

Farm support, the new Environmental Land Management Scheme and the funding gap

June 2019

At a glance

<p>Basic Payment Scheme support and the Rural Development Programme for England will change significantly after Brexit.</p> <p>There could be a large funding gap – lower support - from 2023 onwards if the new Environmental Land Management Scheme (ELMS) is introduced slowly or if agreements are not available to most farmers and at high payment rates.</p>	<p>It is difficult for farm businesses to assess the potential impact of the policy changes without more detail on the amount and timing of new ELMS payments.</p> <p>The modelling we have done for this paper suggests that unless new ELMS payments are higher than Countryside Stewardship payments farm incomes could fall by 40% on average and more for some types of farm (most likely lowland arable farms).</p>	<p>Much will depend on the Government's acceptance and implementation of the recommendations of the Committee on Climate Change and Natural Capital Committee.</p> <p>We expect more funding to go to protection of peatlands, afforestation and reducing emissions from livestock (mainly cows and probably by reducing cow numbers).</p>
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Introduction

Farmers in England currently receive £2.2bn of direct support a year; 80% is Basic Payment Scheme support (Basic Payments) and 20% is funding through the Rural Development Programme for England (RDPE), which is mainly spent on the Countryside Stewardship and other agri-environment schemes¹:

£	Baseline (2017/18)
Basic Payments	1,768,000,000
Current RDPE (Countryside Stewardship)	348,000,000
Current RDPE (Growth Programme)	25,000,000
Current RDPE (Countryside Productivity)	20,000,000
Current RDPE (LEADER)	20,000,000
	413,000,000
Total direct payments including RDPE to farmers	2,181,000,000

Both of these payment streams – Basic Payments and the RDPE – will change significantly after Brexit. In the Agriculture Bill which was published in September 2018, the Government said it wanted to:

1. Phase out Basic Payments to zero between 2021 and 2028;
2. Replace the current agri-environment schemes with a new Environmental Land Management Scheme (ELMS) that pays 'public money for public goods';
3. Introduce new support for increasing agricultural productivity and higher animal health and welfare programmes; and
4. Replace the current RDPE schemes that support rural businesses and communities – the Growth Programme, Countryside Productivity and LEADER – with support through the new UK Industrial Strategy Shared Prosperity Fund, which the Government is expected to consult on during 2019.

¹ Source: Agriculture in the UK 2018, table 10.2 Direct payments to farmers.



The Government has said it will work on the design of its new agricultural, environmental and industrial policies between 2019 and 2021. It is currently running a number of pilot schemes on the design of the new ELMS and has also invited proposals to ‘test and trial’ different agri-environment approaches. The new ELMS is expected to come into full operation in 2025.

A key question for farm businesses is will there be a ‘funding gap’ – lower support – during and after the transition to the new policies. While we do not have answers to many questions, including how Defra proposes the transition will work, we can make a number of assumptions to assess whether there may be a funding gap and its possible size.

This analysis is meant to stimulate discussion on the transition to the new policies. The assumptions will be amended as we learn more².

Effect on support across England

To assess the effect of the proposals on funding in England we have made a number of assumptions about how the current schemes may scale down and the new policies be introduced:

Basic Payments	The Government has said that payments will be cut from 2021 onwards, by between 5 and 25% depending on the total Basic Payments received; it has not said what happens afterwards. Therefore we have assumed there will be an (average) 10% cut in 2021, followed by a straight line cut to 2028 of @ 14% pa until Basic Payments are zero.
Current RDPE (Countryside Stewardship)	The current schemes will continue until ELMS is refined and fully introduced. There have been around 18-20,000 Countryside Stewardship agreements historically covering @ 1.2m ha (excluding ELS), so 13% of the 9.2m ha utilisable agricultural area. We have assumed that spending falls as the current schemes are replaced by the new ELMS, from the current level of 16% of total funding to 3% of current funding in 2028 to pay for on-running agreements.
Current RDPE (Growth Programme)	These schemes will end in 2019 / 20 when the current Common Agricultural Policy plan period ends. They will be replaced by funding through the UK Shared Prosperity Fund.
Current RDPE (Countryside Productivity)	
Current RDPE (LEADER)	
New ELMS	The Government plans to start this new scheme in 2021 and it is expected to be fully operational by 2025. <u>We have assumed that there are three times the number of new ELMS agreements than current Countryside Stewardship and Higher Level Scheme agreements (i.e., 55,500 agreements³ compared with 18,500). We have also assumed that the average spending and area covered per agreement is the same as under Countryside Stewardship.</u>
New animal health & welfare programme	We have assumed that this is fully operational by 2027 and that funding is 2% of the current total direct support.
New farming productivity support	The Government has said that funding is likely to be time-limited (probably to 2021-2027). We have assumed funding is 5% of the current total, so much higher than currently.
UK Shared Prosperity Fund	This is expected to start in 2021 and we have assumed funding is 3% of the current total, so a similar level to current spending on RDPE Growth Programme, Countryside Productivity and LEADER.

Based on these assumptions, direct support could be as shown below, in £m per annum and as a % of current total direct support (using 2017 as the baseline):

² Some of this analysis and commentary appeared in Farmers Weekly on 5 April 2019.

³ 55,000 agreements would be very large percentage of the 64,000 holdings over 20 ha in England; the 64,000 holdings cover 8.9 m ha or 97% of utilisable agricultural area in England; see Agriculture in the UK Table 2.4. Our 55,000 agreement assumption is less than Defra’s stated aim of enrolling up to 82,500 farmers and land managers. Defra has already reduced its estimate (from 88,000 to 82,500) and we think the revised estimate is still highly optimistic and will be reduced further.

Figure 1: Estimated direct payments including RDPE to farmers from 2021 to 2028, in £m and as a % of the 2017 baseline

£	Baseline (2017)	2021	2022	2023	2024	2025	2026	2027	2028
Basic Payments	1,768,000,000	1,591,200,000	1,368,432,000	985,271,040	571,457,203	251,441,169	75,432,351	12,069,176	0
Current RDPE (Countryside Stewardship)	348,000,000 ⁴	278,400,000	222,720,000	178,176,000	142,540,800	114,032,640	91,226,112	72,980,890	58,384,712
Current RDPE (Growth Programme)	25,000,000								
Current RDPE (Countryside Productivity)	20,000,000								
Current RDPE (LEADER)	20,000,000								
	413,000,000								
New ELMS		158,238,000	316,476,000	474,714,000	632,952,000	791,190,000	791,190,000	791,190,000	791,190,000
New animal health and welfare programme								43,620,000	43,620,000
New farming productivity support		109,050,000	109,050,000	109,050,000	109,050,000	109,050,000	109,050,000	109,050,000	109,050,000
UK Shared Prosperity Fund		65,430,000	65,430,000	65,430,000	65,430,000	65,430,000	65,430,000	65,430,000	65,430,000
Total direct payments to farmers	2,181,000,000	2,202,318,000	2,082,108,000	1,812,641,040	1,521,430,003	1,331,143,809	1,132,328,463	1,094,340,066	1,067,674,712
As a % of the 2017 baseline									
Basic Payments	81%	73%	62%	47%	32%	17%	6%	1%	0%
Current RDPE (Countryside Stewardship)	16%	13%	10%	8%	7%	5%	4%	3%	3%
Current RDPE (Growth Programme)	1%								
Current RDPE (Countryside Productivity)	1%								
Current RDPE (LEADER)	1%								
	19%								
New ELMS	0%	7%	15%	22%	29%	36%	36%	36%	36%
New animal health and welfare programme								2%	2%
New farming productivity support	0%	5%	5%	5%	5%	5%	5%	5%	5%
UK Shared Prosperity Fund		3%	3%	3%	3%	3%	3%	3%	3%
Total direct payments to farmers	100%	101%	95%	85%	75%	66%	54%	51%	49%

4 NB This line includes spending on Countryside Stewardship and Higher Level Stewardship agreements (£263.7m in 2017) and on the Entry Level Stewardship (£84.3m in 2017).



The key variable in terms of the new support for farmers is what spending will be through the new ELMS. The other new schemes – for productivity, animal health and welfare and the UK Shared Prosperity Fund – are likely to be a relatively small proportion of overall spending (although still very important).

Even with our base assumption of three times the number of new ELMS agreements, overall support for farming will half if ELMS payments per farm are pitched at a similar level to current Countryside Stewardship payments, as can be seen in figures 2 and 3.

Figure 2: Estimated direct payments including RDPE to farmers from 2021 to 2028, as a % of the 2017 baseline

NB Spending on the RDPE Growth Programme, Countryside Productivity and LEADER schemes, which amounts to 3% of the current total, has been excluded from the charts in this section to simplify the presentation; it has however been included in the two tables above.

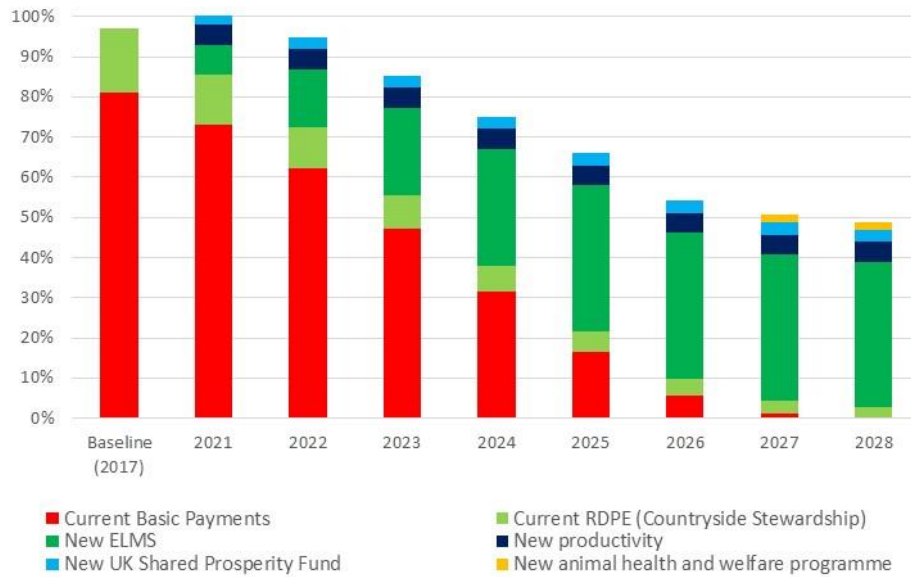
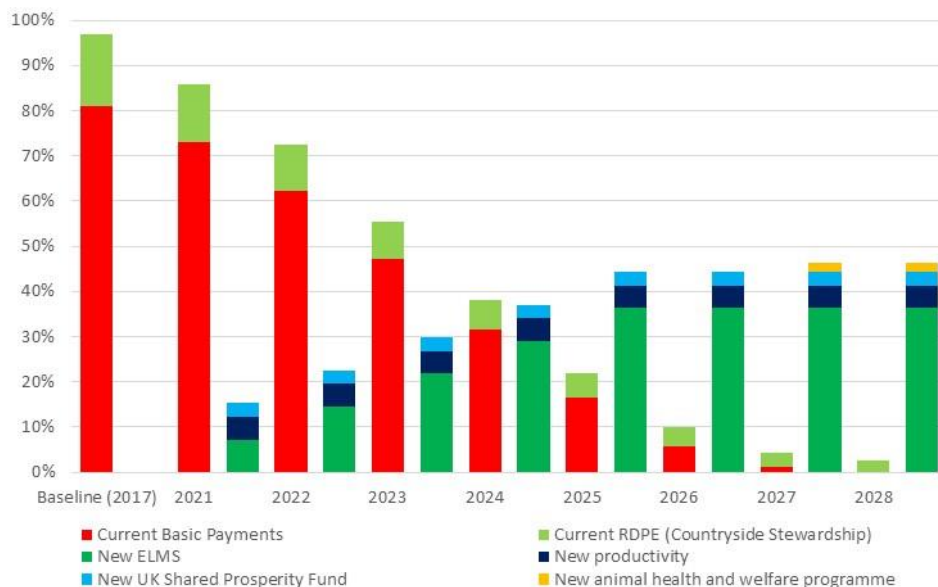


Figure 3 presents the same data as figure 2 but with two columns for each year – one for the current schemes and one for the new schemes. This, hopefully, makes it clearer how spending on the current schemes will fall and be replaced by spending on the new schemes.

Figure 3: Estimated direct payments including RDPE to farmers from 2021 to 2028, as a % of the 2017 baseline



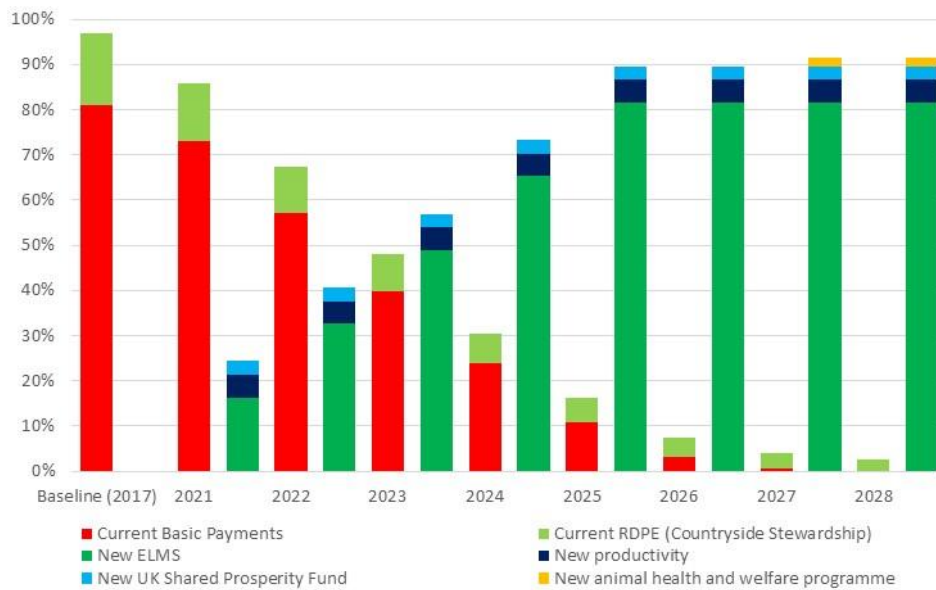


Therefore, to avoid a significant drop in funding to farmers, the new ELMS would have to be introduced (i) quickly in 2021 to 2024⁵, (ii) on almost all farms and (iii) with higher total payments to land managers⁶.

We can test some ‘what if’ scenarios in terms of spending.

For example, payment rates through the new ELMS would have to be more than double current rates⁷ in order for spending in the future to match the current budget (and still assuming that there are three times the number of new ELMS agreements). See figure 4.

Figure 4: Estimated direct payments including RDPE to farmers from 2021 to 2028, as a % of the 2017 baseline – assuming payments under new ELMS are 225% of current levels



5 Initially, Defra planned to include 5,000 farmers in the first year of the pilot in 2022, with a further 5,000 in each of years two and three. However, following more detailed assessment it has scaled back its ambitions for the first year to 1,250 farmers, while retaining its ambition to reach 15,000 by the end of the three year pilot in 2024. Source: NAO, Early review of the new farming programme, June 2019.

6 NB This assumes that most ‘payments for public goods’ are channelled through the new ELMS. We do not know yet whether this what the government is planning.

7 Current spending equates to £38 / ha of utilised agricultural area. It is based on the current spending of £348m pa on agri-environment schemes divided by the 9.2m ha of utilisable agricultural area in England. An alternative way of calculating payments per hectare is to use the total area of land entered into agri-environment agreements. Currently, a Countryside Stewardship and the Higher Level Scheme agreement covers 77 ha on average. With 1.43m ha of land entered into these schemes and receiving £263.7m pa in total, this is an average payment of £184 / ha. To maintain spending at current levels, and with three times the number of new ELMS agreement, spending would have to more than double to £415 / ha in new ELMS.



Effect on support on individual farms

We can also model how the support changes might affect individual farms.

We have again used 2017 / 18 as the baseline and used the profit produced by the 'average' farm in England according to the Farm Business Survey, by using 'all farm types' data. The farm generated a £56,522 net profit, of which 18% was from farming, 9% from agri-environment, 22% from diversification and 50% from Basic Payments.

£	Baseline (2017/18)	% of baseline profit
Farming	10,421	18%
Agri-environment	4,948	9%
Diversification	12,354	22%
Basic Payments	28,799	50%
Total profit (NB This is called Farm Business Income)	56,522	100%

To model how total farm net profits might change, we have again made a number of assumptions, some of which may be optimistic:

Farming	We have assumed a 3% increase in net profits per year. This may be optimistic.
Agri-environment	We have assumed that our typical farm's current agreement runs until 2024 and is then replaced by a new ELMS agreement <u>worth the same as</u> the current annual payment (100%).
Diversification	We have assumed a 3% increase in net profits per year. This may be optimistic.
Basic Payments	We have assumed a 10% cut in 2021, then a straight line cut to 2028 of 14% per year.

Based on these assumptions, farm profits fall by 40%:

Figure 5: Estimated net profits (£) to the average farm from 2021 to 2028, compared with the 2017 baseline – assuming payments under new ELMS are the same (100%) as current levels⁸



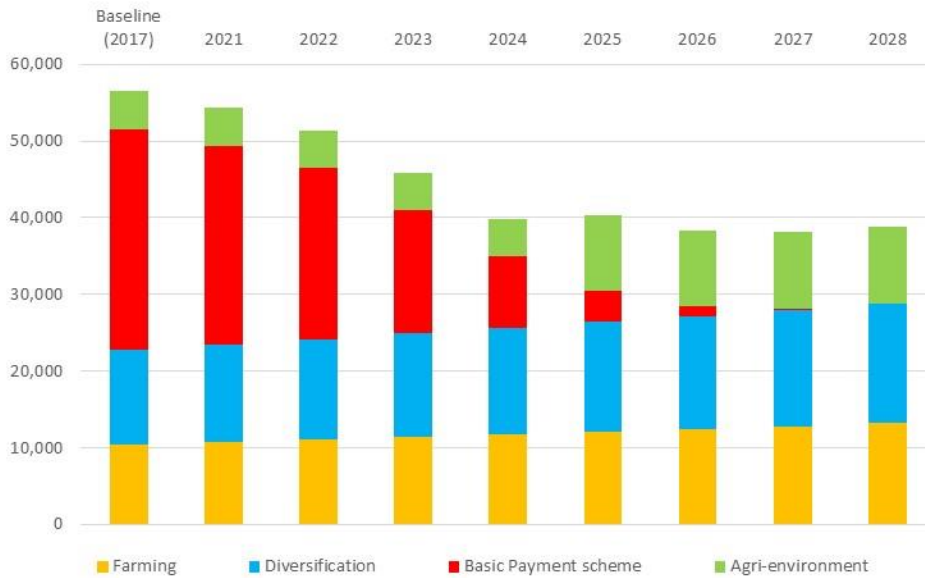
⁸ i.e., new ELMS payments are £32 / ha of utilisable agricultural area and £64 / ha of land in current Countryside Stewardship and Higher Level Stewardship agreements (which is 77 ha per agreement, so just under half of utilisable agricultural area per farm).



We can test some 'what if' scenarios in terms of new ELMS payment rates.

Even if we assume that payments under the new ELMS double, as they may require more complex management, farm profits fall by over 30%:

Figure 6: Estimated net profits (£) to the average farm from 2021 to 2028, compared with the 2017 baseline – assuming payments under new ELMS are double (200%) current levels⁹



To maintain current profit levels, total payments under the new ELMS would have to be around five times their current amount:

Figure 7: Estimated net profits (£) to the average farm from 2021 to 2028, compared with the 2017 baseline – assuming payments under new ELMS are five times (500%) current levels¹⁰



9 i.e., new ELMS payments are £65 / ha of utilisable agricultural area and £128 / ha of land in current Countryside Stewardship and Higher Level Stewardship agreements (which is 77 ha per agreement, so just under half of utilisable agricultural area per farm).

10 i.e., new ELMS payments are £162 / ha of utilisable agricultural area and £320 / ha of land in current Countryside Stewardship and Higher Level Stewardship agreements (which is 77 ha per agreement, so just under half of utilisable agricultural area per farm).



Summary and discussion

England level effects

It is clear that the new ELMS will need to be significantly bigger than current agri-environment schemes – in terms of numbers of agreements, area covered and payments per hectare – if farm profits are to be broadly maintained at their current levels. Such an increase in scale may be planned – but the Government has not given any indication about this.

We know that the design of the new ELMS is currently being considered – through pilot exercises and ‘tests and trials’ – but more information is needed so that the farming sector can see the scale of the changes it is facing and plan for it.

Farm level effects

Our modelling is for a typical farm, based on profit levels for ‘all farm types’. It is therefore very general and there will undoubtedly be different effects in different parts of the country (for example, the lowlands compared with the uplands) and for different farm types (for example, mixed farming may receive more payments due to the greater public goods delivered than say purely arable farms).

Based on what the Government has said in relation to the Agriculture Bill and Environment Bill, and what the Committee on Climate Change and Natural Capital Committee have said, we would expect new ELMS payments to be targeted towards achieving a number of objectives:

1. Increasing woodland cover, mainly through planting on grasslands and rough grazing.
2. Increasing bioenergy crops, including short rotation coppice and miscanthus.
3. Restoring peatland systems to favourable condition, in upland and lowland areas.
4. Restoring natural hydrological processes in river catchments, including better habitat management, wetland creation, wildlife passages, channel restoration and natural flood management.
5. Developing and implementing a national network of conservation areas to provide bigger, better and more joined up habitats, including more nature reserves.
6. Significantly expanding green spaces and outdoor recreation areas, especially in and around urban and well populated areas, particularly within disadvantaged and under-provided areas.
7. Providing funding to enhance the capacity of public, private and voluntary bodies to incentivise citizen action to protect and improve their local environment.

Also, some funding may be used for other non-land based activities, such as developing a network of marine protected areas.

Given the above, it is unlikely that all farms will have the opportunity to fully replace the support that they currently receive; some may have the opportunity to receive more but many are unlikely to be able to provide enough valuable public goods.

Payments under the new ELMS will be based on the value of the public goods that each farm produces. It is likely that land managers will not be paid for meeting a minimum management standard; that will be expected as basic good practice. We don't know what the standard will be but it is unlikely to be lower than current legislative and regulatory compliance. The Committee on Climate Change has stated this in its report on land use.

It would be helpful to know as soon as possible – even roughly and in a non-binding way – what public goods payments might be for each farm so that they can start planning for the future. To do this, Defra should produce maps and data of the public goods each farm could produce.

The farms themselves should start considering how they can increase their profits from farming – which may not be by increasing farmed area but by only farming where profitable and achieving top 25% performance – and their profits from diversification, to try and plug what looks to be a significant gap. They should also consider applying for Countryside Stewardship in 2020 / 21 to avoid a gap before the new ELMS is up and running.