EMS0004

Written evidence submitted by the NFU

1. About the NFU

1.1. The NFU is the trade association for farmers and growers in England and Wales. Our purpose is to champion British agriculture and horticulture, to campaign for a stable and sustainable future for British farmers and to secure the best possible deal for our 55,000 members.

1.2. The NFU also represents our 21,000 'Countryside Members', people who are not actively farming, but who appreciate the British countryside and British food and therefore an interested in the farmers who work to produce both.

1.3. The NFU has long been advocating for an ambitious post-Brexit agricultural policy which delivers incentives that build farming's sustainability, competitiveness, and resilience within the macro-economic, trade and regulatory context. Our vision recognises that the route to a new agricultural policy must adapt to the realities as experienced by family farm businesses. In Defra's own Health & Harmony evidence pack from 2018, they cite feedback from discussion groups that suggest farmers would prefer to farm without direct support and that removal of direct support was not viewed as a threat if there is a clear transition period and issues regarding farm profitability are addressed. However, much has changed since that time and the increasingly tough commercial prospects for the sector mean that we do not have confidence that that clear flight path for an economically, environmentally, or socially just transition is yet in place.

1.4. On 4 October 2021, the NFU called for an urgent review of Defra's future farming programme for England, including the postponement of Basic Payment Scheme reductions in 2022 and 2023, as farmers and growers continue to deal with multiple challenges which are causing severe disruptions to essential food producing businesses.

2. Background

2.1. In the past, farmers received support through 'direct payments' as part of the EU's Common Agricultural Policy (CAP). This system was known as the Basic Payment Scheme (BPS). BPS provided stability of income and is one of the primary mechanisms by which farmers are able to mitigate the impact of volatile markets.

2.2. Having left the EU, each part of the UK is able to define and implement its own agricultural policy. In 2018, Defra announced the Future Farming Programme for England, which aims to replace direct payments with new support schemes based on 'public money for public goods', whereby farmers and landowners in England can claim support based on services they provide beyond food production, such as soil management. The Environmental Land Management schemes (ELM) would be the flagship support available to all farmers from 2024.

2.3. The proposed timetable for the withdrawal of direct payments is as follows:

Current direct support received	**Reduction in support: December**	**Proposed Reduction in support:**	**Proposed Reduction in support:**	**Proposed Reduction in support:**

by farm	2021	December 2022	December 2023	December 2024
<= £30,000	5%	20%	35%	50%
£30,000 to £50,000	10%	25%	40%	55%
£50,000 to £150,000	20%	35%	50%	65%
> £150,000	25%	40%	55%	70%
Cumulative total amount to be redirected into delivering other schemes for farmers	£169 - 179m	c£427 - 447m	c£703 - 733m	c£970 - 1,010m

2.4. In September, the National Audit Office (NAO) reported that Defra had not yet published detailed objectives or ensured adequate incentive for farmers' participation in the new support schemes and did not have detailed plans in place to develop ELM beyond March 2022. The NFU does not believe that Defra should press ahead with its current timetable to transition when it's new agriculture support schemes simply aren't ready. Direct payments should only be phased out when there are fully funded accessible new schemes ready for farmers to apply for.

2.5. English farm businesses have and continue to face a perfect storm of uncertainty and disruption, some of which, such as Covid-19, could not have been envisaged when the timetable for BPS reduction was planned in 2018, including:

- **A worsening macro-economic forecast and volatility for farm businesses: This includes** rising inflation, cashflow disruption, continued trade disruption with both the EU and Northern Ireland, continued market volatility as a result of Covid-19 and a fierce retail price war;

- **A significant shortage of labour:** Currently, there are an estimated 500,000 job vacancies across the food and drink sector. This shortage of workers means that some crops remain unpicked. For the poultry sector, it means that production has had to be cut back, with a real chance Christmas supply will be affected. Some abattoirs are operating shorter weeks, and meat processing plants are also struggling to recruit, with knock-on effects throughout the food chain. The situation is being worsened because of a shortage of lorry drivers, which means even when product is available it cannot always reach its destination;

- **Rapidly diverging agriculture policies across the UK:** Scotland, Wales and Northern Ireland are pursuing different financial support packages. The Welsh Government has already committed to no BPS reductions until 2024;

3. The impact and viability of ELM

3.1. The full roll out of ELM is planned to occur in 2024 by which point on average, medium performing farm businesses are expected to have lost over a third of their profits with losses being a high as 71% for medium performers in some sectors due to the front loading of the phase-out of direct payments. Farmers' need to be viable businesses to enter ELM.

3.2. Faced with challenging market conditions and reductions in BPS farmers are making long term business decisions now. There is simply not enough content available to enable businesses to make an informed decision as to whether the Sustainable Farming Incentive (SFI) (and eventually full ELM) will be a viable proposition in the future.

3.3. An NFU impact analysis of the proposed direct payment phase-out has shown that medium performing farm businesses on average would see a 14% reduction in profitability in 2022 with profits reducing 25% by 2023 and over a third (35%) by 2024. For some sectors reductions in profitability for medium performing farm businesses would be as high as 28% in 2022, 49% by 2023 and almost three-quarters (71%) by 2024. This demonstrates that the initial signs of financial stress will begin to materialise as early as the second year of the transition and will escalate significantly from this point in the form of pressure in bound cash flow.

3.4. Government needs to design a scheme that can be delivered simply, alongside productive business activity, that will secure high uptake delivering a wider range of public goods across the whole landscape. For example, this is important for climate change outcomes, air and water quality, wider biodiversity, for example, farmland birds. However, if the requirements for entry into an ELM agreement are set in such a way that they undermine or severely restrict the ability of that business to continue to secure income from the market, then it is likely that the scheme will be significantly less attractive and in some cases entirely financially unviable.

3.5. The scheme must reward farmers for the delivery of public goods, offering a fair reward for the activities undertaken. If the payment rates do not offer an incentive to engage then uptake will be reduced. The payments made in Countryside Stewardship were underpinned by BPS payments. Going forward the payment calculation needs to cover the full range of costs associated with delivery and seek to reward public goods delivered.

3.6. The scheme must set out clearly the actions required on the ground, the rewards, and risks of participation so a farmer can make an informed business decision whether to engage. The scheme needs to make available good clear guidance and advice to support a farmer and for this to be available in good time.

3.7. The actions required with in ELM need to be appropriate to the location and fit with the wider farming business. Also, the actions required need to clearly link to the environmental outcome desired, and the applicant can see the requirements deliver.

3.8. The schemes need to be flexible to address unforeseen circumstances without lots of bureaucracy for example, drought, or wet weather. The scheme rules need to be simple. There should be the ability to have options that are locally relevant, for example the Norfolk Broads an area that currently cannot enter Countryside Stewardship due to the lack of suitable options.

4. Defra engagement with the NFU

4.1. We share Defra's ambition to create schemes that will help farmers to improve productivity and animal welfare, encourage innovation and realise our ambition to produce increasingly climate-friendly food.

4.2. The NFU appreciates the efforts of Defra to engage with the industry as it develops the ELM. However, there are several points we would make in respect to the approach being taken:

4.3. Defra refer to 'co design' when engaging with the industry and stakeholders. Our experiences to date are that this has been very limited, very controlled and not a two-way conversation that we had hoped it to be. We recognise co-design is a new approach that everyone is learning about. We have concerns that the process is not engaging at the level it needs to be. Defra's engagement with stakeholders to date has generally been through large stakeholder meetings, but it is unclear how Defra gather a view to go forward from such events and there is limited feedback following such sessions.

4.4. Defra appears to be engaging a wide range of farmers, land managers and stakeholders through many routes, numbers are not known. It appears from the outside that this engagement is rather scatter gun. Consequently, it is not clear whether any one stakeholder group has full oversight of ELM development or the wider programme. Whilst engagement is good to see, there appears to be a lack of coordination and our concern is that this could ultimately absorb disproportionate amount of time, raise expectations (and deliver disappointment) and not necessarily arrive at the best outcome for those that manage most of the rural environment and crucial to the delivery of outcomes - farmers. Whilst there are current challenges to face-to-face engagement, the NFU has offered and Defra has at times accepted and engaged with several of our member boards, forums and interest groups, but this has not always been easy to achieve. There is clearly a lot happening that is not being shared externally, which breeds suspicion and undermines trust.

4.5. A critical challenge over the next couple of years is there is going to be a proliferation of schemes available to farmers: the national pilots for the three ELM schemes and SFI early roll out, will be launched alongside existing domestic and EU based legacy schemes (CS and ES), at the same time as a range of schemes covering tree health, woodland creation and protected landscapes are developed, piloted or are available to farmers. Very careful management of information and critically how all these schemes fit together (or not has the case may be on farm, taking account of multiple funding considerations) is going to be a key challenge for Defra and its delivery bodies. The goal must be to avoid confusion, (which is already becoming evident amongst farmers) and create conditions that farmers will engage and feel confident that they are making the right decision given all the multiannual schemes options open to them.

4.6. The Government's timeline for delivering new schemes is slipping, with piloting of ELM being more focussed on a reduced offer. In part this is understandable, since the original published policy timelines set out in 2018, Government has responded to the Covid-19 pandemic, as well as the recent challenges surrounding labour and fuel.

4.7. Farmers are also facing worsening macro-economic for farm businesses; destabilising post Brexit arrangements and Free Trade Agreements with Australia and New Zealand, significantly different GB agricultural policy transitions; and increased economic volatility and consequent cashflow disruption.

4.8. In the light of BPS reductions businesses will be making decisions on future business structure and looking to the new schemes. The plethora of schemes coming forward coming forward is confusing to farmers. It's difficult to navigate and understand if they are relevant. Many schemes are not currently available. Delays in scheme design, particularly the flagship ELM schemes, means information is not available on which to make appropriate business decisions about future engagement. Combine this with macro-economic issues, means farm businesses financially exposed and will naturally focus on the core business of farming.

5. ELM Pilots

5.1. The first SFI Pilot will run from late in 2021. More than 2,000 farmers have expressed an interest in taking part - but as the NAO notes this is far short of the 5,000 – 10,000 that Defra hoped may apply. The NFU agrees that a successful pilot is a vital to ensure that the scheme measures, and crucially the IT and back-office processes, are well tested before ELM commences in full in 2024.

6. NAO Report

6.1. In September, the National Audit Office delivered a critical assessment of Defra's ATP preparations. This report is an important step in reviewing Defra's progress to implement a complex programme of change to farm support. We agree with the findings that there are still some significant challenges to overcome to successfully deliver SFI early roll out next year and develop the full ELM offer by 2024.

6.2. The report suggested that Defra has allowed very limited opportunity to test the effectiveness of some elements of the proposed new support schemes. The NAO also said that Defra will deliver a far reduced range of measures than that proposed when the schemes was first announced in November 2020. The NAO summarised that detailed delivery plans beyond March 2022 are absent.

6.3. The NFU has commissioned research from Andersons Farm Business consultants. Andersons reported that there is too little financial return for many farm businesses in the available in the SFI pilot to attract significant uptake.

6.4. From the NFU's perspective, the key findings made by the NAO in the report were:

- Defra has yet to develop detailed delivery plans beyond March 2022.
- Defra has not established objectives to support its high-level vision for ELM.
- Defra officials asked ministers for a six-month delay to the start of the pilot because of delivery concerns, and for a smaller initial reduction in direct payments.
- Gaps in staff capacity and capability remain an ongoing delivery risk. In July, there were 169 Defra staff dedicated to working on ELM, with 22 unfilled vacancies (12%). Future staffing requirements are still to be established.

- The introduction of early rollout of elements of the SFI in 2022 was a significant change to the ELM programme and Defra is having to design it quickly. The early rollout of SFI (SFI22) was a ministerial decision taken in late 2020, after NFU lobbying, to give farmers an opportunity to replace lost BPS income prior to 2024. This led to significant changes to the ELM development programme with a revised approach to the pilot, including deferring the start of Local Nature Recovery and Landscape Recovery schemes.

- Defra has removed some risks associated with the launch of SFI22 in mid-2022 by reducing its scope and, in the main, the need to avoid double funding of the same actions on the same land by existing schemes. When announced in November 2020, it was set to cover soil, Integrated Pest Management, nutrient and livestock management. Now it has been pulled back largely to soil management.

- Defra has set a target to reduce administrative costs compared with existing agri-environment schemes but has not yet developed its approach to achieving these. Defra has set a cap for administrative costs at 10% of scheme payments, compared with up to 18% under current agri-environment schemes.

- Defra has made some progress in developing its approach to fraud and error but is behind where it needs to be. By now, Defra should have developed a robust control framework with specific operational procedures for the start of the pilot and SFI22.

- There is still a lack of information around elements of the SFI Pilot being rolled out, such as monitoring and enforcement, and ongoing management of schemes, with the main engagement with the industry being around proposed standards a farmer is expected to meet.

- Defra has not yet regained the trust it needs from farmers to be confident of a high level of participation. Defra has lost farmers' trust over the years as a result of a long history of difficulties with its management of CAP schemes. Defra sees rebuilding this trust as vital for future participation.

7. **The case for delay:**

7.1. The NFU has become increasingly concerned with the lack of progress and this has been confirmed by the NAO report. The NFU has called for review of the Future Farming Programme for England, including a pause in the reductions in direct payments. This is to ensure that the industry has a programme that is fit for purpose to engage with when it is rolled out.

7.2. A new NFU survey has revealed that 84% of farmers and growers are interested in applying for Environmental Land Management schemes (ELM). We want to work in partnership with government to secure this high level of engagement. Farming is a long-term business, and we only have one chance to get this agriculture transition right.

7.3. Therefore, the NFU is calling for an urgent review of Defra's Future Farming Programme for England, including the temporary postponement of direct payment reductions in 2022 and 2023, as farmers and growers continue to deal with multiple challenges which are causing severe disruptions to food producing businesses. This will provide time to review the current programme and develop secure, fit-for-purpose measures that sustain resilient farm businesses and the environment, and to ensure that the English farm policy transition aligns across the GB economic space.

7.4. We are not asking for the planned cut in direct payments in 2021 to be postponed. We realise Defra needs to make some cuts to free up funding for the new schemes. However, we believe implementing a delay to direct payments reductions in 2022 and 2023 will allow government the time it needs to deliver durable schemes and policies. We stand ready to work with government on the development and delivery of these new schemes.

7.5. The Welsh Government has said it will not be phasing out direct payments until after 2023 and has set out plans to introduce its new Sustainable Farming Scheme in January 2025.

7.6. Farmers across the world – including those countries that the Government is seeking free trade deals with - continue to be supported by national governments in some form because of the strategic importance of food and the positive wider impact farming brings to rural areas, both of which are rarely reflected in the price of food. The UK's budget for agriculture support has typically been much lower than other countries in the EU.

7.7. The rapid withdrawal of support payments during a particularly tough commercial period will put our domestic farming businesses at a disadvantage compared to other countries, especially given the significant regulatory and associated costs of producing food to high standards on a crowded island. The loss of direct payments will be hard to absorb for many farmers.

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