

THE PATH TO SUSTAINABLE FARMING: SIX THINGS YOU NEED TO KNOW

August 2021

INTRODUCTION

DEFRA has published an update on how it plans to implement the Agriculture Act in England from 2021 onwards.

The Agricultural Transition Plan: June 2021 progress update provides some more detail to add to The Path to Sustainable Farming: An Agricultural Transition Plan 2021 to 2024. Together, the two documents set out how Basic Payments will be reduced over the next four years and outline how the new Environmental Land Management (ELM) Scheme will be phased in.

Although there is more detail, it is not enough for land managers to be able to properly plan how they will engage with ELM. We appreciate Defra's desire to 'co-design' the new schemes with land managers and lots more consultation is planned but what is needed now is complete detail to give certainty to the sector.



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Key messages:

1. BASIC PAYMENT SCHEME (BPS) CUTS CONFIRMED FOR 2021-2024

The June update made no changes so the reductions in Basic Payments which are to apply over the next four years as follows:

Payment band	Scheme year			
	2021	2022	2023	2024
Up to £30,000	5%	20%	35%	50%
£30,000- £50,000	10%	25%	40%	55%
£50,000 - £150,000	20%	35%	50%	65%
More than £150,000	25%	40%	55%	70%

The cutbacks apply to the full BPS value, including any young farmer payment. The reductions between 2025 and 2027 have not yet been published. DEFRA have confirmed that the 2020 BPS will be the baseline from which cutbacks will be calculated. The Strutt & Parker BPS calculator can be used to show the effect of this on individual businesses (contact a member of the Farming Department for more information).

Of immediate concern to farmers is that the cuts are deeper and swifter than anticipated. The document states that 'by the end of 2024 we anticipate that legacy Basic Payment Scheme payments will have reduced by about 50%'. However, larger farms will see two-thirds of their BPS disappear. This will require a major reappraisal of farming policy to address the issues caused by this lost income.

The cut-backs are shown in the table below for different farm sizes (non-SDA):

Effective % age cutback for different farm sizes				
	2021	2022	2023	2024
100Ha	5%	20%	35%	50%
250Ha	9%	24%	39%	54%
500Ha	14%	29%	44%	59%
1,000Ha	19%	34%	49%	64%

These reductions would be more palatable to the industry if the schemes being funded by the cuts, including lump sum exit payments and delinking, were set out in detail and designed to be up and running earlier.

The 'lump sum' payment option will be subject to consultation, but it is suggested that this will be available in 2022 only as part of an 'exit scheme' to help farmers leave the industry. By missing 2021's BPS, the value of the lump sum will inevitably be lower than it could have been and one suspects that it is unlikely to receive much take-up because the value of payments on offer will be limited. We also do not know what the tax treatment of the lump sum will be and this will be important to factor in for anyone considering this.

Under current plans, de-linking will take place from 2024 onwards, and the delinked payments will be based on an historic reference period. After de-linking there will be no need to match eligible land with entitlements to receive a payment. De-linking will apply to all BPS claims.

At the point of de-linking, cross-compliance will cease and be replaced by a 'new approach' to regulation. So, until 2024, it is business as usual with regard to cross-compliance rules (most of which are now underpinned by separate regulations in any case).



2. MORE DETAIL ON THE THREE ENVIRONMENTAL LAND MANAGEMENT SCHEMES

Defra has confirmed that the Environmental Land Management (ELM) scheme will be made up of three parts, dropping the 'tier' terminology it previously used. A significant announcement is that spending on ELM is planned to be evenly split between farm-level (mainly Sustainable Farming Incentive), locally tailored (mainly Local Nature Recovery), and landscape-scale schemes (mainly Landscape Recovery) by 2028.

Sustainable Farming Incentive

First of these components is the Sustainable Farming Incentive (SFI) which will pay farmers for actions they take to manage their land in an environmentally-sustainable way. Actions will be grouped into packages and farmers will choose from a menu of options to pick actions which are best suited to their land.

This will help to address the funding gap (the significant drop in farm receipts caused by the withdrawal of BPS before ELM is launched), although farmers should not expect SFI to make up more than a very limited amount of lost BPS.

Some core elements of the SFI will be available from spring 2022 to anyone who claims Basic Payments:

- arable and horticultural soils standard
- improved grassland soils standard
- moorland and rough grazing standard
- annual Health and Welfare Review - Defra will fund a yearly visit from a vet or vet-led team, with the offer open for three years.

Final versions of the initial set of standards will be published by November 2021.

The indicative payment rates for the first year are set out below:

£/ha	Introductory	Intermediate	Advanced
Arable and horticultural soils standard	£26	£41	£60
Improved grassland soils standard	£26	£44	£70
Annual Health and Welfare Review	Full cost of vet paid for plus a payment to the farmer for their time of £269 - 775.		

Farmers will be able to take up a SFI agreement on land parcels covered by an existing agreement, provided the SFI standard they choose is compatible with that existing agreement and does not result in them being paid twice for similar activities.

The plan is to expand the scheme until all elements are available from 2024 / 25 onwards¹.

The aim is for at least 70% of farms to participate in agri-environment schemes by 2028 (compared with around 32% now). NB This is a significant drop from Defra's original intention for almost all land managers to sign up.

The aim is that, eventually, the SFI will involve each farm having a land management plan, which would be the basis for farmers to decide how, where and when to produce public goods on their land. The plans would then be used as a basis for assessing overall progress towards wider environmental, climate, and animal health and welfare targets.

The SFI is being pilot tested with a number of land managers from October 2021 onwards.

¹The additional standards that Defra is considering introducing are:

1. Agroforestry standard
2. Hedgerows standard
3. Arable and horticulture land standard
4. Waterbody buffering standard
5. Improved grassland standard
6. Low and no input grassland standard
7. Farm woodland standard
8. Dry stone walls standard
9. Heritage standard
10. Farmyard infrastructure standard
11. Orchards and permanent crops standard
12. Peat soils standard



Local Nature Landscape

This scheme will pay for actions that support local nature recovery and deliver local environmental priorities; making sure the right things are delivered in the right places. The scheme will also encourage collaboration between farmers to improve their local environment. Consider it as similar to the current Countryside Stewardship scheme.

Local Nature Recovery will focus on:

- creating, managing and restoring habitats such as woodland, wetlands, freshwater, peatland, heathland, species-rich grassland, and coastal habitat & connecting isolated habitats to form networks
- natural flood management
- species management
- rights of way, navigation and recreation infrastructure
- education infrastructure, events and services
- geodiversity and heritage asset management.

Defra has said that development of the scheme will continue throughout 2021, including analysis of the results of the five Local Nature Recovery Strategy pilots.

Piloting is planned to start in 2022, with more information on this in the autumn, followed by a phased rollout from 2023 onwards.

Landscape Recovery

This will support the delivery of landscape and ecosystem recovery through long-term, land use change projects, including projects to restore wilder landscapes.

Landscape Recovery will focus on:

- Large-scale forest and woodland creation, restoration and improvement
- Restoring ecosystems, including native species and restoring rivers and streams.
- Peatland restoration
- Creation and restoration of coastal habitats such as wetlands and salt marsh.

The aim remains to open applications to sites between 500 to 5,000 hectares, including collaborative groups of farmers and land managers.

Defra intends to start 'market engagement' for the first set of 10 projects this summer, to invite applications to be a pilot project in the autumn and develop these projects in early 2022.

As these are bigger and more complicated projects, the planned rollout is later than for Local Nature Recovery and is planned to start in 2024.





Payment principles

Defra has finally published some information on the principles that it will use to decide how much land managers will be paid under the new ELM schemes. This is well over a year later than originally planned and, frustratingly, most of the detail remains missing; it says that detailed information on exactly what Defra will pay for through each scheme and how much it will pay will be issued when it launches the respective schemes. This is too late, stifles debate and business planning.

Defra says it wants to adopt a new approach to payments that is more generous than the old EU schemes so it can get the levels of uptake needed to achieve its environmental goals.

To do this, it is going to use four principles for ELM payments:

1. Set payment rates to encourage wide participation, whilst fairly and effectively paying farmers for achieving environmental and climate outcomes.

The basis for the payments will, at least initially, be a cost-based methodology in most cases. It is not clear what this means, how much incentive or profits will be added or how it will differ from the current income-foregone method.

More positively, Defra says that it expects to ‘increasingly deploy’ more innovative, market-based mechanisms for setting payment rates, and also to make greater use of payments by results.

Also positively, Defra says that it wants the payment methodology to be flexible so that higher rates can be paid for actions that are particularly wanted or to encourage take up where it might be low.

Land managers will not be able to be paid for the same intervention twice through different schemes but land managers may be allowed to layer environmental agreements where the outcomes of the schemes are different or complementary.

2. Payments that, as far as possible, recognise and pay for outcomes that can be delivered through a wide range of activities.

This means that, as at present, payments will continue to be a mix of annual payments, capital grants, for collaboration and for selected preparatory work. In addition, there should also be payments based on outcomes where these can be measured and accurately attributed.

3. Payments should recognise the value of existing natural assets and should not unfairly disadvantage those who are already protecting and enhancing these assets to achieve good environmental and climate outcomes.

This is a very positive principle. It will be achieved by paying for ongoing management and maintenance of the condition of existing environmental assets, and also avoid perverse incentives that reward historic degradation or removal of existing assets.

4. Public payments should form part of a growing market for environmental outcomes, where scheme participants can earn income from public and private sector sources.

Defra wants to ensure that all ELM schemes are fully compatible with and that 'it is as explicit as possible' how public and private finance can be blended, and that public money does not "crowd out" private investment. This is quite complicated to do and Defra is commissioning research on how to do this. One of the key issues is to ensure that public and private finance is compatible, pay for different or additional outcomes and do not pay for the same action twice.

As we have previously said, there is little mention of payment-by-results which was a significant theme in the Health & Harmony consultation which led up to the Agriculture Bill. Defra's deputy director told the CropTec Show on 25 November 2020 that moving to paying for outcomes 'has just proven too challenging in the timescale, but it remains where we want to go.' This feels like a weak excuse. Alternative payment models could be tested in the pilot and revised if needs be.

The ELM pilot will be smaller than previously announced, with we think 5,500 land managers signed up, which is much fewer than the original target of 15,000. This suggests that the National Audit Office (NAO) was right when it questioned whether Defra had the technical and administrative capacity to deliver the programme. For the most complex and ambitious component of ELM (Landscape Recovery) there will be just 10 or so pilot projects in total.

To put this into context, when the target was 15,000 land managers, the NAO said that it did not know whether that would provide sufficiently robust evidence across the range of farm types and locations to inform further development of the ELM programme. The target has been cut by two-thirds. Further, it is still unclear whether Defra has a plan for what it needs to achieve in each year of the pilot.



3. EXISTING AGRI-ENVIRONMENT SCHEMES CONTINUE TO 2023

Anyone with an existing Environmental Stewardship (ES) or Countryside Stewardship Scheme (CSS) agreement which meets the relevant Natural England/Rural Payments Agency criteria should be able to continue to extend them - including through 'mirror agreements' - up until 2024, at which point they will be able to transition to ELM.

CSS funding will be increased from 2022 and the administration/application process will be simplified to increase uptake. Farmers will be able to apply for new CSS agreements up to 2023 (so the last CSS schemes will start on 1 January 2024).

From 2024, agreement holders will be able to transition from CSS to ELM by ending their CSS early once they have secured an ELM agreement.

CSS agreements with 2021 or later start dates will benefit from more proportionate rules relating to over-claims (including the removal of automatic penalties), and warning letters to give farmers time to put things right, rather than penalties as a first response.

It is not clear if these changes will apply to agreements which are extended, or just for new agreements starting 1 Jan 2021 onwards. We hope that farmers who extend their existing agreements after 1 January 2021 will also benefit from these changes but this is not stated. There is also no relaxation in the onerous record keeping requirements of CSS.

The limit for capital only hedgerow and boundaries grants has been doubled to £20,000, which is positive.

All contracts currently ongoing under the Rural Development Programme for England will be honoured (eg Countryside Productivity, Growth Programme, LEADER, Environmental Stewardship, woodland agreements).

The June 2021 update also stated that Defra will adjust existing and new Countryside Stewardship rates so that, as far as possible, agreement holders will receive the same amount of money for comparable activities across the different schemes that will be available between 2021 and 2024. This is positive reassurance that the sector needs to encourage land managers to apply for new agreements



4. NEW GRANT SCHEMES ARE ON THE WAY

There is some more information on some of the new schemes that will be on offer:

Farming Investment Fund – This is an umbrella for two productivity grants schemes which will open in autumn 2021:

- 1. Farming Equipment and Technology Fund:** This will offer grants to pay towards the purchase cost of a list of specified, pre-determined items. There will be a simple online application and approval process, with a clear grant value assigned to each item. It will be based on the current Countryside Productivity Small Capital Grant Scheme. It will be launched by October 2021.
- 2. Farm Transformation Fund:** This will offer grants to pay towards the cost of more substantial investments in equipment, technology or infrastructure, with the potential to transform business performance.

Examples provided include:

- on-farm water storage infrastructure, including reservoirs
- precision agriculture equipment
- robotic or automated technology
- items to improve animal health
- equipment and technology for storing, sorting, or processing products

New Entrants Support Scheme: It is planned this will open in 2022 and will encourage the creation of opportunities for new entrants from councils and private landowners. There is little detail on structure, but we think funding may be available for advice on joint ventures and/or help to match landowners with new entrants.

Slurry Investment Scheme: This will pay a proportion of the cost of covers to slurry stores and new stores (to meet a new six-month storage requirement). It is likely that DEFRA will utilise catchment sensitive farming officers to support and deliver this scheme. Funding will be available from late 2022 and is likely to run until 2024/25. Details will be published in 2021.

Innovation, research and development funds: From early 2022 DEFRA wants to invite applications for grants to help improve research and knowledge transfer to farmers by providing funding for projects led by farmers and farmer consortiums to develop technology and solve productivity problems, and then help demonstrate and share the results to the wider industry. Positively, DEFRA has launched the Farming Innovation Pathways competition to develop farm-focused innovations, with £14.5 million of funding; projects will start from October 2021.

Farming in protected landscapes support: This scheme was launched in June and runs until 2024. Its main focus will be on the uplands, to help them prepare for ELM from 2024 onwards. Advice and grant funding to help grow businesses and diversify is likely to be delivered by existing AONB and National Park authorities.

Animal health & welfare support: A 'pathway' to promote the production of healthier, higher-welfare animals at a level beyond compliance with current regulations is being developed. This will include health and disease support – which is being trialled as a payment-by-results scheme – alongside capital grants for equipment. Both schemes should open in 2022.

England Woodland Creation Offer: This new scheme was launched in June 2021 and is designed to significantly increase rates of woodland creation. Grant rates are higher than in the Countryside Stewardship scheme and Defra expects to close the Countryside Stewardship woodland creation offer to new entrants in the near future.



5. FINALLY... BRACE YOURSELF FOR A LOT OF CONSULTATION

In many ways, many of the proposals do not feel much further developed.

There is more clarity on how the budget will be split between the ELM schemes but not on how much the animal welfare and farm prosperity schemes will receive.

The update on payment methodology made it clear that this is still a work in progress - just before all three schemes are due to start their pilot phases.

Due to this, it is impossible to start assessing whether the schemes are likely to succeed.

While it is positive that Defra wants to design schemes with land managers and other stakeholders, what the industry needs is for this to happen quickly (and ideally to have happened already). This would have enabled Defra to try new ideas and revise them.

It is easy to lose track of how many consultations Defra plans to have, or co-designs or planned engagements. Even when ideas are more firmly developed, they are couched in terms like 'current intention' and 'expected to open'. This is unlikely to give the industry confidence, given a [CLA/Strutt & Parker survey in 2020](#) highlighted that farmers and landowners are already worried about the implementation of ELM.

Regulation, enforcement and co-ordination

Defra is testing a range of approaches for monitoring and says it has already made improvements to the way it monitors agreements within existing agri-environment schemes. The Environment Agency has been set a target of at least 1,500 advice-led inspections to be undertaken in 2021 / 22, to support more farmers to meet legal requirements and improve water quality. Defra is actively looking at whether 'earned recognition', which means meeting the requirements of existing assurance schemes, could be used to reduce the likelihood of being visited to monitor and review the delivery of Sustainable Farming Incentive agreements. It will be interesting to see whether these new approaches lead to better outcomes for everyone as hoped.

In order to help co-ordination between the devolved administrations, Defra has set up the UK Agricultural Support Framework, which provides for non-legislative UK collaboration, co-ordination and co-operation on agricultural support between all four UK administrations.



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