Scheme (ERS); and
- the developmental aspect of the scheme.

##### 1. Contribution to Family Farm Income (FFI)

Without exception, the reports acknowledged that the scheme made a positive contribution to farm incomes although they differed in their interpretation of the extent to which this influenced the achievement of other scheme objectives.

In their review, Fitzpatrick Associates<sup>81</sup> indicated that they felt the basic objective of the scheme was "*to encourage and support farming and thus to raise farm incomes so as to assist in maintaining the population in LFAs*". They recognised that the contribution of Compensatory Allowances to farm income was significant and concluded that, in its absence, the relative income position of farmers in the LFAs would be considerably worse.

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<sup>80</sup> Teagasc's NFS defines FFI as the gross output less total net expenses. It represents the total return to the family labour, management and capital investment in the farm business.

<sup>81</sup> Fitzpatrick Associates, Economic Consultants (1997). "*Operational Programme for Agriculture, Rural Development and Forestry (OPARDF) 1994-1999. A Mid-Term Review Report*". (unpublished)

The Analysis and Evaluation Unit of the Department of Agriculture and Food<sup>82</sup> analysed the contribution based on different farm systems, using data from the National Farm Survey (NFS). Their evaluation found that the contribution the CAS made to FFI was significant for some types of farmer but varied depending on farm type. For example, it contributed 28% of FFI for Cattle Rearing farmers whereas it only contributed 6% to Dairy farmers.

*Table A1.1: Importance of CAS Payments to Family Farm Income*

	<b>Dairy</b>	<b>Dairy &amp; Other</b>	<b>Cattle Rearing</b>	<b>Cattle &amp; Other</b>	<b>Mainly Sheep</b>	<b>Mainly Tillage</b>	<b>All Systems</b>
CA as a % of Family Farm Income	6%	9%	28%	18%	24%	9%	16%

Source: Analysis and Evaluation Unit. Mid Term Evaluation of Measures under Regulation 950/97.

The AFCon Report<sup>83</sup> revealed that in 2002 the average annual Compensatory Allowance payment per holding totalled €2,390 and that the scheme contributed thereby to bridging the gap between farm incomes in LFAs and non-LFAs. The report indicated that in 2001 scheme payments compensated for 42% of the difference in FFI per hectare between LFAs and non-LFAs.

Patrick Enright<sup>84</sup> acknowledged that the scheme had exceeded both of the targets set for it in relation to income in Ireland’s CAP Rural Development Plan 2000-2006. In relation to one of these targets, he indicated that Family Farm Income in LFAs (including Compensatory Allowances) was 66% of non-LFA FFI per hectare in 2000, increasing to 82% in 2002. This went beyond the target of 70% set for 2006.

## 2. Maintenance of the Rural Population

The National Economic and Social Council<sup>85</sup> (NESC), in a report to explore policy options in relation to rural development in Ireland, indicated that the decline in the numbers engaged in farming was only marginally greater in the “*less favoured*” areas. It indicated that the counties least successful in the creation of jobs outside of farming did not correlate with the “*less favoured*” areas. Addressing the possibility that the scheme contributed positively to stemming the decline in population in the Less Favoured Areas, it questioned the impact that the extra £160-£300 (€203-€381) payable *circa* 1978 would have on farmers’ decisions to stay or leave farming in those areas (we can only speculate on what the NESC’s view of present payment levels might be).

<sup>82</sup> Analysis and Evaluation Unit of the Department of Agriculture and Food (1999). “*An Evaluation of the Compensatory Headage Allowances*”. (unpublished)

<sup>83</sup> AFCon Management Consultants in association with University College Cork (2003). “*CAP Rural Development Plan 2000-2006, Mid-Term Evaluation*”. AFCon Management Consultants in association with University College Cork, September 2003.

<sup>84</sup> Enright, P (2004). “*Farming at the margins: Exploring the impact of Compensatory Allowances in Ireland*”. Paper presented to the “Europe at the Margins: EU Regional Policy, Peripherality and Rurality” conference, Angers, 15 and 16 April 2004.

<sup>85</sup> National Economic and Social Council (1978). “*Report Number 41 - Rural Areas: Change and Development*”. Stationery Office, Dublin.

On the other hand, Kearney et al<sup>86</sup> concluded that, although the population decline in disadvantaged areas continued, the scheme appeared to have helped slow it down. They did recommend, however, that the objective of maintaining a farming population in rural areas should be amended in favour of the more realistic objective of supporting the income of low-income farmers.

Enright indicated that net migration was likely to be influenced by other factors, such as the general attractiveness of the region, economic opportunities in other sectors and prices of agricultural output.

Other evaluations, including that by the Analysis and Evaluation Unit, while acknowledging the significant income contribution that CAS payments make, also recognised that the farming population is influenced by many other factors. Their study contemplated the tailoring of scheme payments to favour full-time, trained farmers but concluded that to do so would remove an important incentive for many part-time farmers and might result in them exiting the industry.

### 3. Ensuring Continued Agricultural Land Use

The AFCon Report acknowledged that the scheme payments have a positive impact on decisions to remain in farming and thus to ensuring continued agricultural land use. It concluded, however, that the objectives of maintaining agricultural land use and of maintaining viable rural communities are influenced by many other factors aside from the CAS.

Enright highlighted the fact that the Utilised Agricultural Area (UAA) in LFAs increased from 2.99 million hectares in 1998 to 3.37 million in 2002. This was influenced to an extent, though, by the additional number of beneficiaries of the scheme as a consequence of the move to an area-based scheme in 2001. His report also recognised, however, that many other factors have a major impact on agricultural land use and concluded that it was difficult to determine the extent to which the CAS contributed to the increase.

### 4. Environmental Issues

Many of the evaluations acknowledged that the scheme contributed to both positive and negative environmental effects. Kearney et al concluded that stemming the population decline had positive spin-off effects for the environment. The AFCon Report found that beneficiaries of the scheme had displayed a very high level of compliance with Good Farming Practice (GFP). It also stated that the move to an area-based scheme has had a positive environmental impact on the scheme while at the same time simplifying the scheme administratively. Enright also emphasised the positive environmental effects of the scheme by illustrating that the area of land being farmed extensively had increased between 1999 and 2002. In addition, he highlighted the fact that participants in the scheme showed a very high level of compliance with Good Farming Practice (GFP).

Conversely, linking payments to production earlier was found to have had negative environmental effects in the form of overgrazing, with Kearney et al and Fitzpatrick Associates pointing out in 1995 and 1997 respectively that there was evidence of

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<sup>86</sup> Kearney, B, Boyle, G, Walsh, J (1995). "Evaluation of the Compensatory Allowances scheme in Ireland", Brendan Kearney and Associates, Dublin.

considerable damage being done to hill and mountain areas in the LFAs because of sheep overgrazing.

## 5. Conflict with the Early Retirement Scheme (ERS)

Through the years there have been various different EU-funded retirement schemes, including the current Early Retirement Scheme (ERS). The purpose of these schemes is to encourage older farmers to retire and transfer their holdings to younger farmers. This transfer to younger farmers is viewed as a means of replacing the older, less qualified farmers with younger and better-qualified farmers. This would help address the structural imbalance in Irish farming and ensure more productive land use.

One of the objectives of the CAS is to encourage farmers to remain in farming, regardless of age, thus preventing land abandonment. Many of the previous evaluations indicated that they felt this presented an apparent conflict between two Department-administered schemes. The NESR Report was the first to highlight this possible conflict. The AFCon Report also emphasised its view that the scheme conflicted with the ERS and recommended an examination of whether an upper age limit of 66 years for scheme eligibility should be introduced. Enright also highlighted this apparent conflict and he recommended the possibility of reducing payments to farmers over 66 years of age.

## 6. The Developmental Aspect of the Scheme

On the issue of devoting more resources to younger farmers, some evaluations considered the developmental aspect of the scheme and recommended that payments be biased towards younger farmers who have the capacity to develop. Fitzpatrick Associates felt that such support of younger farmers would have the effect of stabilising the population by encouraging family formation and discouraging migration.

A number of the reviews examined the extent to which the scheme contributes to farm development. Both pro- and anti-development aspects of the scheme were identified. Some evaluations suggested that surplus scheme payments, not utilised on household expenditure, could be directed towards promoting farm development, indicating a passive contribution to farm development. As regards the anti-development facet of the scheme, it was stated that, in supporting farmers in the disadvantaged areas, the scheme has the effect of encouraging farmers who otherwise might have exited farming to stay in farming. In this way, it was asserted, the scheme contributes to slowing down the decline in the number of uneconomic holdings.

### **A1.3 Review of Previous Key Recommendations**

The main (but not the only) recommendations put forward were as follows:

- Introduction of an Income Threshold

Kearney et al, in their review, examined the introduction of both an off-farm and a total household income threshold. They concluded that, on the basis of equity, a total household income clause would be more appropriate. To illustrate the inequity associated with the imposition of an off-farm income limit they used the following example. A farmer with an off-farm job earning £11,000 (€13,967) and a farm income of £5,000 (€6,349) could lose his entitlement, whereas one with a farm income of £20,000 (€25,395), i.e. some 25% more than the overall income of the

first farmer, would not. Fitzpatrick Associates also recommended the imposition of a household income limit.

- Enhance the Environmental Aspect of the Scheme

Many of the evaluations acknowledged that the scheme, by being linked to production, was impacting negatively on the environment. A move to an area-based payment system was recommended by Fitzpatrick Associates in 1997 and was subsequently put in place in 2001. The positive environmental impact of this move was recognised later by both the AFCon Report and Enright.

- Introduction of an Upper Age Limit

As alluded to already, both the NESR Report and Enright recognised a possible conflict between the CAS and the Early Retirement Scheme (ERS). The introduction of an upper age limit was proposed, therefore, above which compensatory allowances would not be paid. Fitzpatrick Associates felt that this would help address the structural problems in Irish agriculture. In their respective evaluations of the scheme, both the AFCon Report and Enright recommended an analysis relating to the introduction of such a limit.

- Only Pay Full-Time Farmers

The possibility of directing payments solely to full-time farmers was raised in the Analysis and Evaluation Unit's report. This issue was highlighted in the belief that such farmers are fully committed to farming and thus deserve the payments more than part-time farmers. However, the report concluded that the consequence of doing this could defeat the purpose of the scheme because it could result in many marginal part-time farmers exiting farming.

## **A1.4 Conclusions**

The recommendations of previous evaluations were of use in identifying possible improvements or amendments to the scheme, particularly in the areas of effectiveness and apparent equity. Some of the recommendations were very specific. Others were less concrete and merely proposed that the Department of Agriculture and Food should carry out further analysis to examine the potential effects of implementing the recommendations.

After analysis within the Department in relation to the issues raised:

- the scheme changed from a production (animal)-based scheme to an area-based one, as recommended by Fitzpatrick Associates and as applauded by subsequent evaluations because it was seen as reducing the scheme's negative environmental impacts. The EU Commission initiative which actually brought about the change emerged from a process of opinion-forming within Member States to which the relevant Irish evaluations contributed;
- on foot of the evaluations, and in light of a general increase in the use of performance measurement techniques, some scheme performance indicators were developed and put in place. While more are needed, those now in place have increased the Department's ability to evaluate the effectiveness and efficiency of the scheme;
- other recommendations (relating, for example, to an income threshold, upper age limit for payment and payment of full-time farmers only) were considered by the Department of Agriculture and Food but not implemented. In the case of the first

two mentioned this was because of a broadly generous rather than narrowly negative attitude towards the development of our Less Favoured Areas - and in the case of the third because of fear of an exodus from farming in the LFAs of part-time farmers;

- oddly enough, but coincidentally we assume, Fitzpatrick and Associates' 1997 recommendation of an upper age limit for the CAS in order to stop it conflicting with the Early Retirement Scheme was followed a few years after by the introduction of an upper age limit of 66 into the latter scheme instead.

These previous evaluations have, without exception, confirmed that, by supporting farmers' incomes, the scheme contributed to the achievement of the objectives set for it, thus leading to continued agricultural land use, viable rural communities and positive environmental impacts. They found it difficult, however, to ascertain the precise extent of the impact on these issues which could be attributed to the CAS, particularly in view of many external contributory factors.

## **Appendix 2**

### **Consultations with CAS Stakeholders**

#### **A2.1 Submissions/Presentations Invited**

The Irish Cattle and Sheep Farmers' Association (ICSA), the Irish Co-operative Organisation Society (ICOS) Ltd, the Irish Creamery Milk Suppliers' Association (ICMSA), the Irish Farmers' Association (IFA), Macra na Feirme, the National Hill Farmer's Association (NHFA) and Teagasc's Rural Economy Research Centre were invited to make written submissions or oral presentations or both.

#### **A2.2 Submissions Received/Presentations Made**

The ICSA, ICMSA, IFA and the NHFA forwarded written submissions. The ICSA, ICOS, ICMSA, IFA and Macra na Feirme made oral presentations to the review Steering Committee on 6 April 2005.

#### **A2.3 Summary of Submissions/Presentations Made**

Current threats faced by the farming community, particularly in the Less Favoured areas of Ireland, were addressed. In addition to the challenges posed by the decoupling of EU premia, the ongoing WTO negotiations, EU enlargement, increased regulation, rising costs and static prices, further problems were identified in respect of farmers located in LFAs - poor quality land, poor drainage, poor climatic conditions and fragmentation of holdings, all of which lead to higher input costs and lower returns from farming.

The organisations stressed the importance of the CAS in supporting farm incomes in the LFAs in order to offset the disadvantages suffered as a consequence of farming in such regions and stated that the scheme was meeting its objectives in this regard. While they could not determine definitively the scheme's impact on the remaining objectives, they generally felt that they did exert a significant positive influence on these. They accepted however, that there were other contributory factors that affected land usage, agricultural employment and rural population figures.

The benefits of moving to an area-based scheme were acknowledged. The extent to which the scheme complemented the REPS, particularly in Western counties, was highlighted.

It was generally accepted that both the application process and the timeliness of payments was satisfactory. The simplicity of the administration process ensured that the scheme was achieving a high target rate among potential applicants, ensuring the maximum scheme impact. The ICMSA commented that 'The existing LFA scheme has been found to be one of the most successful schemes in reaching the target audience', the ICSA said that 'LFA payments...have the very distinct advantages of being easily administered, predictable, efficient' and the IFA remarked that 'the new system is simpler' - written comments echoed by all the other organisations except the NHFA (who neither criticised nor praised the scheme administration but did refer to 'delays associated with small errors' without, however, specifying which errors and thus allowing us to see whether such delays were avoidable or not).

Recommendations, particularly in light of the Draft Regulation on Rural Development and its implications for the CAS, were presented in writing or orally as follows:

1. Ireland should maintain its current LFAs and, where possible, agree additions to them with the EU Commission (all recommended this; Macra na Feirme did so, however, not just to secure CAS payments but also to ensure that as many young farmers as possible would qualify for the additional 15% aid payable *in the LFAs only* under the Schemes of Investment Aid for Farm Waste Management and for Improvement in Dairy Hygiene Standards; ICSA and NHFA asked that the entire BMW region be designated as disadvantaged);
2. forestry areas currently designated as LFAs should stay as LFAs (ICMSA);
3. farmers should be consulted before SAC areas are designated in LFAs (NHFA);
4. the maximum co-financing rate of 75% should be maintained instead of the 50% now proposed (ICMSA - Ireland's current CAS co-financing rate is 50%);
5. current differentiation in payment rates between Mountain Type Grazings and More Severely and Less Severely Handicapped Lowlands should continue (IFA);
6. payment rates should be tiered, rewarding those who farm commonage with low stocking densities (NHFA);
7. 45 hectare payment ceiling should be increased to 50 hectares (IFA);
8. 45 hectare payment ceiling should be increased to 60 hectares, with €200 payable per hectare (NHFA);
9. payment rates should be increased;
10. payment rates should be index-linked to inflation in order to maintain the effectiveness of the CAS (we were told rates had not been changed since 2001);
11. CAS payments should be tax-free for 20 years (NHFA);
12. the need for the minimum stocking density requirement of 0.15 livestock units per hectare should be reviewed in light of the wider decoupling from livestock production being effected in Ireland (IFA - there was a worry that some LFA holdings which were being farmed in a very environmentally friendly way might not qualify under this requirement in future);
13. modulated funds should be used to top up compensatory allowances (NHFA - they mentioned maintenance type payments for hill breeds of sheep);
14. application should be submitted only once every 10 years where there is no change in the applicant's holding (NHFA);
15. payments to be made on 1 September each year (IFA);
16. 14 days notice of on-farm inspections should be given to applicants (NHFA);
17. where errors of €300 or less arise, pay first and recover from other payments later (NHFA);
18. support suckler herd *via* CAS (ICSA, NHFA);
19. support sheep *via* CAS (NHFA).

*(Recommendations not attributed to particular organisations here can be taken as having been made by all; recommendations attributed here to certain organisations may or may not be supported by other organisations.)*

## **A2.4 Steering Committee Response to Recommendations**

The Steering Committee read the submissions and listened to the presentations with interest.

At the oral presentations we reminded speakers seeking increased payments etc of the conflicting calls on public and EU financial resources.

We follow this up by now making the following comments on the issues raised:

Points 1, 2 and 4 to 10 above relate to maintaining the current levels of LFAs and CAS rates of payment in Ireland and to increasing payments either through increased co-funding, payment rates or numbers of hectares on which allowances are to be paid or through index-linking. Our conclusion in the review that the CAS as currently resourced is needed goes some way to meeting the concerns raised here. We have not recommended increased payment rates or index-linking, however, leaving the latter point and other issues to be considered by a departmental group;

Points 3, 11 and 13 above (designation of SACs in the LFAs, tax-free status for CAS payments and the addition of modulated funds to CAS payments) are essentially not part of the CAS even if linked to it: we express no opinion, therefore, on these points, merely outlining them here for those with responsibility for them to note and to act on or not as they wish;

Point 12 above (questioning the need for the 0.15 LU per hectare stocking density limit) is one for the Department to bear in mind in negotiations on the CAS which will apply during the 2007-2013 Rural Development framework period;

Points 14 to 17 above relate to improvements in scheme administration and are being dealt with in the context of ongoing negotiations with the farm organisations on a successor to the Protocol on Direct Payments to Farmers: we leave progress on these, therefore, to those negotiations; and, finally, in relation to

Points 18 and 19 above, it is evident that the CAS supports both suckler and sheep farming given the percentages of Ireland's suckler cows and sheep in the LFAs.

## Appendix 3 Questionnaire to Heads of Divisions

### A3.1 Questionnaire which Issued

#### COMPENSATORY ALLOWANCE SCHEME QUESTIONNAIRE 2004

<b>Division or Group:</b>	_____
<b>Location:</b>	_____
<b>Head of Division or Group:</b>	_____
<b>Name and Grade of Person answering Questionnaire:</b>	_____
<b>Contact Phone Number:</b>	_____
<b>Area of Responsibility:</b>	_____

1. Please outline very briefly the nature of your Division's involvement with the Compensatory Allowance Scheme:

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2. Please state the total number of your staff dealing with the CAS in 2004 (or, if you prefer, the total number who dealt with the CAS in 2003)? *(For example: If you have 13 COs with each giving 50% of his or her time to the CAS, please show Grade as CO, Number as 13 and % of time yearly as 650% on one line below and follow suit for other Grades.)*

<b><u>Year 1</u></b>	<b><u>Year 2 (if applicable- see 3 over)</u></b>
Grade: _____ No.: _____ % of time yearly _____	Grade: _____ No.: _____ % of time yearly: _____
Grade: _____ No.: _____ % of time yearly _____	Grade: _____ No.: _____ % of time yearly: _____
Grade: _____ No.: _____ % of time yearly _____	Grade: _____ No.: _____ % of time yearly: _____
Grade: _____ No.: _____ % of time yearly _____	Grade: _____ No.: _____ % of time yearly: _____
Grade: _____ No.: _____ % of time yearly _____	Grade: _____ No.: _____ % of time yearly: _____
Grade: _____ No.: _____ % of time yearly _____	Grade: _____ No.: _____ % of time yearly: _____
Grade: _____ No.: _____ % of time yearly _____	Grade: _____ No.: _____ % of time yearly: _____
<b><u>Year 3 (if applicable – see 3 over)</u></b>	<b><u>Year 4 (if applicable - see 3 over)</u></b>
Grade: _____ No.: _____ % of time yearly _____	Grade: _____ No.: _____ % of time yearly: _____
Grade: _____ No.: _____ % of time yearly _____	Grade: _____ No.: _____ % of time yearly: _____
Grade: _____ No.: _____ % of time yearly _____	Grade: _____ No.: _____ % of time yearly: _____
Grade: _____ No.: _____ % of time yearly _____	Grade: _____ No.: _____ % of time yearly: _____
Grade: _____ No.: _____ % of time yearly _____	Grade: _____ No.: _____ % of time yearly: _____
Grade: _____ No.: _____ % of time yearly _____	Grade: _____ No.: _____ % of time yearly: _____

3. Is the year shown at 2 overleaf representative of each of the other three years between 2001 and 2004?  
\_\_\_\_\_.

*(If answer is 'Yes', OK. If answer is 'No', please complete 2 overleaf for each of those other three years also.)*

4. If your Division or Group has (or had) to perform any overtime directly attributable to the CAS during the year chosen by you at 2 overleaf, please estimate the annual cost of such overtime:  
€\_\_\_\_\_.

If cost of such overtime differs in other three years between 2001 and 2004, please estimate cost for each year:

Year: \_\_\_\_\_ €\_\_\_\_\_; Year: \_\_\_\_\_ €\_\_\_\_\_; Year: \_\_\_\_\_ €\_\_\_\_\_.

5. Please estimate annual cost of any travelling/subsistence directly attributable to the CAS in like manner:

€\_\_\_\_\_.

Year: \_\_\_\_\_ €\_\_\_\_\_; Year: \_\_\_\_\_ €\_\_\_\_\_; Year: \_\_\_\_\_ €\_\_\_\_\_.  
*(if other years differ).*

6. Please estimate annual cost of any additional and/or other administrative costs associated with the CAS (excluding for example personnel services, training expenses, office space and materials but including expenditure such as printing costs) : €\_\_\_\_\_.

Year: \_\_\_\_\_ €\_\_\_\_\_; Year: \_\_\_\_\_ €\_\_\_\_\_; Year: \_\_\_\_\_ €\_\_\_\_\_.  
*(if other years differ).*

## Appendix 4 Costing of Staffing Resources - Methodology Used

### A4.1 Notes on Methodology

These follow:

- ‘total staff cost’ is calculated in accordance with guidelines laid down in the Department of Finance document entitled “*Costing of Civil Service Staff Time*”;
- ‘direct salary cost’ is defined as gross wage plus associated employer’s PRSI payment - 10.75% in 2003. From this figure, ‘total salary cost’ is calculated by adding a further 16.66% for pension entitlements as per the Department of Finance document;
- ‘total staff cost’ is defined as ‘total salary cost’ plus 47% per the Finance document as an allowance for overheads such as office space, materials, use of telephones and fax, postage, recruitment and training expenses and personnel services;
- travel and subsistence, overtime and other administration costs of the scheme were calculated from questionnaire answers received;
- the Finance document indicated that the above guidelines should apply to “*general service grades*” and “*grades common to two or more departments*”. This review has followed these guidelines, in the absence of any other appropriate methodology, with technical grades which are not common to two or more departments but are involved in administering the scheme on-farm inspections.

### A4.2 Cost derived using this Methodology

*Table A4.1: 2003 Administration Cost of Compensatory Allowance Scheme*

<b>DIVISION</b>	<b>TOTAL STAFF COST</b>	<b>TRAVEL AND SUBSISTENCE</b>	<b>OVERTIME</b>	<b>OTHER</b>	<b>TOTAL</b>
Headage	483,607	1,000	Nil	1,250	485,857
Integrated Control	2,863,926	387,192	Nil	Nil	3,251,118
ISD	73,907	Nil	500	32,900	107,307
Structural Funds	40,590	1,000	Nil	Nil	41,590
Accounts	95,791	Nil	Nil	Nil	95,791
Appeals	21,324	887	Nil	Nil	22,211
Area Aid	832,230	Nil	Nil	Nil	832,230
DLOs	926,957	4,800	Nil	Nil	931,757
<b>Total</b>	<b>5,338,332</b>	<b>394,879</b>	<b>500</b>	<b>34,150</b>	<b>5,767,861</b>

## Appendix 5 The Calculation of Income

### A5.1 Methodology

The 2003/2004 Annual Review and Outlook for Agriculture and Food<sup>87</sup> usefully highlighted different ways in which income from agriculture could be calculated, including the following methods:

- dividing the operating surplus (CSO, Output, Input and Income In Agriculture) by the number of farm holdings (CSO, Agricultural Labour Input Survey) in order to give an estimate of average income per farm;
- dividing the operating surplus by the number of annual family work units (CSO, Agricultural Labour Input Survey) in order to estimate the average income per full-time job, equivalent to family labour or family work unit;
- dividing the operating surplus plus wages by the number of persons employed in agriculture (CSO, Quarterly National Household Survey) in order to estimate the average income per person employed (ILO definition is used for persons employed);
- Using Teagasc's National Farm Survey (NFS), which provides an estimate of the average Family Farm Income (FFI<sup>88</sup>) - this definition of income is different from that used in the CSO's figures.

In its report, the Agri Vision 2015 Committee analysed a number of methods of calculating farm income, including those mentioned in the Annual Review and Outlook. The Committee highlighted the advantages and disadvantages associated with each of these methods. In relation to Teagasc's NFS, it cited the exclusion of some farming systems such as pig farming and market gardening as a shortcoming. On the positive side, it indicated that the survey is "*nationally representative*" and includes detailed information on the majority of Irish farming systems, including a differentiation between LFA and non-LFA farmers.

In light of the foregoing, it is felt that, for purposes of examining, in this review, the contribution that the CAS has made to farmers incomes, the data as presented in the NFS is the most suitable. Accordingly, we use data from the 2003 Teagasc NFS.

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<sup>87</sup> Department of Agriculture and Food (2004). "*Annual Review and Outlook for Agriculture and Food 2003/2004*". Economics and Planning Division, The Department of Agriculture and Food, April 2004 available at [www.agriculture.gov.ie](http://www.agriculture.gov.ie).

<sup>88</sup> The NFS defines FFI as 'gross output less total net expenses. It represents the total return to the family labour, management and capital investment in the business.'