ANALYSIS OF THE AGRICULTURE BILL
OCTOBER 2018

1. BACKGROUND

The Agriculture Bill published on 12th September 2018 is the greatest change to farm support in a generation. The phasing out of direct payments is likely to have a disproportionate impact on our members, many of whom farm on more marginal land in Cumbria and the Yorkshire Dales. This analysis is to help our members understand the changes so they can start to assess what they might mean for their businesses.

A summary of the announcement[1] is as follows:

- Direct payments in 2019 and 2020 will be made on a similar basis as to now subject to simplification where possible.

- The Basic Payment Scheme (BPS) will then be phased out between 2021 and 2027 with all farmers seeing reductions during this transition period, although those who receive the highest payments will see bigger reductions initially.

- During the transition period, direct payments will be "delinked" from the requirement to farm the land. These payments, which may be calculated on money received in previous years, can be used by farmers to invest in their business, diversify their activities or retire from farming to help new entrants.

- There will be a new system of "public money for public goods" called the new Environment Land Management Scheme (ELM). "Public goods" will include better air and water quality, soil health and higher animal welfare standards, access to the countryside and measures to reduce flooding.

- There will be grants for farmers to invest in equipment, technology and infrastructure to help them deliver public goods and adopt the new environmental land contracts.

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[1] **Government Announcement on the Agriculture Bill** 12th September 2018
https://www.gov.uk/government/news/landmark-agriculture-bill-to-deliver-a-green-brexit

- There will also be funding for farmers who collaborate on research and development projects into topics such as soil health or sustainable livestock farming.

Note that the Agriculture Bill may be amended as it is proceeds through the Parliamentary process. It had its second reading in the House of Commons on 10th October and starts the Committee stage on 23rd October 2018.

2. PHASING OUT OF DIRECT PAYMENTS FROM 2021-27

Defra has produced a briefing[2] setting out the reasons why they are removing direct payments, what they think the impact will be, how they might reduce payments over the transition period and what the de-linking of these payments might involve.

It appears that Defra's preferred option for phasing out direct payments is a progressive reduction from 2021 for all farms. They give an example for Year 1 as follows:

Direct payment thresholds	**Proposed reduction to direct payments in year 1 of the transition period**
Up to £30,000	5%
Between £30,000 & £50,000	10%
Between £50,000 & £150,000	20%
Above £150,000	25%

An example for how this might affect different levels of BPS is below:

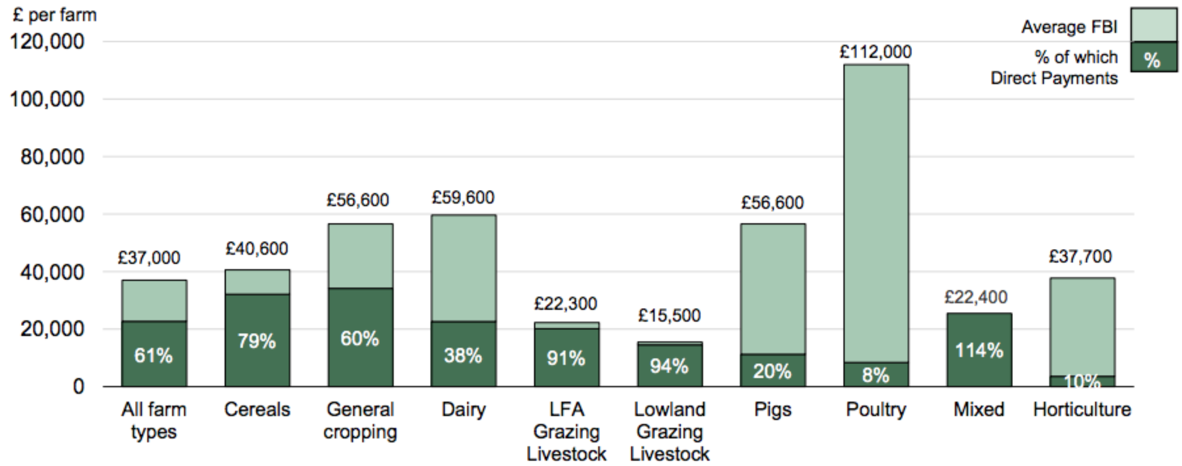
BPS entitlement £	Reduction rates applied				**Actual BPS Payment 2021 (£)**
	5% up to £30k	10% £30 - 50k	20% £50 - 150k	25% over £150k	
£25,000	£1,250				£23,750
£40,000	£1,500	£1,000			£37,500
£80,000	£1,500	£2,000	£6,000		£70,500
£160,000	£1,500	£2,000	£20,000	£2,500	£134,000

It is not yet clear what reductions would be applied for the following 6 years, but the payments will be phased out by the end of 2027. Note that the Agriculture Bill does allow the transition period to be extended and for variations to the reductions during the transition.

[2] "**Moving away from Direct Payments**" – Defra September 2018 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/740669/agri-bill-evidence-slide-pack-direct-payments.pdf

Defra's own figures show that across all farm types, Direct Payments have been the equivalent of 61% of Farm Business Income, but this is an average for England and varies greatly by sector. For LFA Grazing livestock farms, Basic Payments have been on average 91% of profit, increasing to 94% for lowland livestock and 114% for mixed farms. Even for dairy farms, direct payments make up on average 38% of profit.

Direct Payments as a proportion of the Average Farm Business Income (FBI) by 2016 farm type, based on 3 year matched dataset 2014/15 to 2016/17



Defra's briefing analyses the impact on different regions of England with Northumberland the most dependent on Direct Payments as a proportion of profit. This is because it has the highest percentage of grazing livestock and tenanted farms, but this is also likely to be the case for large areas of Cumbria and the Yorkshire Dales.

3. DELINKING OF DIRECT PAYMENTS FROM 2021

It is not yet clear what criteria will apply to the delinking of payments, but it looks like it will be possible for farmers to take their BPS payment entitlements for the full transition period as a lump sum and either invest this in the business, or retire and leave the farm. It would then leave an incoming tenant (or farmer taking on a new piece of land) with no BPS entitlement potentially from 2021/22 onwards.

This is likely to accelerate change with potentially some farmers taking this option to retire resulting in more land becoming available, possible reductions to farm rents, land prices and potentially more opportunities for younger farmers - if they can make farming profitable without the support of direct payments!

4. NEW ENVIRONMENT LAND MANAGEMENT (ELM) SCHEME

The Agriculture Bill[3] sets out for what purpose financial assistance can be given under the new scheme including:

- managing land or water in a way that protects or improves the environment;

[3] Agriculture Bill 2018 https://publications.parliament.uk/pa/bills/cbill/2017-2019/0266/18266.pdf

- supporting public access to and enjoyment of the countryside, farmland or woodland and better understanding of the environment;
- managing land or water in a way that maintains, restores or enhances cultural heritage or natural heritage;
- mitigating or adapting to climate change;
- preventing, reducing or protecting from environmental hazards;
- protecting or improving the health or welfare of livestock;
- protecting or improving the health of plants.

The Bill also states that financial assistance may be given by way of grant, loan, guarantee or in any other form so the new ELM payments may not be made in the same way as through the existing Stewardship schemes.

The new scheme will tested over the next few years and we understand this may involve some of the Stewardship Facilitation Fund groups. We also understand that testing is being undertaken on the Askham Bryan College farms including the dairy and upland farms owned by Newton Rigg College. The results of these trials will inform the development of the scheme which will then be piloted with the aim of it being fully operational from 2025.

In Cumbria, we understand there may be two pilot areas – one covering the Derwent catchment piloting ELM in an upland environment and the other in the Waver Wampool on the Solway Plain which is a lowland area of dairy and livestock farms. In the Yorkshire Dales, there is already a "Payment by Results" pilot scheme being trialled in Wensleydale. In August 2018, funding for 2 more years was announced for this trial alongside a similar pilot scheme for arable farmers in East Anglia. In Wensleydale, the pilot is delivered by Natural England in partnership with the Yorkshire Dales National Park Authority with farmers rewarded for producing habitat suitable for breeding waders, or for managing species-rich meadows.

Will the new Environment Land Management Scheme replace the income lost from Direct Payments? We don't yet know, but unless it is substantially different from the Stewardship schemes, income received may depend on prescriptions resulting in a loss of production and/or additional costs. There is also no guarantee that the current levels of spending on farm support will be maintained post 2022.

It currently appears that the last year for new Countryside Stewardship agreements is likely to be 2024. Outside the pilot and test areas, Stewardship will be the main source of environmental payments until the new ELM scheme is rolled out, but by 2024, farms will already have experienced the first years of reductions to the Basic Payment Scheme.

5. THE FUTURE OF SUPPORT IN OTHER AREAS OF THE UNITED KINGDOM

The Agriculture Bill sets out the legislation for England, but will also provide powers for the devolved governments in Wales and Northern Ireland to develop their own agricultural policies.

The Scottish National Party refused to allow the legislation to include Scotland and a public argument has developed with Defra insisting that inclusion of Scotland within the Bill would still have allowed agriculture to remain devolved, announcing on 13th September that: "*Claims of 'power grab' are completely false and misleading*".[4]

This argument has important significance for farmers in the North of England. It highlights the likelihood of different support arrangements in Scotland and potentially also in Wales compared with England. The Government states: *"there is nothing in the Agriculture Bill which will stop existing Scottish Government policies – including the Voluntary Coupled Support and Less Favoured Area Support Scheme. They will still be possible under both retained EU law and the Agriculture Bill…. As we leave the EU, it is our intention that each administration can independently design policies that support their farming sectors and enhance their environment."*

Farmers in the North of England will be competing with farmers in Scotland and Wales who may have different levels of support. The Agriculture Bill states "*After the end of the agricultural transition period for England no direct payments are to be made under the basic payment scheme in relation to England*". It is possible that Wales and Scotland may take different approaches to the phasing out of Direct payments and may retain direct payments, for example in Less Favoured Areas. This would not be a level playing field – English farmers may well be at a disadvantage.

In mid-October, an independent advisory panel was set up to look at what factors should determine the distribution of agriculture funding between England, Scotland, Wales and Northern Ireland for the remainder of this Parliament once the UK has left the Common Agricultural Policy. The announcement suggests that the funding formula will not just be based on population but on other factors and has been welcomed by the devolved administrations.

6. WHAT NEXT?

Farmers need to look at their own businesses and family situation, consider the impact of the phasing out of direct payments from 2021 and what changes might be possible to help offset this loss of income.

Defra's briefing suggests that the removal of Direct Payments may be offset in ways including:

- improvements to farm efficiency by reducing costs and maximising output;
- increasing income from diversification;
- reductions to farm rents which Defra states have been inflated by direct payments;

[4] https://www.gov.uk/government/news/uk-government-agriculture-bill-scotland-myth-buster

- optimising investment decisions, eg for machinery, to improve return on capital investment;
- better business management with only 1 in 3 farms currently regularly producing budgets, gross margins and cash flows;
- payments from the new Environmental Land Management scheme.

Defra admits that loss making Less Favoured Area Grazing Livestock farms have the biggest challenge in reducing costs to break even once direct payments are phased out. It also states that the ability to diversify will depend on the characteristics and location of the farm; if more farms diversify, for example into tourism, this would increase the supply and may lower the return to the farmer. In our experience, particularly in the Lake District, there has already been considerable diversification into tourism with funders unwilling to grant aid additional bed-space in many areas of the National Park.

There is nothing within the Agriculture Bill that mentions the value of food production, nor does there appear to be much help to mitigate the impact of price volatility. High levels of price volatility are typical in agriculture and are known to make farmers more risk averse reducing long-term investment. Direct payments have a stabilising effect on farm incomes as they don't depend on production levels or market prices. There is provision in the Agriculture Bill for financial assistance to farmers in the event of exceptional market conditions, but this appears to be only in the event of "severe disturbance in agricultural markets".

We have yet to see the detail of the new Environmental Land Management Scheme and it is therefore not clear whether this will take account of how farms in the uplands have very few options to cut costs and increase output because of their physical disadvantages. In Scotland and potentially also in Wales, the devolved Governments may retain some elements of direct payments to support farmers in their Less Favoured Areas leaving English farmers at a competitive disadvantage.

The system of direct payments has had its problems with the payments artificially inflating rents and land values and with highly bureaucratic rules and paperwork. The removal of direct payments may provide opportunities for younger farmers with more farms and farmland becoming available and potentially lower rents. For better or for worse, it will certainly be the biggest shake up in the agricultural industry for a generation!

Veronica Waller
17th September 2018 (updated 18th October 2018)

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