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Consultation on the future for food, farming and the environment

DEFRA has published its long-awaited consultation paper on the future for food, farming and the environment outlining its vision for what it deems a “green Brexit”.

The foreword says the Government plans to seize the once-in-a-generation opportunity that Brexit presents to reform agriculture, with the overarching goal being to change the way land is used, to promote “health and harmony”.

There are no big surprises in the document given much of the content had been heavily trailed by DEFRA Secretary of State Michael Gove during recent speeches.

It repeats Mr Gove’s viewpoint that the Common Agricultural Policy is flawed and has resulted in a deterioration of the natural environment, suggesting the solution is to move to a system of public payments for public goods. As he told the NFU Conference in February, his goal is “a healthy and beautiful countryside, producing food that makes us healthier as individuals, in a society which has a healthier attitude towards the natural world.”

It is an ambitious agenda, influenced deeply by an awareness of a range of moral and political problems the planet is currently facing. These include how to feed a growing population while at the same time keeping our soils fertile, safeguarding our oceans, protecting biodiversity and tackling growing issues such as waste, water availability and air pollution.

The document notes that the proposals it contains are a range of possible paths, which should be regarded as “the beginning of a conversation, not a conclusion.” A close read of the 64-page document proves this to be the case. It provides some answers, but it mainly raises questions, particularly on the length of the ‘agricultural transition’ period from Basic Payments to payments for public goods, which will significantly affect the profitability of all farms, and especially grazing livestock and poorer-performing farms.

At times, it feels like while the Government has its overarching vision of what is trying to achieve firmly nailed down, it is still uncertain on how to approach some of the key issues.

For example, the document sets out how some public goods will be paid for through a new Environmental Land Management Scheme (NELMS), but says nothing about how the rest will be funded – it implies it wants answers from the private sector.

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There is also the question of how the business of producing safe, affordable, traceable food – while making a profit – sits within the policy framework. The Government says there is clear evidence to show that productivity improvements will enable farms, on average, to remain profitable following a withdrawal of direct payments. However, this is going to be an exceptionally challenging process for many farmers, not just the ones with poorer-performing businesses. And if farmers cannot make food production pay, then we will inevitably see significant restructuring.

But as we examine the Government’s plans, we need to look at what might be gained, not just what we might lose. If there is an acceleration of farmers retiring and leaving the industry, this will create opportunities for others.

The government says it intends to simplify the regulatory culture so it is fairer to farmers and less of a burden. It is promising environmental schemes with streamlined application processes and a more user-friendly design. The ability to access payments for activities which protect natural capital assets could open up exciting new income streams. While doors are closing, new ones will open.

In truth, at this stage, it is too early to assess the impact of a new policy direction on UK agriculture. One thing is for sure though: change is coming. In the meantime, our advice to farmers and landowners is to ensure their businesses are performing at the top of their game and make sure they are in the right mind set for change to take their business forward. Being ready for change is the key to a profitable and successful future.



THE CONSULTATION PAPER AT A GLANCE

Direct Payments in England will be completely phased out, either gradually or in steps, by the end of an ‘**agricultural transition**’ period, which is of **unspecified length**. However, there will be some support for some sectors, for example those in the most remote, wild and beautiful parts of England.

Although there will be some Government support, there is a strong message that **land managers will be expected to help themselves, through training, benchmarking and risk management**, so the industry is more self-reliant in the long-term.

The Government continues to view **technology and better use of data as a way of overcoming some of the challenges** currently facing the sector and improving agricultural productivity.

The new policy will be underpinned by payment of ‘**public money for the provision of public goods**’, with these principal public good being environmental protection and enhancement. A **new environmental land management system (NELMS)** will be the cornerstone of the new policy, from 2022. It is likely to include wildlife diversity and landscape protection but it is not clear what other public goods it might cover

There will be a **review of the inspection regime, including cross-compliance, but no lowering of British animal and plant health standards**. Again, the Government has not been as definitive about whether it will allow imports produced to lower standards. It is unclear how it will deliver both cheaper food and higher environmental standards, with lower inspections and compliance.

WHAT CAN FARMERS DO NOW TO PREPARE?

It is difficult for farms and land managers to start planning properly for the changes that lie ahead until more of the detail has been confirmed. However, there are broad principles that businesses should consider in order to ready themselves:



1. People make the difference – so ensure that managers and staff have agreed a strategy for the business, based on critical reviews of how it is performing now and what the opportunities for improvement are. There is a clear link between successful businesses and highly skilled people; not all businesses have the right people, skills, drive and vision, in which case they should explore options to bring in the right staff.

2. Farm as efficiently as possible, as top 25% businesses are less reliant on Basic Payment scheme payments and more resilient to volatility. Farmers should continue to look for ways to improve their farming systems, in terms of outputs and markets for their products, variable and fixed costs.

3. Take your approach to environmental management as seriously as your approach to crop and livestock management, so that you are prepared for the new Environmental Land Management Scheme (NELMS) and to provide other public goods.

4. Understand what valuable public goods your land produces, by reviewing Biodiversity Action Plans, Landscape Character Areas, flood risk maps, and water quality maps.

5. Collaboration – this is not just about scale, but about using the best skills of the group, sharing labour and machinery, group buying and selling, sharing risk, cutting capital investment, and producing landscape-scale public goods, such as pollination and storage of excessive flood water for subsequent irrigation, environment or leisure use.



THE CONSULTATION – A SUMMARY

The following is a summary of the key sections of the full consultation document issued by DEFRA.

The document is mainly focussed on England and acknowledges that Scotland, Wales and Northern Ireland may want to use different approaches to suit their conditions.

The government has invited views and comments from any interested parties. The deadline for responses is 8 May 2018.

THE ROADMAP FOR MOVING AWAY FROM THE CAP

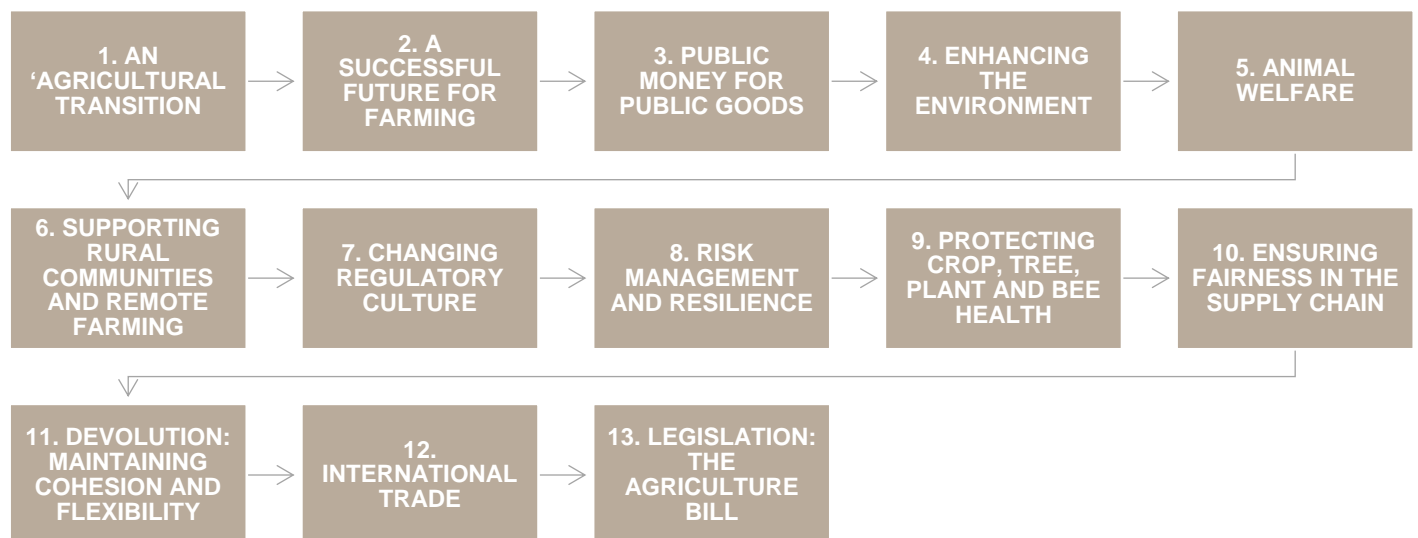
DEFRA's ambition for farming and the environment can be summed up as:

A more dynamic, more economically self-reliant industry that supplies products of the highest standards to the domestic market and increasing exports

A better and richer environment in England, by ensuring that public money is spent on public goods, such as increasing biodiversity, reducing flood risk, mitigating climate change and improving air quality by reducing agricultural emissions.

Setting out its case for change, the Government says the EU's Common Agricultural Policy remains flawed in that:

- Its subsidies have prevented widespread productivity improvement.
- The subsidies are bad value for taxpayers.
- The CAP has imposed unnecessary regulatory burdens.
- It has not been effective enough at reversing environmental damage caused by agriculture.
- It has failed to reward some public goods adequately, such as improving water quality and soil health.





1. AN 'AGRICULTURAL TRANSITION'

The same cash total funding will be maintained until the end of this parliament (so 2022), including EU and UK funding under both Pillar 1 and Pillar 2.

The government wants to agree an **implementation period from 2019 to 2021 / 2022** with the EU.

Then there will be an **agricultural transition period from 2021 / 2022 of unspecified length** (but rumoured to be to 2024). The Government has asked for views on what the length should be.

Direct Payments will continue during the 'agricultural transition' but will be reduced (by £150m per annum, possibly from 2020) to pay for work with farmers, land managers and environmental experts to trial new approaches to environmental land management schemes and to increase productivity¹.

A number of **models to reduce / cap Direct Payments** are suggested:

- Direct payments are reduced, by varying percentages, depending on the amount received, for all farmers receiving £25,000 or more.
- Cap the amount received at £100,000 maximum; this would affect about 2,100 farmers.
- Variations of the above two options.

The Government is considering whether to **change the conditions for receiving Direct Payments** during the agricultural transition period. The options are:

- Retain and simplify the current scheme requirements, such as cross-compliance and greening.
- Remove land eligibility and greening rules, so Direct Payments are based on historic payments². It is stated that this would facilitate restructuring (as farmers would be able to receive the payments without owning / farming the land) and productivity improvements, and stop farmers trying to split their businesses to avoid capping.



Direct Payments in England will be completely phased out by the end of the 'agricultural transition' period, either gradually or in steps. The Government's rationale is that Direct Payments are poor value for money, untargeted, distort land prices and rents, and can stifle innovation and productivity³.

They will be replaced by a system of **public money for public goods**, principally environmental enhancement (see parts 3 and 4).

The Government says **there is clear evidence showing that the scope for productivity improvement would enable farms, on average, to remain profitable following a withdrawal of Direct Payments**⁴.

There will be some support for some sectors, for example those in the most remote, wild and beautiful parts of England (see part 6).

The aim is to simplify Countryside Stewardship schemes, cross compliance and remove or reduce current ineffective greening requirements, before a new regulatory regime is introduced.

¹ Productivity is not clearly defined in the document, which is probably deliberate as the Government will say that it is a combination of economic, social and environmental efficiency. Positively, it is working on some simple measures or metrics that farmers can use to assess their 'productivity'.

² NB Farmers would still have to comply with environmental, animal and plant health and animal welfare standards, irrespective of whether they receive payments during the 'agricultural transition' period.

³ Interestingly, there is likely to be scope in the Agriculture Bill to allow some elements of the CAP to continue during the 'agricultural transition' period – what elements is unknown but this feels like a sensible backstop.

⁴ <https://www.gov.uk/government/statistics/balance-sheet-analysis-and-farming-performance-england>



2. A SUCCESSFUL FUTURE FOR FARMING

FARMING EXCELLENCE AND PROFITABILITY

The take-up of skills and knowledge is highlighted as a key factor in improving efficiency on-farm⁵

The Government wants to encourage more farmers to **benchmark** and commit to **Continuing Professional Development (CPD)**. It says there is an important role for knowledge sharing, producer cooperation, and farmer-to-farmer learning to kick-start a wider culture of excellence.

The Government will work with the **Agriculture and Horticulture Development Board (AHDB)** to encourage a focus on greater resource efficiency and sustainable growth.

It will help create opportunities for the next generation, including work with councils to encourage a vibrant network of **council farms**.

It will explore the scope for **reforming agricultural tenancy laws** to support succession planning and **remove barriers to investment**.

AGRICULTURAL TECHNOLOGY AND RESEARCH

The Industrial Strategy White Paper committed to establishing a **new Food and Drink Sector Council** to lead work across the whole food chain to secure the UK's position as a leader in safe and high-quality food and drink. It will also support highly-efficient precision agriculture through the **Industrial Strategy Challenge Fund programme called Transforming food production**.

The Government proposes **collaborative research, with farmers**, to develop a new generation of agricultural technology.

LABOUR: A SKILLED WORKFORCE

There is a desire to encourage a stronger culture of knowledge and skills in the sector.

In 2013, only 18% of farm managers in England had full agricultural training, with 61% having only practical experience⁶.

The Government recognises that agricultural technologies are transforming farming, creating new types of jobs and requirements for new kinds of skills. It refers to its actions on apprenticeships, career routes through the post-16 Skills Plan including a route on Agriculture, Environment and Animal Care and the new Careers Strategy.

The Industrial Strategy and Food and Drink Sector Council will prioritise skills and training.

The government recognises the concerns of the farming sector in relation to the current reliance on migrant workers – for both seasonal and permanent positions. No commitments are made on the future labour force, but may be once the Migration Advisory Committee reports in September 2018.



⁵ Fostering Productivity and Competitiveness in Agriculture, OECD, 2011.

⁶ Defra, Farm Business Survey 2011-12, and Farm Structure Survey 2013.



3. PUBLIC MONEY FOR PUBLIC GOODS

The new agricultural policy will be underpinned by payment of public money for the provision of public goods, with **the principal public good being environmental protection and enhancement**.

The following are mentioned as areas where government could play a role in supporting farmers and land managers in the future:

- Safer, cheaper food
- Better animal and plant health, through control of diseases
- Animal welfare
- Agricultural productivity
- Rural and upland resilience, which is linked to connectivity
- Improved soil health
- Improved water quality and quantity
- Reducing flood risk
- Improved air quality, by quality reducing agricultural emissions
- Wildlife diversity
- Climate change mitigation⁷
- Protection of the historic landscape
- Improved public access

4. ENHANCING THE ENVIRONMENT

A **new environmental land management system (NELMS)** will be the cornerstone of the new policy, from 2022. It will help deliver the manifesto commitment to be the first generation to leave the environment in a better state than it inherited it; the goals set out in the 25 Year Environment Plan and the Clean Growth Strategy.

The NELMS, which will be based on **natural capital principles**, will consist of:

- A new scheme that pays for delivering environmentally beneficial outcomes, **open to all land managers**.
- Funding for collaborative projects.
- Support as **England moves towards a new environmental baseline based on the ‘polluter pays’ principle**, including capital grants⁸.
- A **more user-friendly design**, possibly including rolling start dates, monthly payments and reduced administration.
- **Innovative approaches will be tested, including outcome based payments⁹** (also known as payments by results), reverse auctions, tendering, conservation covenants and actions that encourage private investment in natural capital.
- It will aim to balance national and local priorities.

5. ANIMAL WELFARE

The government acknowledges the UK already has a strong reputation in this field, having been assessed as one of the top four countries by World Animal Protection.

Rather than significantly raising the UK legislative baseline (see part 7), the Government says it could pilot schemes that offer targeted payments to farmers who deliver **higher welfare outcomes** in sectors where animal welfare largely remains at the legislative minimum.

The Government proposes to control (not necessarily stop) the **export of live animals for slaughter** after leaving the EU.

It is considering whether **clearer information for consumers** could increase demand for higher welfare production.

Non-statutory endemic disease and health conditions could be tackled by an **Animal Health ‘Pathway’**, which could take many forms, but as a minimum will set the vision, a framework for co-operation and simple standards against which to benchmark performance. It will be developed by a partnership body.

⁷ Greenhouse gas emissions from UK agriculture were estimated to cost £3.1 billion per annum in 2015; 10% of total UK emissions.

⁸ This change in approach has already started being tested, for example, through the Farming rules for water, published November 2017.

⁹ Natural England is currently running a pilot exercise, of 34 agreements covering 230 ha, focused on a) species-rich hay meadow and b) habitat for breeding waders in North Yorkshire and c) provision of winter bird food and d) pollen and nectar sources in Norfolk and Suffolk.



6. SUPPORTING RURAL COMMUNITIES AND REMOTE FARMING

The Government recognises that businesses in some rural areas face particular challenges, including reduced physical and digital connectivity.

It will work on **improving rural broadband and 4G mobile**, and on **supporting rural businesses through the UK Shared Prosperity Fund** and the Industrial Strategy, both of which it considers to be public goods.

It says that it wants to understand how changes to farming support may affect farmers and their wider communities, and that a clear vision for the uplands will be an important part of the agricultural policy.

7. CHANGING REGULATORY CULTURE

The Government recognises that the current system of regulation puts excessive burdens on farmers and can be very rigid in its application.

It proposes to introduce a **new enforcement system**, informed by the review of the inspections regime being carried out by Dame Glenys Stacey, that (i) lessens the burden on farmers and (ii) maintains and enhances animal, environmental and plant health standards, with **minimum standards** that all farmers and land managers must comply with, based on the **'polluter pays' principle**, and **replacing cross compliance**.

The Government is open to supporting industry initiatives to improve animal and plant health, including through better information-sharing.

8. RISK MANAGEMENT AND RESILIENCE

The Government says that government subsidies for risk management products can distort markets, undermine the need to properly reduce and mitigate risks and does not deliver value for taxpayers' money. It will however intervene to improved data transparency so farmers can understand markets better.

It will consult on the barriers to wider development and adoption of insurance, futures contracts and other risk management tools.

Farmers will have access to the tools they need to manage income volatility but **must take responsibility to invest for the lean years** as other sectors have done. Tools mentioned are: diversification of income; financial planning; tax averaging; biosecurity measures; crop insurance; futures and options contracts; investing for the lean years from profitable businesses.

9. PROTECTING CROP, TREE, PLANT AND BEE HEALTH

The Government wants a substantial reduction in endemic (commonly occurring) diseases.

It will invest in research on **Integrated Pest Management** to protect crops with the least possible use of pesticides.





10. ENSURING FAIRNESS IN THE SUPPLY CHAIN

The Government suggests farmers should look at how cooperation could improve their position within the supply chain.

It proposes to maintain the special status of Producer Organisations, including derogations from competition rules, due to the benefits farmers can achieve through cooperation.

It also wants to explore how the **collection and dissemination of market data could be improved to increase transparency**, communication, information sharing, and efficiency in the supply chain.

11. DEVOLUTION: MAINTAINING COHESION AND FLEXIBILITY

Agriculture will remain a devolved policy area, but the devolved administrations and the UK government are working together to determine where common frameworks will be needed.

Frameworks will need to respect the democratic accountability of the devolved legislatures and deal with the border between Northern Ireland and Ireland.

12. INTERNATIONAL TRADE

The Government has said that it will adopt **a trade approach that promotes industry innovation and lower prices for consumers**. It is unclear how this relates to higher welfare standards, particularly of imports.

It says it is committed to securing a deep and special partnership with the EU, currently the UK's biggest trading partner for agricultural products, with as frictionless trade as possible for agriculture.

It is also discussing how to achieve continuity of the 40 international trade agreements with more than 65 countries with existing EU Free Trade Agreements and other EU preferential arrangements¹⁰.

13. LEGISLATION: THE AGRICULTURE BILL

The Agriculture Bill will provide a new statutory framework for the reforms. The Government says it could include powers to:

- Make payments to farmers and land managers.
- Change regulation.
- Create new schemes to support farming, environmental protection, animal welfare, public access.
- Establish a new compliance or inspection regime.
- Introduce emergency measures if needed.
- Retain UK-wide frameworks where commonality is needed.
- Allow some elements of the CAP to continue during the 'agricultural transition' period.

ABOUT STRUTT & PARKER

With involvement in more than 2 million acres, the Rural team advises clients with estates, farms and forestry across the length and breadth of the UK.

Our Estate Management team works with private estates and other landowners providing strategic business advice and practical management services to help ensure that the estates run in an efficient and rewarding way.

The Farming Department is one of the largest specialists groups of its kind, combining practical know-how, technical expertise and business management skills to produce the best possible results for our clients.

¹⁰ This will be done using the Trade and Taxation (Cross-border Trade) Bills, both introduced to Parliament in December 2017.



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