

# Agriculture after Brexit

Replacing the CAP



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# About this report

Brexit has provided an opportunity to reform areas of policy previously governed by the EU. This report analyses the government's plans to replace the EU Common Agricultural Policy in England. It identifies four key problems the government must address and makes recommendations to overcome them.

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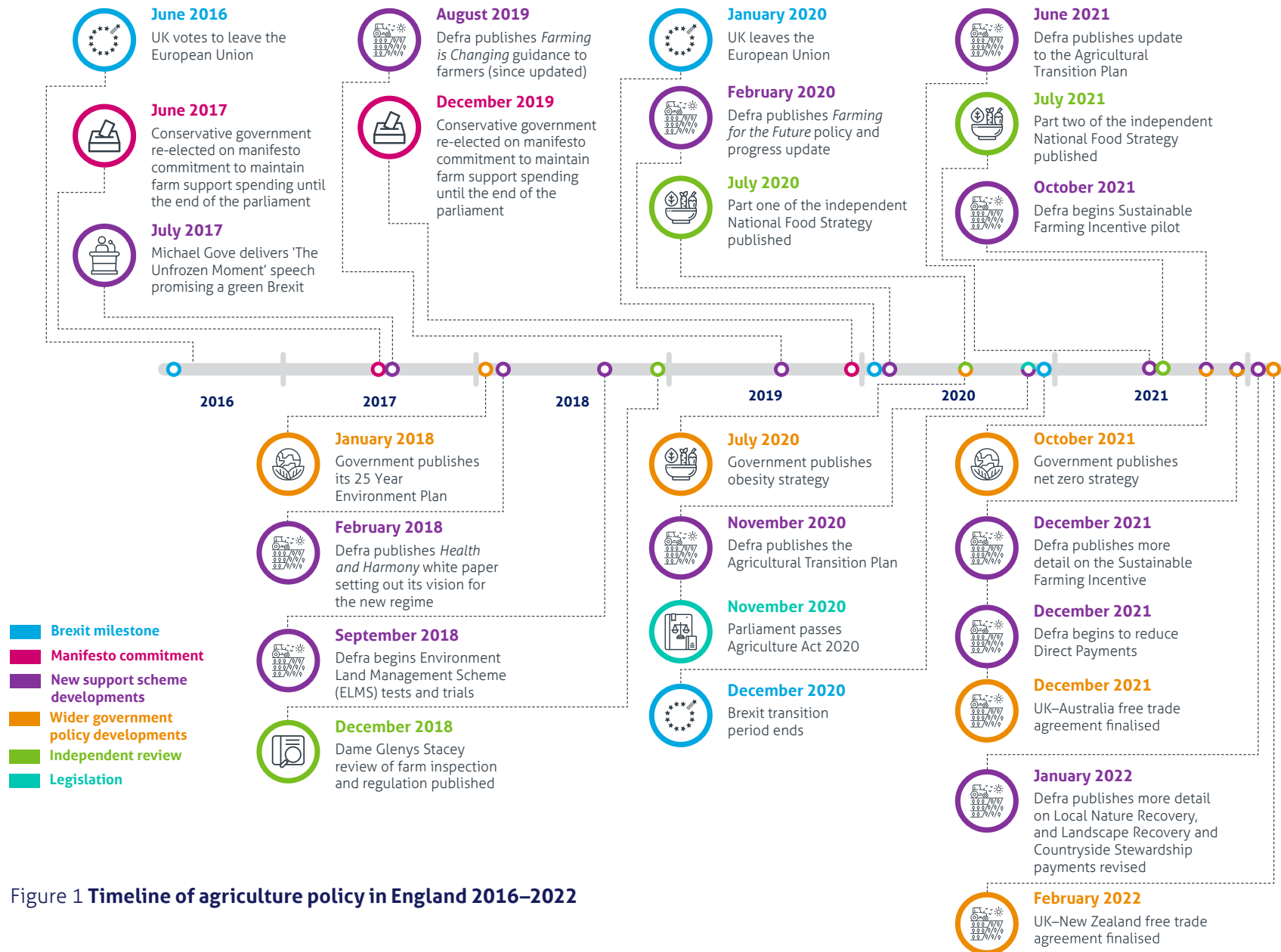


Figure 1 **Timeline of agriculture policy in England 2016–2022**

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# Summary

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Leaving the European Union means that UK politicians have taken back control of – and responsibility for – large swathes of policy previously decided by the EU. Ministers are keen to exercise this new autonomy and show that there are benefits of doing things differently outside the EU. After the new immigration system, overhaul of the much-criticised EU Common Agricultural Policy (CAP) is the first big change of direction after Brexit – and an area where there was near-unanimous agreement that the inherited EU regime could be improved.

Environmentalists believed the CAP supported environmentally degrading farming practices, farmers believed it was too bureaucratic and punitive, and economists argued that it distorted land prices, held back innovation and represented poor value for money. The government agreed, and two years on from the UK leaving the EU, it continues to give reform of agricultural support prominent billing – representing one of the few significant changes in the January 2022 Benefits of Brexit white paper.<sup>1</sup>

Growing concerns about the climate crisis and decline in nature, identified by the government as the biggest medium- to long-term threats to UK domestic food production,<sup>2</sup> have also helped move reform of agricultural support up the political agenda. Conservationists have been clear that maintaining the status quo is not an option.

Agricultural policy is devolved, which means that the UK government is only responsible for policy in England, and each of the four administrations has the freedom to develop its own post-Brexit support regimes. This report covers the reforms planned for England, where the Westminster government is keen to spend its £2.4 billion annual CAP budget very differently. As set out in its *Health and Harmony* blueprint in 2018,<sup>3</sup> it plans to move away from a system whereby farmers are paid based primarily on how much land they farm – income that around 42% of farmers would make a loss without\* – to one where payments will be tied to the delivery of public goods, mainly environmental improvements such as carbon sequestration, improved soil health and greater biodiversity. Such a change would be genuinely reforming, internationally unprecedented and go far beyond any reforms that the Department for Environment, Food and Rural Affairs (Defra) has implemented in the past.

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\* Based on static analysis, assuming no policy change and excluding other impacts – such as changes in land values and rents. See Department for Environment, Food and Rural Affairs, *Moving Away from Direct Payments*, September 2018, [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/740669/agri-bill-evidence-slide-pack-direct-payments.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/740669/agri-bill-evidence-slide-pack-direct-payments.pdf)

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## **The government will struggle to meet the expectations it has set**

Four years on from that blueprint, the government is still in the process of implementing reforms. But it may have been too optimistic about what it can achieve. Setting such stretching goals left stakeholders in no doubt that the government was serious about making radical changes. But the government has tried to please everyone for too long, deferring difficult decisions such as making clear what farmers will be expected to do and how much they can expect to be paid in return, and with it the political pain that is inevitable as the new regime is rolled out. By setting expectations so high – and making contradictory promises to different groups – the government has created a real risk that it is unable to deliver and that some (if not all) farmers, environmentalists, taxpayers and consumers will view the new support regime as a failure. There are also warning bells that delivery of the new regime may be at risk given uncertainty over the roles of Defra's arm's length bodies and how the high levels of uptake the new support schemes need to meet their objectives will be achieved.

But the new support regime is not the only change facing farmers because of Brexit. The sector is navigating new barriers to trade with the EU, new future competition from freshly minted trade deals struck with big agricultural producers, fewer EU workers with the end of the free movement of people, a changing regulatory agenda freed from Brussels and the prospect of farmers in other parts of the UK receiving different kinds of support. Those are all factors that conflict with or could drive opposition to the planned reforms.

The sector is also at the nexus of other government policies. The agriculture sector is a big polluter, responsible for 11% of the UK's greenhouse gas emissions, despite representing just 0.5% of the economy,<sup>4</sup> and it will need to change to meet the government's plans for net zero and protect nature. It also has a central role to play in the government's still nebulous plans for food production, improving the nation's health and levelling up rural communities. The war in Ukraine will also drive up prices, putting pressure on farmers and consumers.

Given such difficult conditions, delivering an unambiguous Brexit dividend in agriculture will be hard. The government will find it nearly impossible to meet the expectations it has set – expectations that have become entrenched given repeated delays in providing detail of the new regime. A failure to prepare stakeholders for what is to come means many are likely to be left disappointed.

## **But it is still possible to deliver improvements on the CAP regime**

But even if the government struggles to meet all the promises it has made, it can still make major improvements to the much-criticised CAP regime that went before. It should still be able to deliver a new regime that brings significant environmental improvements, supports a farming sector that is viable without farmers being paid to farm, delivers value for taxpayer money, and sits within a coherent cross-government approach to food, farming and land use in England. But realising these benefits will only be possible if the government addresses four key problems with its plans. We set these out below, alongside our key recommendations. Additional recommendations are included throughout this report.

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### **Problem one: The government has not addressed key trade-offs between different objectives**

The government needs to be more open about the choices it has made – or intends to make – between its different objectives and thus the interests of different stakeholders. Defra has made a valiant attempt to listen to a range of voices and learn lessons from its track record of failed reforms during a very turbulent period for government and the farming sector. But it has set itself a near-impossible task to deliver everything it has promised. Early detail on the new support schemes, especially the Sustainable Farming Incentive, has led environmentalists to argue that the government has rowed back on its environmental aims and plans to reintroduce direct payments through the back door. Providing more detail as soon as possible will at least mean everyone understands what is coming and can plan.

#### **Key recommendations**

- **Defra should prioritise providing as much detail as possible to stakeholders about how the new schemes will work in practice and be explicit about how it has prioritised between competing visions of reform.**
- **Defra should set out in detail how it intends to raise ambition for the new support regime over time, so farmers and environmentalists understand how it will evolve.**
- **Defra should resist pressure to reduce its environmental ambitions in the face of potential opposition from some farmers, and not allow the entry-level Sustainable Farming Incentive to dominate the new regime.**

### **Problem two: There are already signs of delivery risks**

Defra needs to show that it has the machinery in place to deliver the new support regime and must overcome the legacy of its disastrously mismanaged implementation of earlier reforms. Despite laudable efforts to build resources and capacity in the department, critical reports from the National Audit Office<sup>5</sup> and the Public Accounts Committee<sup>6</sup> are clear that successful delivery is already in doubt. Heavy reliance on a few key officials, a lack of clarity over which arm's length bodies will deliver the new schemes, plus uncertainty over how Defra will achieve the required level of uptake all raise concerns.

#### **Key recommendations**

- **Defra should provide clarity over what roles its arm's length bodies will play in all parts of the new regime.**
- **Defra needs a clear and realistic plan – underpinned by environmental evidence – to achieve the levels of uptake it is aiming for, and must be willing to revisit its proposals if take-up falls short.**

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### **Problem three: More needs to be done to ensure long-term value for money**

Making sure that the new regime delivers value for taxpayer money is key to its long-term success. Defra needs to make more progress on the new regulatory and enforcement regime, which it has promised will be both robust and fairer for farmers. If the department does not do a good job of showing value for money, the Treasury may – reasonably – cut the programme’s funding. But the Treasury should provide time for the complex changes to be fully implemented before making its assessment, and provide certainty over the budget while the new scheme is rolled out.

#### **Key recommendations**

- **Defra should speed up the development of the new regulatory and enforcement regime and explain what its ambition to introduce a more proportionate regime means for its risk appetite and likelihood of error and fraud. This should include responding to the Dame Glenys Stacey review and plugging the gaps that the planned removal of cross-compliance will leave.<sup>7</sup>**
- **The Treasury should maintain spending over the duration of the transition to the new regime to ensure it can be fully implemented and achieve its potential, and to provide certainty to stakeholders. But Defra should ensure that the new schemes are robustly monitored and evaluated to show that they are on track to deliver the public goods intended.**

### **Problem four: There is incoherence and contradiction between the reforms to agricultural support and the wider policy agenda**

The government must navigate the difficult trade-offs involved in making its reforms to agricultural subsidies consistent with its wider policy priorities. The government still lacks a clear trade strategy, which is key to understanding how the government is balancing the potential for trade deals to provide greater consumer choice and lower prices, against the risks they could pose to domestic producers (who will be key to delivering important environmental benefits). It is taking decisions on the future labour force only on a year-by-year basis. There has been no response to the Henry Dimbleby review on food strategy<sup>8</sup> or publication of a plan for land use and net zero. And it is embarking on its radical reform of farm support without a clear view of how it wants one of England’s most valuable resources – its land – to be put to work. A land-use strategy, as recommended by the House of Lords Science and Technology Committee<sup>9</sup> and the Food, Farming and Countryside Commission (which refers to a ‘framework’)<sup>10</sup> would help address this confusion.



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## Key recommendations

- **The government should produce a land-use strategy that sets out how different government policies interact and shows how competing pressures on land use and the farming sector will be managed.**
- **The government should also make progress on areas of its wider agenda that have stalled – which includes publishing its much-trailed ‘food strategy white paper’ in response to the Dimbleby review.**

The ambition of the reforms, and the likelihood of the government falling short on the expectations it has set, mean that Defra needs a contingency plan if parts of the new regime do not go according to plan.

A lot is riding on the successful delivery of the new agricultural support regime. Outside the EU, ministers have gained the freedom they sought to do things differently. But taking back control also means taking back responsibility. Agricultural reform is a test case of the challenges of delivering a Brexit dividend. The work ministers and civil servants in Defra have done to develop an ambitious, internationally unprecedented set of reforms to agricultural subsidies should be praised – it is a complex, contested policy area in the middle of competing interests and priorities. It may prove nearly impossible to meet the expectations that the initial vision for reform created, but the rewards could still be real – if the government acknowledges the problems set out in this report and acts on them.

## Report structure

- In **part one**, we set out the flaws with the CAP regime, examine how reform meant different things to different stakeholders and describe the government’s vision for the new regime. We warn that the government will find it difficult to meet the high expectations it has set, but explain that it can still deliver major improvements on the EU regime it is replacing.
- In **part two**, we set out what we know about the detail of the government’s reforms so far.
- In **part three**, we identify the four big problems with the government’s plans that it must overcome to deliver meaningful improvements on the EU regime, and recommend the steps it should take to address them. Given the scale of the changes being attempted and the risks involved, we also set out the contingency options it has if things do not go according to plan.
- In **the conclusion** we draw together our analysis and summarise our main recommendations.

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# Part 1: The government's vision for agricultural support

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In this section, we examine how reforming the CAP meant different things to different people – with farmers, consumers, taxpayers and environmentalists all having high expectations for the future of agriculture outside the EU. We then set out the choices the government has made and its vision for reform. We warn that the government will find it near impossible to deliver everything it has promised – but it can still deliver major improvements on the EU regime it is replacing.

## The EU support regime

To provide short-term continuity after Brexit, the government largely kept the EU agricultural support regime – the Common Agricultural Policy (CAP) – in place.<sup>1</sup> A key rationale behind the EU's regime is to directly subsidise the farming sector, to "ensure a fair standard of living for farmers".<sup>2</sup> Under the CAP regime, farmers receive payments under two pillars:

- **Pillar one: direct payments.** Farmers receive payments based on how much land they farm, although they are required to meet 'greening' requirements, which make some payments conditional on undertaking farming practices designed to deliver environmental benefits, such as crop diversification. These are provided under the Basic Payment Scheme (BPS) and made up 86% of the UK's 2020 CAP budget.<sup>3</sup> Analysis from Defra published in 2018 shows that over the period 2014/15 to 2016/17, 16% of farms still made a loss even taking into account direct payments, rising to 42% of farms if direct payments were excluded.\*
- **Pillar two: rural development payments.** Rural development payments provide financial support to farmers and other rural businesses for delivering environmental benefits (such as preserving habitats and managing flood risks), improving farm efficiency (such as helping farmers use less feed and fewer pesticides) and supporting rural development. In the UK, these payments are provided through multi-annual Rural Development Programmes, such as the Countryside Stewardship Scheme. Pillar two payments made up 14% of the UK's 2020 CAP budget.<sup>4</sup>

Dependence on CAP payments varies widely between English farmers. Poultry, horticulture and pig farms have historically relied little on public subsidy, as they tend to be smaller, and are more likely to have land that is ineligible for support. In contrast, upland livestock farmers and cereal producers are far more reliant on CAP incomes.<sup>5</sup>

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\* Based on static analysis, assuming no policy change and excluding other impacts – such as changes in land values and rents. See Department for Environment, Food and Rural Affairs, *Moving Away from Direct Payments, September 2018*, [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/740669/agri-bill-evidence-slide-pack-direct-payments.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/740669/agri-bill-evidence-slide-pack-direct-payments.pdf)

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There are currently around 85,000 basic payment recipients in England<sup>6</sup> and 40,000 are signed up to agri-environment schemes<sup>7</sup> (including around 31,000 people with Countryside Stewardship agreements).\*

## **The CAP's flaws made it a clear contender for reform outside the EU**

Farming represents only a small part of the UK economy – under 0.5% of gross domestic product (GDP)<sup>8</sup> and 1.4% of the workforce<sup>9</sup> – but it played a much larger role in the Brexit debate. Proponents of leaving the EU pointed to the unloved EU CAP as one of the best examples of EU policy that did not meet the UK's needs.

In 2018, Michael Gove – then environment secretary – summarised the criticisms of the CAP in his ministerial foreword to Defra's *Health and Harmony* white paper:

**“For more than forty years, the EU’s Common Agricultural Policy has decided how we farm our land, the food we grow and rear and the state of the natural environment. Over that period, the environment has deteriorated, productivity has been held back and public health has been compromised... The environmental damage we have suffered while inside the Common Agricultural Policy has been significant. Soil health has deteriorated. Farmland bird numbers have dropped. Precious habitats have been eroded. And at the same time a system of subsidy skewed towards those with the biggest landholdings has kept land prices and rents high, prevented new talent coming into farming and held back innovation.”<sup>10</sup>**

The EU is also reforming the CAP to address some of these concerns – particularly in light of the climate crisis. From 2023, it plans to introduce changes to make the regime greener, including making payments conditional on stronger environmental standards and earmarking at least 25% of direct payments for eco-schemes that incentivise more sustainable farming practices.<sup>11</sup> There may be impetus for further reform in the future: the political parties making up Germany's new coalition government have also expressed a wish to replace direct payments once the new CAP regime ends in 2027, with payments to support environmental and climate objectives instead.<sup>12</sup>

## **Reform means different things to different people**

Given the wide-ranging environmental, administrative and economic concerns with the CAP, it is no surprise that the UK has long been a proponent of reform, with administrations of various stripes proposing that the CAP be reformed by abolishing direct income support and repurposing the budget to deliver largely environmental improvements.<sup>13</sup> But despite this reforming rhetoric, the government did not always take advantage of the flexibilities it had within the CAP regime – as discussed in part three of this report. Nevertheless, leaving the EU provided an opportunity to pursue radical reform, a view shared by both Theresa May and Boris Johnson's administrations – despite their very different approaches to Brexit.

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\* Most farmers involved in agri-environmental schemes will also be BPS recipients. See Briggs L, 'Preparing for BPS removal: why you should consider Countryside Stewardship', blog, Department for Environment, Food and Rural Affairs, 22 November 2021, retrieved 28 February 2022, <https://defrafarming.blog.gov.uk/2021/11/22/preparing-for-bps-removal-why-you-should-consider-countryside-stewardship>

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But even if almost everyone agreed that the post-Brexit regime should look very different to the CAP there were varying opinions on what a new policy should look like or how it should work in practice. Navigating the diverse – and often competing – set of stakeholder views is a key difficulty in delivering reform. Defra’s job has been made more challenging by the fact that it is not starting with a clean slate; rather it is amending an existing scheme about which stakeholders have legacy views and expectations.

In developing the new regime for England, Defra has tended to focus on the views of farmers and environmentalists – the key stakeholder groups that it speaks to regularly and with whom it has worked to ‘co-design’ the new agriculture support schemes. But taxpayers and consumers also have a strong interest in how the farming sector and natural environment are supported. Of course, these groups are not mutually exclusive; for example, many farmers would see themselves as environmentalists, and are also consumers and taxpayers (although their producer perspective will likely dominate). Plus, there is a range of views within each set of stakeholders. We use these distinctions below to summarise the competing viewpoints that make reform in this policy area so difficult.

### Farmers

Many farmers have long criticised the CAP as being overly bureaucratic and heavy-handed. Complex regulatory requirements alongside automatic and severe financial penalties – often for purely administrative errors – have been particularly irksome to farmers. In the run-up to the EU referendum in 2016, Boris Johnson described escaping from CAP bureaucracy as “an extra incentive for our farmers to go for Leave”, and it was a reason many farmers voted for Brexit.<sup>14</sup>

To replace the CAP, the National Farmers’ Union argued in 2017 for government grants to improve farmers’ productivity and the development of appropriate alternative market risk management tools such as state-supported insurance schemes to make farming incomes less volatile.<sup>15</sup> The sector has also been keen to ensure that the farm support regime helps to maintain – or increase – domestic food production, and seek assurances that the government’s post-Brexit trade policy will not undercut farmers by opening them up to increased competition from imports that do not need to meet the same environmental and animal welfare standards.

But many farming groups have also acknowledged that food production should sit alongside efforts to cut agricultural greenhouse gas emissions and reduce the environmental degradation associated with some farming practices. They have also pointed to the fact that agricultural land can act as a ‘carbon sink’, as well as being a source of emissions, and that a healthy environment is good for farmers. These messages were articulated in *Our Vision for a Sustainable Food and Farming Scheme* – a blueprint for farm support that key members of the farming lobby, including the National Farmers’ Union, the Country Land and Business Association and the Tenant Farmers Association, endorsed in September 2020.<sup>16</sup> Many farmers have already adapted their business models to be more environmentally friendly and the growth of events such as the Oxford Real Farming Conference, which promote agro-ecology and regenerative farming, indicates that there is interest within the sector to change farming practices.<sup>17</sup>

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## Environmentalists

The CAP was long criticised for supporting farming practices associated with environmental degradation, despite a range of reforms designed to improve its impact on the natural environment. Between 1970 and 2018, the farmland bird index (used to track farmland bird populations) fell by 57%, with farming activity identified as the most significant driver of biodiversity loss.\* Soil health has also suffered, with a loss of key nutrients needed to grow crops. Between 2000 and 2019, estimates of the soil nutrient balance (a way of calculating nutrient levels in soils) showed nitrogen levels in English soils fell by an average of 24%, while phosphates fell by 46%.<sup>18</sup> Soil degradation has also reduced the amount of carbon that arable soils can store – to the detriment of the government’s carbon sequestration ambitions.<sup>19</sup> The CAP is also thought to have encouraged the production of larger numbers of livestock, resulting in higher greenhouse gas emissions.<sup>20</sup>

Some conservation groups argued that, outside the EU, the government could reorient the farm support regime towards paying not just farmers but anyone who manages land to deliver environmental benefits, a shift that could well involve farming less intensively or, in some cases, abandoning farming on some land entirely to promote ecosystem restoration.<sup>21</sup> The Royal Society for the Protection of Birds (RSPB) has emphasised the need to redress the balance between farming and nature for mutual benefit – which could involve less intensive farming, but also involve practical interventions so that even the most high-yielding farms can deliver resources for wildlife.<sup>22</sup>

## Taxpayers

The UK was a net contributor to the EU’s CAP budget, putting in more than it took out in payments to UK farmers.<sup>23</sup> Taking back control of agricultural subsidy policy also means taking back control of the £2.4bn a year spent on the current subsidy regime in England, representing around 48% of Defra’s total annual budget.\*\*<sup>24</sup> As the government raises taxes over the next few years to keep government borrowing at sustainable levels, there will be particular pressure to ensure that public money is well spent.

During the EU referendum campaign, senior figures in the Leave campaign – many of whom are now cabinet ministers – made clear that they had little interest in cutting the amount of money spent on the farm sector outside the EU. In 2016, George Eustice (now environment secretary) said: “Let’s get one thing straight. The UK government will continue to give farmers and the environment as much support – or perhaps even more – as they get now.”<sup>25</sup> But they did acknowledge that reforming the CAP regime could allow that money to be better spent. In Michael Gove’s words: “We would want to keep the money and not the bureaucracy.”<sup>26</sup>

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\* The largest falls occurred in the 1970s and 1980s, but the trend continues: between 2013 and 2018 the population of farmland birds fell by 5%. See Department for Environment, Food and Rural Affairs, *Wild Bird Populations in the UK, 1970 to 2019 – Updated for Wintering Waterbirds*, 9 December 2021, [www.brc.ac.uk/sites/www.brc.ac.uk/files/biblio/Burns%20et%20al.%202016%20-%20Agricultural%20Management%20and%20Climatic%20Change%20Are%20the%20Major%20Drivers%20of%20Biodiversity%20Change%20in%20the%20UK.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/938262/UK_Wild_birds_1970-2019_final.pdf#:~:text=In%202019%20the%20UK%20farmland%20bird%20index%20was,rapid%20changes%20in%20farmland%20management%20during%20this%20period; Burns F, Eaton MA, Barlow KE, Beckmann BC, Brereton T et al., ‘Agricultural management and climatic change are the major drivers of biodiversity change in the UK’, <i>PLOS ONE</i>, 2016, vol. 11, no. 3, e0151595, <a href=)

\*\* 48% of Defra’s total departmental expenditure limit (excluding depreciation) (TDEL), 2020–21.

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It is clear that the Treasury was no fan of the CAP support regime, which it believed provided poor value for money. It saw leaving the EU as an opportunity to wean the sector off public subsidies paid primarily for owning or controlling land. In making the case for reform, Defra acknowledged these concerns, setting out that payments for farming land can “distort land prices, rents and other aspects of the market, creating a reliance on these payments, which can limit farmers’ ability to improve the profitability of their businesses”<sup>27</sup> and undermine incentives for farmers to improve their productivity. Such payments essentially artificially inflate land prices and keep many farms in business that may otherwise collapse without making major changes to their operations. The CAP regime was also criticised for skewing subsidy towards the largest and wealthiest landowners,<sup>28</sup> with 10% of recipients under the main component of the CAP regime receiving half of payments.<sup>29</sup>

Leaving the EU also provides an opportunity to consider how much public support the farm sector should receive. It is currently subsidised to a far higher degree than most other parts of the economy. If the manufacturing sector was to receive the equivalent level of support relative to its share of GDP as the English farm sector receives through the current CAP system, it would amount to around £47.4bn a year, about the same as the entire defence budget.<sup>30</sup>

And the CAP is not the only source of government support to farming. It also receives generous treatment in the tax system, including relief from business rates (estimated to be worth £1.02bn in 2016/17),<sup>31</sup> an exemption from inheritance tax for agricultural property (estimated to be worth £340 million in 2018/19)<sup>32</sup> and a rebate of fuel duty payable on ‘red diesel’ (estimated in 2018 to be worth approximately £615m a year).<sup>33</sup> The last of these may encourage fossil fuel use in a way that is inconsistent with the government’s plans for net zero,<sup>34</sup> and while the government has announced plans to remove fuel duty rebates from many sectors in support of its climate targets, agriculture will be one of the few remaining sectors to qualify for preferential treatment.<sup>35</sup> Estimating the total benefit the agriculture sector receives from the tax system is difficult, although a 2019 report from the campaign group People Need Nature estimated that farms in England receive tax exemptions totalling £2.4bn a year – roughly equivalent to that received in subsidy payments.<sup>36</sup>

## Consumers

Consumers also have an interest in the post-Brexit direction of the UK’s agricultural support regime. During the EU referendum campaign, those arguing to leave the EU made much of the point that Brexit would reduce the price of food. In 2016 Anne-Marie Trevelyan, now the international trade secretary, argued that a combination of the CAP regime and high EU tariffs on food imports from outside the bloc “artificially inflates food prices” and that grocery bills were around “£400 more expensive every year because of the EU”.<sup>37</sup> Brexit was presented as an opportunity to cut prices for consumers through reducing or eliminating tariffs on food imports, striking free trade deals with large agricultural producers around the world, and changing how domestic producers are supported and regulated. New trade deals also offered the possibility of increasing consumer choice.<sup>38</sup>

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\* Based on Farm Business Tenancy (FBT) rental values.

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But evidence suggests that consumers also care about quality.<sup>39</sup> Proponents of leaving the EU also argued that domestic standards of production would be maintained or strengthened and dismissed claims that leaving the bloc would see the UK market flooded with chlorine-washed chicken or hormone-fed beef imported from overseas. Speaking in April 2016, Michael Gove said: “We also need to ensure that the high quality British food which is getting an increasingly powerful reputation across the world is maintained.”<sup>40</sup>

### **Defra has chosen to convert a payment system based primarily on the amount of land farmed to one based on delivering largely environmental public goods**

So it was clear that different stakeholders had different expectations about what leaving the EU should mean for reform of the CAP. Perhaps in a nod to the need to harmonise these often discordant views, Defra titled its first post-Brexit white paper on agricultural support *Health and Harmony*, when it published it in February 2018.

Much of the proposed new regime suggested that the government had chosen the environmentalists’ position, in line with the kind of reforms to the CAP system that successive UK governments suggested but never fully adopted. At its core was the principle that the government would stop paying farmers to farm. Instead, there would be a new system of ‘Environmental Land Management’ (ELM), under which anyone who managed land (whether a farmer or not) could receive payments for delivering (primarily environmental) public goods. Environmental stakeholders heartily endorsed this unprecedented new approach, and welcomed the acknowledgement that farming and nature would be recognised as interdependent and could be mutually beneficial.

Defra’s plans for the new support regime also took account of the interests of consumers, for instance by committing to promote high standards of animal welfare. But many of the wider Brexit benefits promised to consumers – such as lower prices and greater choice – were primarily to be delivered by trade policy, rather than through the new financial support regime.<sup>41</sup>

The government’s plans to replace the CAP involved farmers continuing to have access to public money, even if they had to do more in return for it. It promised in its 2017 and 2019 manifestos to maintain total spending on ‘farm support’ until the end of the respective parliament. It has made good on this promise by committing to spend an average of £2.4bn a year (based on 2019 subsidy rates) until the end of the current parliament in 2024. In an effort not to provoke farmers’ hostility, it has also agreed to phase in the reforms, help farmers increase their productivity to adapt to the loss of payments for farming, and introduce a more ‘proportionate’ approach to regulation and enforcement.

The commitment to maintain current levels of spending on the farm sector means that Defra is constrained in delivering its largely environmental objectives primarily by changing the behaviour and activities of supported farmers. Given around 70% of land in England is farmed and farming is a major polluter, it is likely that the sector would have a role to play in any environmental support regime. However, if the government was given a free hand to design an optimal environmental programme

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from scratch, it might find that there are more cost-effective routes to deliver its objectives, such as through buying large swathes of land for rewilding, or directing a greater share of funding towards conservation groups or large land owners willing to stop or dramatically reduce farming activity on their land, to deliver the more impactful environmental benefits. This means that taxpayers are likely to get poorer value for money for the environmental benefits delivered through the new regime than if environmental improvement was its only objective.

The *Health and Harmony* white paper set out two overarching ambitions for the new regime:<sup>42</sup>

- to encourage the farming industry to invest, raise standards and improve self-reliance
- to reward farmers and land managers for delivering environmental goods that benefit all.

The initial vision has since been elaborated, most extensively in Defra's November 2020 Agricultural Transition Plan.<sup>43</sup> It was also given prominent billing in the government's *Benefits of Brexit* white paper, published in January 2022, which reiterated the government's ambition:

**"Our aim is that by 2028 all farmers will be: running sustainable businesses that do not need to rely on public subsidy; delivering profitable food production and supporting the recovery of nature, fusing the best modern technology with the traditional art of good farm husbandry; able to access public money to help them deliver environmental and animal welfare outcomes on the land they manage, reducing emissions and delivering on our net zero ambitions."<sup>44</sup>**

The new regime is based on the principle of 'public money for public goods', whereby farmers and land managers will be paid for delivering publicly valuable outcomes, rather than for the amount of land they farm. There is a solid economic rationale for subsidising public goods that deliver broader benefits over supporting the incomes of farmers, which mainly delivers private benefits to recipients.

The precise definition of what Defra regards as public goods has evolved over time: in the original *Health and Harmony* white paper, most prominence was given to environmental enhancement and protection, which includes improved soil health and water quality, increased biodiversity and climate change mitigation. However, many other objectives were also included:

- better animal and plant health and animal welfare
- improved productivity
- preserving rural resilience and traditional farming landscapes in the uplands
- providing public access to the countryside.



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The Agriculture Act, passed in November 2020, broadly mirrors that list, although with the addition of a provision to protect soil.<sup>45</sup> But the Act also includes a requirement for ministers to “have regard to” the need to encourage the production of food in England in an environmentally sustainable way in framing the financial assistance schemes – even though food production itself is not a public good. This change was made in response to industry concerns that the government’s initial proposals paid too little regard to food production.

Defra’s plans are far-reaching and ambitious. The new agricultural support regime represents a huge increase in government spending on the environment. The RSPB estimates that current UK government spending on agri-environment schemes is only around £420m a year.\* In contrast, the new Environmental Land Management Schemes (ELMS) are expected to take up nearly all of the annual support budget by the end of the agricultural transition period in 2028, which is likely to be around £2.4bn.

The changes are internationally unprecedented. In the 1980s, the New Zealand government realised it could no longer featherbed its farmers as it lost privileged access to the British market when the UK joined the European Economic Community (EEC) and grappled with wider economic problems. Alongside other economic reforms, it eliminated all subsidy over a three-year period and challenged its farm sector to compete or fail. But it did not attempt to translate its subsidy regime into a huge new environmental spending programme. As Jonathan Baker, deputy director of the Future Farming and Countryside Programme, put it:

**“It’s easy to forget how genuinely world leading what we’re doing through the Environmental Land Management Schemes is. No other country in the world is planning to replace subsidy primarily with environmental payments.”<sup>46</sup>**

The payments also go far further than any changes to agriculture funding that Defra has tried to implement in the past.

## **The reforms are being made in a turbulent period for farming**

The government is not delivering this Brexit prize in a vacuum. Farmers are subject to a wide range of pressures. Some of these are structural, such as income volatility (which is typical of many farms), the ageing agricultural labour force and food supply chains that tend to squeeze producers to the benefit of processors and retailers. Others relate to wider economic issues like inflation, which is pushing up the cost of inputs such as fertiliser, feed and energy (which will be exacerbated by the war in Ukraine).<sup>47</sup> But current conditions are not all bad news for farmers. There is evidence that a tight global supply and a rebound in demand after the Covid pandemic are contributing to high market prices for many agricultural goods – benefiting some producers.<sup>48</sup>

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\* Most environmental outcomes are delivered by regulation, not spending, and the big item of Defra’s budget other than agricultural support is spending on flood defences. See Department for Environment, Food and Rural Affairs, Department of Agriculture, Environment and Rural Affairs, Welsh Assembly Government and Scottish Government, *Agriculture in the United Kingdom 2017*, 18 September 2018, [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/741062/AUK-2017-18sep18.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/741062/AUK-2017-18sep18.pdf); RSPB, ‘Written evidence submitted by the RSPB (ELM0010)’, evidence submitted to the Environment, Food and Rural Affairs Committee, (no date), <https://committees.parliament.uk/writtenevidence/21834/pdf>

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As we discuss in part three of this report, the rest of the government's post-Brexit policy agenda is also making life more complicated for farmers. At the same time as adapting to new systems of agricultural support, English farmers also face the threat of competition from cheap imports under new free trade agreements and a potential unlevel playing field within the UK, as the Scottish, Welsh and Northern Irish governments reform their agricultural policies in their own way. Plans to level up the country, change diets and deliver net zero could also have major impacts on the farming sector.

The government has acknowledged the need to consider its various policies that affect the farming sector as a coherent package. In 2018 the then environment secretary, Michael Gove, said he wanted "to ensure we develop a coherent policy on food – integrating the needs of agriculture businesses, other enterprises, consumers, public health and the environment".<sup>49</sup> But, worryingly, as we set out in part three, the government does not yet seem to have done this.

### **The government's plans for reform have set high expectations**

The initial vision in the *Health and Harmony* white paper was bold. Setting such a stretching objective did have value. Farmers, environmentalists and politicians could be in no doubt that the government intended to make radical reforms by removing direct payments and making public money conditional on delivering public goods. It also gave the reform programme a sense of momentum and ambition – only compounded by having a 'heavy-hitting' political champion in the form of Michael Gove as environment secretary.

But the blueprint for reform was also broad enough to allow all parties to emphasise the parts that spoke to their interests. Environmental groups placed great weight on the promise to put 'nature at the heart' of farming and deliver bold action to address the climate crisis and biodiversity loss. Farmers, meanwhile, focused on the opportunity the new regime presented to move away from the bureaucratic and punitive CAP and lobby for a support regime that better meets the needs of the English farming sector and promised to support "profitable food production".<sup>50</sup> The Treasury saw reform as a chance to wean the sector off public subsidy and potentially free up large sums of money to spend elsewhere. And consumers could look forward to high standards of domestic production, while new trade deals were expected to usher in cheaper prices and more choice.

Bringing together such a diverse range of stakeholders was no mean feat. But, as we set out in part three, the breadth and ambiguity of the initial vision have allowed divergent views about what the new regime should deliver to mature over time. By setting expectations so high – and making contradictory promises to different groups – the government will find it nearly impossible to please everyone and its plans are likely to leave many disappointed. It is already clear that some stakeholders have concerns about the direction of travel – with environmentalists criticising the government's plans for the entry-level Sustainable Farming Incentive as under-ambitious and a far cry from the revolutionary reforms promised, while farmers bemoan payment rates that they claim will make the scheme infeasible for many.

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But Defra maintains that the reforms need to be seen as a package and that new schemes are still being developed in response to stakeholder feedback.

The department is also having to design its new support regime around a budget inherited from the very different EU regime. There is already evidence that Defra may be having to trim its ambitions to meet the money available. The National Audit Office has indicated that Defra may struggle to achieve all its objectives within the available budget.<sup>51</sup> A similar warning was made in the independent *National Food Strategy* report, which predicted that a “substantially greater” total budget would be required to achieve the full range of Defra’s objectives.<sup>52</sup>

## **But the reforms can still deliver real improvements**

But even if Defra struggles to meet all the expectations it has set, the changes it is making still have the potential to address many of the CAP’s flaws and deliver a marked improvement in the way farmers are supported in England. We have identified a range of important objectives that the department can still deliver (see below). But to achieve these objectives, the government must address the problems that we identify in part three.

### **1. Major environmental improvements**

The primary purpose of the new agricultural support regime is to deliver real environmental benefits – not only by removing financial incentives for farmers to adopt environmentally damaging practices, but also by using financial payments to reward the delivery of environmental public goods. Income support for farmers is being transformed into a big environment spending programme, delivered through farmers and other land managers.

In January 2022, Defra published a set of ‘outcomes’ it hopes the three ELMS will deliver – the department’s most direct attempt to provide a specific set of success criteria for the new support regime.

The first test is whether Defra can illustrate that these outcomes are being met – or exceeded. It needs to show that it is maximising environmental benefits within the available budget and that the farming sector is making a meaningful contribution towards the government’s wider environmental ambitions, including net zero and halting biodiversity decline.

This needs to apply not just to the farmers within the schemes but also to those who choose to stay outside: the government does not want its new system to encourage more environmentally damaging practices than now by those who choose not to take part in – or are ineligible for – the new support schemes.

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## **2. A farm sector that is without farmers being paid to farm**

The government's reforms will mean that farmers will no longer be paid for owning or controlling land. The government has acknowledged that the transition to the new agricultural support regime will not be easy for many farmers. But its central assumption for the new regime is that the farming sector will be able to adjust to the loss of direct payments and that a similar level of farming activity will remain economically viable through a combination of increased productivity, diversification and participation in the new support schemes.

Ministers and officials have also been clear that the reforms do not have to mean a reduction in domestic food production, although – as raised in part three – the government should be explicit about whether it has a view on how self-sufficient in food the UK should be.

The second test for success is therefore whether the farm sector is viable without direct payments and able to contribute towards a healthy rural economy and any domestic food security goals that the government may have.

## **3. New support schemes that work well in practice**

Defra clearly wants the new regime to be less bureaucratic and easier for farmers to navigate than the CAP. At the same time, the new regime needs to be robust enough to ensure good value for money and to prevent fraud.

The third test for success is whether the new regime works well in practice and there is no repeat of the administrative chaos that dogged earlier reforms. Farmers and land managers need to be paid correctly and on time, and the new regime needs to command the support of users and be seen as easy to navigate. An effective enforcement regime needs to be put in place that gives confidence that public money is being used well and regulatory standards are being met, but without imposing burdensome compliance costs.

## **4. A regime that delivers improvements within (or under) the current budget**

The government has committed to ring-fencing spending on farm support until the end of this parliament (expected to be 2024) – spending an average of £2.4bn a year. Defra's planning assumption is that a broadly similar annual budget will be available until the new agricultural support regime is fully in place in 2028. In the long run, Defra will need to show that the budget it inherited from the very different CAP regime is the right amount for spend on delivering the public goods envisaged, otherwise the Treasury may look to cut spending.

The fourth test is whether Defra can deliver the new regime within (or under) the current budget, and is able to show that the new schemes present a cost-effective way of delivering the public goods promised.

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## **5. A regime that is part of a coherent cross-government approach to the future of food, farming and land use in England**

Many areas of government policy affect the farming sector. The government's reforms to agricultural support need to work in harmony with its trade policy and wider vision for the environment, health, food security and levelling up. The government needs a strategic view of how it wants to balance the many competing demands on land use in England to ensure its policy agenda is pulling in the same direction.

The fifth test is whether the government is able to articulate and gain consent for its vision of food, farming and land use in England.

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# Part 2: The reforms so far

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As set out in part one, the government has developed an ambitious vision to reform farm support. Here, we briefly examine what is known about the detail of the reforms Defra has announced so far. These include the ELMS, productivity schemes and interim measures being introduced to ease the transition from the CAP regime to the new system.

## The new regime is being phased in over seven years

Given the radicalism of the government's plans, it is no surprise that the transition to the new scheme is taking place over a seven-year 'agricultural transition period', running from 2021 to 2028. The decision to phase in reforms could suggest that the government has learnt from the New Zealand experience, which resulted in significant upheaval in the farming sector, including a large increase in the number of farm insolvencies and farmer suicides.<sup>1</sup> Below we detail the major elements of the changes.

### 1. Direct payments are being phased out

The biggest change is the phased removal of direct payments. Between 2021 and 2024, payments will be gradually reduced, with farmers who receive the most money facing the sharpest cuts. From 2024, direct payments will continue to be reduced and be 'delinked', which will mean recipients will no longer need to farm the land to receive them. Delinking is intended to simplify the administration of the Basic Payment Scheme (BPS) and give farmers time to adjust to the new payment regime.

The rate at which direct payments are being phased out is quicker than the regime that some farming<sup>2</sup> and conservation groups<sup>3</sup> proposed, and is driven in part by a desire to free up money currently spent on BPS payments to go into the new support schemes. However, it is slower than the rate that many respondents to the *Health and Harmony* white paper suggested, including Natural England, which argued that a five-year transition would be better for the natural environment.<sup>4</sup>

### 2. New schemes will replace the CAP, to reflect the government's new objectives

The new support regime is made up of four broad strands. As Figure A1 in the Annex shows, the effect of the changes is that farmers and land managers have a complex web of new, legacy and temporary schemes to navigate, all with different eligibility requirements, payment rates and timeframes.

#### a) The Environmental Land Management Schemes

The ELMS are the cornerstone of the new agricultural support regime and will account for most of Defra's spending on the sector. They are made up of three new schemes to pay farmers and land managers for delivering a range of primarily environmental benefits. These are aimed at different participants with different levels of ambition.<sup>5</sup>

- The **Sustainable Farming Incentive** is designed to be a broad and shallow scheme, open to all farmers and land managers, and will deliver smaller-scale public goods – such as reducing inorganic fertiliser and pesticide use.
- The **Local Nature Recovery Scheme** is designed to be a more ambitious successor to the existing Countryside Stewardship Scheme and will support locally tailored actions to support nature recovery and may include collaboration between several farmers and land managers.
- The **Landscape Recovery Scheme** will support land-use change and habitat and ecosystem recovery to achieve radical, large-scale and long-term environmental and climate benefits.

Defra plans for all three elements of ELMS to be fully operational by the end of 2024, with tests, trials and pilot schemes currently under way. By the end of the agricultural transition period in 2028, Defra expects that the ELMS budget will be split evenly between the three schemes. More information on ELMS can be found in Table A1 in the Annex.

#### **b) Productivity schemes**

Defra is also introducing schemes aimed at supporting investment in sustainable practices and improving the productivity of the farm sector to help it to adapt to the loss of direct payments. These include:

- the **Future Farming Resilience Fund**, which will provide free business planning advice to farmers until 2024 to help them navigate the transition to the new regime<sup>6</sup>
- the **Farming Innovation Programme**, which is being run in partnership with UK Research and Investment to support farmers to embrace innovative ways to maximise productivity
- the **Farming Investment Fund**, launched in November 2021, which provides grants for new equipment and technology<sup>7</sup>
- the **Lump Sum Exit and New Entrant Schemes** to encourage some farmers to leave the sector and new entrants to join.

Defra also expects that many farmers will look to diversification to make ends meet – such as providing holiday accommodation and processing or retailing farm produce.<sup>8</sup>

#### **c) Other schemes and programmes**

Other smaller schemes will support farmers to improve animal health, raise welfare standards, reduce pollution from slurry and improve tree health. These will start opening from 2022.<sup>9</sup>

#### **d) Changes to the regulatory regime**

Alongside the introduction of new support schemes, the government intends to reform the regulatory regime that applies to farming, building on the findings of Dame Glenys Stacey's *Farm Inspection and Regulation Review* in 2018.<sup>10</sup> The government intends

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to move towards a more 'proportionate' model that relies more heavily on education and support, rather than penalties, and ensure greater consistency in how different regulators interact with farmers. Defra also wants to embrace new technology – including widespread use of self-assessment by farmers and land managers and remote sensing technology to reduce the need for in-person inspections.

### 3. Interim measures are being taken to aid the transition

A range of interim measures are also being taken to aid the transition to the new regime and speed up the delivery of some of the benefits that the regime is designed to provide. These include:

- boosting the uptake of the **Countryside Stewardship Scheme** (in part through increasing some payments to reflect current market conditions), which will continue to be open to new applicants until 2023
- specific transition schemes to plug gaps in provision until ELMS are up and running – such as the **Farming in Protected Landscapes Scheme**
- lighter-touch enforcement of existing regulatory requirements.

### The private sector is also expected to play a role

The government hopes that the public goods that the new public support regime delivers will be supplemented by benefits delivered through private finance initiatives. This includes the development of environmental markets – whereby private companies will reach agreement with farmers to deliver environmental benefits. For example, water companies may pay farmers for managing farmland in a way that controls run-off and reduces the need for expensive water treatment, or allows water companies to meet their regulatory obligations. Businesses, such as airlines, may also pay farmers and land managers to sequester carbon or improve biodiversity under carbon and biodiversity credit schemes.<sup>11</sup>

Defra says it is committed to “ensuring that farmers are better off when they seek private financing opportunities”.<sup>12</sup> But the House of Lords Science and Technology Committee has criticised the government for not providing enough information about how public and private schemes to fund environmental benefits will interact.<sup>13</sup>

### The new regime is within the scope of the UK's post-Brexit subsidy control regime

Unlike the CAP (which was excluded from the EU's subsidy control regime), agricultural support will be within the scope of the UK's new post-Brexit subsidy control regime, which is currently being legislated for in the subsidy control bill.<sup>14</sup> This means that Defra will need to show the compliance of the new schemes with the seven principles laid out in the bill, including that they are proportionate and necessary to achieve the policy objective of the agricultural support regime and that it does not merely pay for activity that would have happened anyway. The rules apply to all subsidies to a business exceeding £315,000 over three years.



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## Part 3: Problems the government must address

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As we set out in part one, the government has an ambitious vision to transform an EU agricultural support regime that pays farmers primarily based on the amount of land they farm into one that makes receiving public money conditional on delivering largely environmental benefits. It is now apparent that expectations were set too high and the government faces a real risk that some or all stakeholders will view the new regime as a failure.

However, the reforms it has planned can still deliver real improvements on the CAP regime that preceded them. But to achieve this, the government must overcome four key problems. Here we analyse those problems in detail and recommend steps the government can take to address them:

- **Problem one: The government has not addressed key trade-offs between different objectives.**
- **Problem two: There are already signs of delivery risks.**
- **Problem three: More needs to be done to ensure long-term value for money.**
- **Problem four: There is incoherence and contradiction between the government's reforms to agricultural support and its wider policy agenda, including trade and net zero.**

### **Problem one: The government has not addressed key trade-offs between different objectives**

The government needs to be clearer and more transparent about the choices it has made – or intends to make – between its objectives and thus the interests of different stakeholders. It has set out a primarily environmental vision for the future of farm support in England based on payments for public goods, but one it committed to making work for farmers, taxpayers and consumers too. The risk is that Defra has tried to please everyone for too long, deferring the inevitable trade-offs involved and failing to roll the pitch for the choices it has made. This has left it vulnerable to political opposition as more detail emerges and the new regime begins to be implemented. Indeed, this opposition is already happening: early detail on the new support schemes led environmentalists to argue that the government has rowed back on its environmental aims and plans to reintroduce direct payments through the back door.<sup>1</sup>

Defra must now set out the full details of the new regime, so all interested parties have a clear understanding of what it means for them. It would be even better if Defra exposed the thinking behind the choices it has made to enable them to be properly debated and scrutinised.

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## **Defra must manage the high expectations it has created**

The constructive ambiguity in the government's initial vision for reform meant that almost all stakeholders could find something to support – helping Defra achieve widespread buy-in for an environmentally focused CAP replacement. But the department is now trying to walk a tightrope between different expectations – producing a regime that delivers environmental improvements, makes business sense for farmers, provides good value for money and does not leave consumers out of pocket or exposed to lower standards.

As explained in problem four below, an important part of resolving these tensions – particularly for consumers – is better co-ordination across different areas of government policy, most notably between the new agricultural support regime and trade. But Defra also needs to address the trade-offs between different groups as it designs and implements the new support regime. In doing this, the department has primarily focused on balancing the needs of farmers and the demands of environmentalists – the two groups it speaks to most often and has worked with to 'co-design' the new support regime. Opposition from farming groups also represents one of the biggest political risks to the government being able to successfully deliver its environmental aims. Alongside this tension between farmers and environmentalists, the department is also mindful to show value for money for taxpayers.

It is already clear that farming and environmental groups have very different views on how Defra is developing the new regime. Some farmers have expressed concerns that the payment rates published so far – which only cover the initial roll-out of the entry-level Sustainable Farming Incentive – are not enough, and have questioned the compatibility of other parts of the new regime with food production.<sup>2</sup> Conversely, some environmental groups have chastised the government for a lack of ambition when it released information on the Sustainable Farming Incentive, although they were cautiously optimistic that the more ambitious Local Nature Recovery and Landscape Recovery Schemes could deliver meaningful environmental benefits.<sup>3</sup> But both groups have made clear that they do not yet have enough information about the totality of the regime to understand what impact it will have – and properly assess the trade-offs Defra has made.

## **Defra's approach to policy design has kept stakeholders on board, but will leave some disappointed**

In building its radically new post-Brexit system, Defra has chosen to develop the new regime iteratively and 'co-design' the new schemes with farmers and environmentalists (which involves taking the views of stakeholders on board throughout the design process, through initiatives such as thematic working groups and tests and trials). It is directly working with 4,000 farmers to design the new regime.<sup>4</sup> This approach has served three purposes: first, ensuring deliverability by avoiding the pitfalls of the 'big-bang' approaches of the past; second, helping to build trust among farmers and environmentalists burnt by Defra's poor track record; and third, maintaining a degree of ambiguity about the direction of travel has helped keep stakeholders on board.

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Both farming and environmental groups see Defra's commitment to involve them in policy design as laudable and have recognised that the approach has helped the department address some of their practical concerns at an early stage. But it has not all been positive. Some participants have complained that their inputs appear to have been used to gather evidence to support Defra's predetermined plans, rather than develop policy. A lack of effective feedback left some feeling undervalued and that the voices of certain groups have been amplified at the expense of others. Researchers have also pointed out the risk of excluding those who were harder to reach; for example, the digitally excluded, disabled people and those with previous negative experiences.<sup>5</sup> Plus Defra has been criticised for not making enough use of the evidence from earlier farm support schemes.

All these factors illustrate the difficulties Defra has faced in inviting – and then trying to balance – the views of different stakeholders. This approach to design has also raised expectations among participants that Defra will design the new regime to meet their needs and address their concerns. But Defra cannot make the new regime meet the needs of all its diverse stakeholders, and inevitably some will be left disappointed. As the Country Land and Business Association has stated, "codesign is great... but [Defra] have unleashed a bit of a monster", where stakeholders feel the views they express should be incorporated into the design.<sup>6</sup>

### **Ministerial change has created uncertainty about the direction of travel**

A change in ministerial leadership part way through the development of the new regime has not made the job of navigating competing expectations any easier. The bold vision for agricultural reform was initially set out by Michael Gove, who has a reputation as one of the most reform-minded ministers in government. But he also managed to rapidly build a positive relationship with Defra's many environmental stakeholders who were initially very wary of the appointment of one of the leading figures from Vote Leave, as many thought Brexit would open the way for the UK to renege on many of the environmental standards it had signed up to as an EU member state. Gove set out a purist vision that seemed to favour the environmentalist position, and appeared indifferent to the impact his new 'public money for public goods' approach would have on the fate of individual farmers or indeed total food production in the UK (although climate change and environmental degradation are themselves the biggest threats to food security in the UK). He was an unusual appointment for Defra – rarely a department graced with a political big hitter.

When Boris Johnson became prime minister, Gove moved to the Cabinet Office and his successor was George Eustice, his farming minister. Eustice is also a convinced Brexit supporter, but is a farmer himself and much more sensitive to farming interests than his predecessor and keen to champion farmer choice in how they take part in the new regime (if at all). So while the headline, primarily environmental, 'public money for public goods' aim of the new regime has not changed, the detail beneath it has, and many of the environmentalists who were initially supportive of the Gove vision have expressed concerns that Eustice is less committed to seeing it through.

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## Defra needs to ensure it does not compromise on delivering meaningful public goods

As it has provided more detail on the new regime, Defra has been accused of reducing its ambition. Some fear that parts of the new regime will effectively pay for activities that farmers do or should do anyway, and so it will not be an effective use of public money. Most criticism has been levelled at Defra's plans for the entry-level Sustainable Farming Incentive, which will initially focus on paying farmers and land managers for actions to protect soils and improve animal health. A major concern is that this part of the new support regime could end up looking similar to the flawed system it is designed to replace and be overly tailored to the interests of the farming sector,<sup>\*</sup> a criticism echoed by Professor Sir Dieter Helm – a high-profile proponent of post-Brexit agricultural reform and former chair of the government's Natural Capital Commission – who has said that it may "at best pay lip service to the public money for public goods principle". He adds that "it would be difficult to come up with a subsidy scheme better able to ensure capture by the recipients of public money".<sup>7</sup> Defra needs to be alert to this criticism and willing to revisit its plans if it becomes clear that it is paying for actions that do little to deliver public goods.

The inclusion of agricultural support within the UK's post-Brexit subsidy control regime could, in theory, prevent a return to direct payments under a new name. One of the principles of the new subsidy control regime is 'additionality' – that subsidies should not normally compensate for the costs the beneficiary would have funded in the absence of any subsidy. Critics of the new regime could potentially mount a legal challenge to the Sustainable Farming Incentive on the grounds that it permits payments for activities that farmers should be undertaking anyway, although in practice the government has a lot of discretion in how the new principles are applied.<sup>\*\*</sup>

A key challenge in ensuring that meaningful public goods are delivered will be to avoid the broad but shallow Sustainable Farming Incentive from swallowing up Defra's bandwidth and dominating the ELMS budget. This is a particular concern for environmental groups, given it is the other strands of ELMS that are expected to do most of the heavy lifting in delivering large-scale environmental benefits.<sup>8</sup> In late 2020, Defra decided to bring forward a slimmed-down version of the Sustainable Farming Incentive to help avoid a funding gap for farmers between the phase-out of direct payments from 2021 and the full roll-out of ELMS from 2024. This resulted in Defra prioritising the delivery of the Sustainable Farming Incentive over the other schemes, with the National Audit Office warning in September 2021 that Defra lacked a detailed delivery plan for beyond March 2022.<sup>9</sup>

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\* Shaun Spiers, executive director of Green Alliance, has argued that many environmentalists see the Sustainable Farming Incentive as "basic payments reheated". See Spiers S, 'Farming reform is a big post-Brexit prize we should be careful not to lose', blog, Green Alliance, 13 January 2022, retrieved 1 March 2022, <https://greenallianceblog.org.uk/2022/01/14/farming-reform-is-a-big-post-brexit-prize-we-should-be-careful-not-to-lose>

\*\* Under the subsidy control bill, challenges to subsidy schemes can only be started within 28 days of that subsidy scheme being published on a transparency database. After that point, subsidies can be offered under the subsidy scheme without the possibility of legal challenge, according to the subsidy control principles.

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Defra expects spending on the three branches of ELMS to be split evenly by the end of the agricultural transition period in 2028, an allocation aimed at trying to prevent the Sustainable Farming Incentive from dominating.<sup>10</sup> Achieving this will require careful management, but Defra has yet to set out a clear budgetary control mechanism. The Sustainable Farming Incentive (and Local Nature Recovery) will be area-based, with payment rates varying based on the actions undertaken and tier of ambition. The cost of the scheme will therefore be driven by demand and how farmers and land managers choose to use it. It is possible that high levels of uptake could mean that it exceeds its share of the budget. If this appears likely, Defra will need to take steps to limit the risk of overspend – such as revisiting payment rates, removing or reducing payments for some of the least ambitious actions and limiting the range of standards farmers and land managers can claim for on each parcel of land. The department will also need to resist political pressure from the farming sector to divert more money to the Sustainable Farming Incentive; the National Farmers' Union has already argued that 65% of the ELMS budget should go into the entry-level scheme.<sup>11</sup>

### **Defra needs to stick to its plans to raise ambition over time**

One of the ways Defra can try to manage competing visions of reform is to initially pay farmers and land managers for less ambitious activities, before raising the bar over time, to give participants time to adjust to the new regime. This appears to be the plan for the Sustainable Farming Incentive, with Defra prioritising wide participation at first, before ramping up ambition in future. This could include encouraging farmers to move up within the different tiers of the new scheme and revisiting the kinds of activities that the Sustainable Farming Incentive will pay for over time.<sup>12</sup> Increasing ambition could also involve increasing the minimum regulatory standards that farmers and land managers have to meet by law (the regulatory baseline), as well as making compulsory some of the initial actions that farmers and land managers will initially be paid to deliver.

But the success of this approach is dependent on being able to revisit the scheme in future. The risk is that it could prove politically difficult to remove payments once farmers and land managers have become accustomed to them, leaving Defra locked into a low ambition scheme that spends a lot of public money for little reward. To counter this, the department should publish a clear roadmap of rising ambition and proposed linked payments.

### **Defra needs to clarify whether redistribution is still an objective of reform**

As explained in part one, a criticism of the CAP regime was that it skewed payments towards large and wealthy landowners at the expense of smaller – and often more economically and socially marginal – farms. Ministers suggested that the new regime would address this.<sup>13</sup> But as more detail of the new ELMS regime has emerged, we have heard concerns that smaller farmers may again be disadvantaged. Both the Local Nature Recovery and Landscape Recovery Schemes envisage delivering environmental benefits at scale and could involve farmers working together or land being taken out of food production. This may favour large landowners and leave smaller farmers more reliant on the entry-level Sustainable Farming Incentive. Defra should make clear whether avoiding public support being skewed towards large landowners (relative to the CAP) is still a priority, and if so, how it will design ELMS to manage this.

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## Defra still needs to provide clarity to farmers and land managers

A criticism that unites both farming and environmental lobbies is the lack of detail on how the new support schemes will work. Some criticise the iterative approach to policy design for delaying certainty about the overall shape of the new regime, with the Tenant Farmers Association accusing Defra of being “guilty of allowing activity to be a proxy for progress”,<sup>14</sup> although others argue that it is not the iterative approach per se, but how the co-design process has been run that has caused problems. For example, using such an innovative form of design was always going to require time, but this was not always built into project deadlines. Lasting uncertainty over the parameters of the new regime (such as what public goods would be paid for) also hampered process, as did announcing the reduction of basic payments before co-design had provided clarity on how the new regime would work.

Many participants in the co-design process argue that Defra has not provided enough information about how the different schemes fit together, so that they could fully understand the totality of the changes and develop useful views. As the National Audit Office, the Environment, Food and Rural Affairs Committee and the Public Accounts Committee have highlighted,<sup>15</sup> Defra’s delay in producing a clear, narrow list of SMART (specific, measurable, achievable, realistic and timebound) objectives, and its decision not to publish those it has now developed, have only made it more difficult to understand how Defra has prioritised between different objectives for the new regime.

External factors have also delayed progress. These include the Covid pandemic, which led to civil servants being diverted from the Future Farming and Countryside Programme in early 2020 to work on the immediate response to the pandemic, such as maintaining food supply chains.<sup>16</sup> It also led to delays in Defra’s Tests and Trials Programme and disrupted engagement with farmers and land managers.<sup>17</sup> In addition, Defra was one of the government departments most affected by Brexit, so preparations for leaving the EU – including various rounds of preparations for a possible no deal – also put pressure on the department and diverted ministerial and official attention away from the new agricultural support regime. An unexpected general election in 2019 also compressed timeframes.

The lack of clarity about the new regime has made it difficult for farmers and land managers to plan. The president of the Country Land and Business Association said that “what is worrying is that people could be making the wrong decisions because they do not have the details”.<sup>18</sup> Farmers often work to long-term planning horizons and will make business decisions based in part on what farm support is available. For example, beef farmers usually work to a 24-month timeline from breeding to slaughter and need to understand what support will be available to make effective business decisions.<sup>19</sup> In their survey of farmers, the Food, Farming and Countryside Commission found that 83% said they planned between one and five years ahead.<sup>20</sup> Ongoing uncertainty may also lead farmers to disengage from the new regime, while environmentalists have highlighted that without detail they have been unable to scrutinise the programme.<sup>21</sup>

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In recent months, Defra has begun to address these concerns. In December 2021, it published information about the new Sustainable Farming Incentive, including payment rates and the actions farmers and land managers will be expected to undertake. In January 2022, it announced new detail on the Local Nature Recovery and Landscape Recovery Schemes. But there is still more to do. Farming and environmental groups are united in calling for more information – particularly on the latter two schemes. Craig Bennett, chief executive of The Wildlife Trusts, gave the following assessment: “While we’re hearing the right noises from government, the devil will be in the detail and the detail is still not published nearly six years after the referendum.”<sup>22</sup> Meanwhile, Tom Bradshaw, vice president of the National Farmers’ Union, said the lack of detail was still “preventing farmers from making crucial long-term decisions that are essential to them running viable and profitable businesses”.<sup>23</sup>

### **The government has not always embraced opportunities for reform in the past**

The government’s plans for reform are radical and go beyond anything that could have been done while the UK was an EU member state. Phasing out direct payments completely would not have been possible under the CAP, at least until the next round of CAP reform in 2027.

But successive UK governments refrained from taking some of the steps they could have made towards a more sustainable vision for farming while the UK was still a member state. For example, the 2013 round of CAP reforms, which the UK strongly supported, allowed member states to impose stricter requirements to access the 30% of direct payments allocated to ‘greening requirements’ and to divert up to 15% of the money allocated to direct payments towards payments for delivering public goods through agri-environment schemes.<sup>24</sup> The UK government chose not to take full advantage of these options and to divert only 12% of direct payments towards agri-environment schemes – a decision that appeared to be based in part on limiting opposition from farmers.<sup>25</sup> The CAP regime would have also allowed the government to introduce a Lump Sum Exit Scheme,<sup>26</sup> if it had wanted to.<sup>\*\*</sup>

That the government did not take advantage of previous flexibilities does not necessarily mean that it will fail to maximise environmental gains now or row back on its plans. Brexit has provided a clear political opportunity for change. But it does add to concerns that the government could, when push comes to shove, be vulnerable to pressure from farmers who believe the changes don’t work for them, or administrative concerns that changes may prove too difficult or unworkable. If it is serious about meeting its objectives, it will need to confront these concerns.

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\* In contrast, the Welsh government chose to divert the full 15%, while the Scottish government opted for a rate of 9.5%. The Northern Ireland executive initially chose to divert 7% of funds, but in the end opted for no diversion at all.

\*\* Further reforms to the CAP due to be introduced from 2023 – which were discussed in part one – will give member states greater autonomy to implement the CAP in a way that meets their own circumstances and divert a greater share of payments towards environmental objectives. This will mean that, had the UK stayed in the CAP, more of the post-Brexit reforms the government has planned may have been possible anyway.

## Recommendations

It is already clear that Defra has not done enough to address key trade-offs between different stakeholders – allowing competing expectations to persist for too long. This could heighten opposition to reform, leading to the department rowing back on its stated environmental ambitions. Defra should:

- **Prioritise providing as much detail as possible to stakeholders about how the new schemes will work in practice and be explicit about how it has prioritised between competing visions of reform.**
- **Set out in detail how it intends to raise ambition for the new support regime over time, so farmers and environmentalists understand how it will evolve.**
- **Make clear whether redistribution (relative to the CAP) is still an ambition of the new regime and, if so, how it plans to achieve it.**
- **Resist pressure to reduce its environmental ambitions in the face of potential opposition from some farmers, and not allow the entry-level Sustainable Farming Incentive to dominate the new regime.**

## Problem two: There are already signs of delivery risks

It is one thing to articulate a brave new vision of a policy. It is a very different proposition to take something that works in theory, in a speech or a white paper, and turn it into a viable system that achieves its objectives. Success in doing that in relation to the new agricultural support regime depends on Defra and its arm's-length-body delivery partners having the skills and capacity needed to design and implement the new regime competently, and convincing enough farmers and land managers to take part in it. Despite valiant efforts from the department to learn from its past mistakes, there are already warning signs that implementation may yet threaten delivery of the department's vision for reform.

### Defra's poor track record of reform meant it started on the back foot

Defra had to implement big changes to the CAP regime in 2005/06 and 2015; both went badly.

In 2005, the UK government had to 'decouple' farm support payments from production. Although the EU gave member states the option to gradually phase in reforms, the government decided to administer a clean switch at the earliest possible moment and make payments through what the Environment, Food and Rural Affairs Committee heard was "the most complicated option available".<sup>27</sup> Non-functioning IT systems and delayed payments caused misery for farmers, rows broke out between Defra and the Rural Payments Agency (the executive agency charged with delivery of the scheme), and Brussels fined the UK for mistakes in rolling out the new regime (known as 'disallowance'), which the Treasury insisted be met from within Defra's other spending programmes.



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Damning findings from the Environment, Food and Rural Affairs Committee found that these failures occurred because Defra was over-ambitious and prioritised complexity over deliverability, with policy choices made through a “conspiracy of optimism” and an “unwillingness to be completely frank” about the delivery challenges involved. The committee also found that Defra had suffered from staff shortages and staff inexperience, meaning that the information that farmers received was often wrong, resulting in the Rural Payments Agency receiving poorly completed forms.<sup>28</sup>

The department did not fare much better with a further reform in the early 2010s, where there were public arguments between the department and the Government Digital Service, adding to the pile of hugely critical National Audit Office reports and Public Accounts Committee hearings.<sup>29</sup>

Defra’s poor track record has left the department in an unenviable position to deliver its post-Brexit changes and creates two problems. First, its past failings have left a lasting legacy of distrust among some farmers and environmentalists, which means the department has had an uphill struggle to build trust among stakeholders and may find it hard to get them to take part in new schemes. Second, it raises questions about Defra’s ability to implement the new regime and promotes fears that similar problems could arise again. Not only are the changes it is currently making far more complex than those it has delivered in the past, but this time Defra also has to develop new policy from scratch.

### **Defra needs to ensure it maintains the right skills and capacity**

Designing new policy is a very different task from negotiating and implementing EU rules. As an EU member state, the UK did have some leeway in tweaking the detail of the CAP regime – and was responsible for its effective implementation. But the fact that the EU ultimately decided policy meant that Defra did not need to maintain large-scale capacity to make agricultural policy from scratch. The UK government now has full control of its agricultural support regime and needs the skills to match. As Tamara Finkelstein, Defra permanent secretary, has put it: “We have shifted very much from being a Department that was going off and getting marching orders in Brussels to delivering our own programmes”.<sup>30</sup>

Defra has taken steps to build the significant capacity it needs and believes it has addressed the serious staffing shortages that attracted criticism earlier in the reform programme.<sup>31</sup> The department’s task now is to ensure that these skills and capacity are maintained through the life of the programme.

One of the frequent criticisms of the civil service is that it ducks personal accountability for the successful implementation of policy and that there is no identifiable senior responsible owner taking responsibility for developing a policy and seeing it through. That is emphatically not the case for this programme.

Throughout our research, we heard near universal praise for the director of the Future Farming and Countryside Programme, Janet Hughes. Often unprompted, a wide range of stakeholders – including those representing farming groups, environmentalists, arm’s length bodies and government departments – congratulated Hughes for her

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exceptional stakeholder management skills and genuine enthusiasm for Defra's reform agenda. This is shown through regular engagement on Twitter, at farm shows and via a range of webinars held by Defra and stakeholders. Such widely held admiration among a range of groups with often competing priorities is highly unusual and a credit to Hughes' abilities. Stakeholders we spoke to also spoke highly of other Defra officials, particularly their "well-intentioned" approach to co-designing the new agricultural support regime.

While this high profile is good for the programme, it exposes Hughes and her team. It will be important to remain clear that ministers, not officials, make the trade-offs implicit in the regime. Ministers must take responsibility for the choices they make.

What is more, such heavy reliance on a single official comes with risks. While Hughes has expressed her intention of remaining in post throughout the agricultural transition period, she could move on, leaving, in the words of one civil servant, a "big hole" in the programme. This risk is particularly acute given Hughes appears to play a key role in drawing together the different strands of the complex programme and, in the words of one of our interviewees, holds the overall "vision".

Defra's ministers and most senior officials will need to resist the temptation to move core members of the team to their next priority before the schemes are up and running – and departmental managers need to ensure that sticking with the programme does not hinder career advancement, as it often does in the civil service.<sup>32</sup>

### **Defra needs to make better use of expertise in its arm's length bodies**

Making the new support regime work well in practice is not just up to Defra. The department's arm's length bodies have a key role to play as delivery partners, and often have more expertise and experience than the core department. Particularly important are the Rural Payments Agency (which is responsible for administering payments under the CAP scheme) and Natural England (which has a statutory role advising Defra on environmental policy).<sup>33</sup>

The National Audit Office and the Environment, Food and Rural Affairs Committee have criticised Defra for taking too long to provide certainty to its arm's length bodies about the roles they are expected to play in designing and implementing the new support regime.<sup>34</sup> This appears to reflect the view that Defra has tightly owned the development of the new regime, commissioning specific inputs from arm's length bodies rather than involving them in policy development more generally, as has been the case in previous reforms to the CAP system.

Some of the problems that the National Audit Office has identified reflect the timing of its research in the first quarter of 2021.<sup>35</sup> Defra was in the middle of undertaking a delivery model assessment (a Cabinet Office mandated process under which departments have to assess whether and how they will buy services or outsource delivery to other bodies)<sup>36</sup> and was still deciding which activities it would outsource to its delivery partners.

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Some progress has been made since. Defra has made clear that the Rural Payments Agency will be the delivery partner for the Sustainable Farming Incentive<sup>37</sup> and Lump Sum Exit Scheme<sup>38</sup> and that Natural England will administer aspects of the first round of Landscape Recovery Scheme projects.<sup>39</sup> Key arm's length bodies are also being more closely integrated in the management of the reform programme. Paul Caldwell, chief executive of the Rural Payments Agency, told the Public Accounts Committee that the position of arm's length bodies had "improved considerably" since the work of the National Audit Office and that "we are now embedded into the process by dint of something called virtual teams, which includes representatives from all the arm's length bodies".<sup>40</sup> Natural England and the Rural Payments Agency have seats on Defra's programme board, and David Kennedy, director general for food and farming in Defra, has direct line management responsibility for Caldwell.<sup>41</sup>

While division of responsibility is clear for parts of ELMS, neither Natural England nor the Rural Payments Agency knows what role it will have in administering the Local Nature Recovery Scheme, or the Landscape Recovery Scheme, beyond the first round. In January 2022, Defra committed only to providing more information "in the coming months".<sup>42</sup> Caldwell also acknowledged that it is not possible for the Rural Payments Agency to have a "comprehensive" idea of the resources needed to deliver the new regime as "the detail has not yet been announced".<sup>43</sup>

Defra needs to clearly set out the roles it expects its arm's length bodies to play in designing and delivering the new support schemes, both to ensure those bodies can prepare to take on these responsibilities, but also so farmers and land managers understand which government agencies they will need to interact with.

### **Ensuring that enough farmers and land managers take part in the new schemes is vital**

The new support regime will only be a success if farmers and land managers choose to take part in it. Having co-designed the regime with farmers and land managers, Defra hopes that the new support schemes will be attractive to them. But as George Eustice, the environment secretary, has said: "The truth is that you do not really know until you get the scheme out there, open it for people and see how we get on."<sup>44</sup> This means Defra will need to keep the new regime under review, and be prepared to make changes if participation rates do not meet expectations.

Ensuring uptake of the new support schemes will be essential to making sure that the delivery of public goods is successful. Defra has high expectations, aiming for "at least 70% of farmers covering at least 70% of farmland" to take up Sustainable Farming Incentive agreements and for the Local Nature Recovery Scheme to attract significant numbers of farmers and land managers.<sup>45</sup> This is well above levels of uptake for current environmental stewardship schemes, and while the earlier entry-level environmental stewardship scheme did achieve similar levels of uptake, it was widely criticised for failing to deliver meaningful environmental benefits.

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Low uptake would mean missing environmental goals and, in the longer run, could lead to budget cuts if Defra fails to prove the value of the programme once the manifesto guarantees have expired.<sup>46</sup> Poor uptake could even be counterproductive. If farmers do not see the new schemes as attractive, there is a risk that some may instead adopt more intensive – and potentially environmentally degrading – farming practices in an attempt to increase output to counter reductions in income from direct payments. Others may continue to try to make ends meet without either becoming more productive or delivering public goods – undermining both strands of the government’s ambition.

But ensuring uptake will not be an easy task. Eustice has been keen to stress that the new schemes are voluntary and believes “it is not the role of government to tell farmers what to do”.<sup>47</sup> Ultimately, individual farmers will have to judge whether the benefits of taking part, including income stability, outweigh the opportunity cost and effort of undertaking the required actions and a reduction in choice about how they manage their land.<sup>48</sup>

It is too early to say how high uptake will be. In September 2021, the National Audit Office expressed concern that initial interest among farmers and land managers was poor, pointing to the fact that expressions of interest in the Sustainable Farming Incentive pilot scheme were far lower than Defra had assumed.<sup>49</sup> But despite this, Defra did manage to reach its target of 1,000 participants for the pilot and initial indications are that farmers and land managers are interested in taking part in the wider scheme. But it is likely to take time for Defra to achieve the levels of uptake expected. Eustice said in June 2021 that Defra is expecting initial uptake of the Sustainable Farming Incentive “probably, to be lower than that [the 70% target], possibly, in common with other schemes, more like 40% or 50% uptake”.<sup>50</sup>

Defra must manage several risks in ensuring there is sufficient uptake:

### **1. Farmers and land managers may not want to deliver public goods**

After more than 40 years of receiving payments for farming under the CAP, there is a risk that some farmers and land managers see the reforms as representing too great a change to their traditional ways of working, even if they would be financially better off taking part in the new regime. As Dr Ruth Little, of the University of Sheffield, has described, the transition is the “biggest change in 70 years” and one that marks a huge cultural shift for the farming sector.<sup>51</sup> For many farmers, success has historically been defined as maximising production and taking pride in maintaining a ‘tidy farm’, outcomes that may not be compatible with the new agricultural support regime. Instead of changing their practices, some farmers may choose to ‘make do’ and attempt to make ends meet without taking up the new schemes, while others may feel they have a viable enough business without public funds. Many farmers are price takers and face strong commercial pressures from their customers, which – alongside entrenched views of what constitutes success – can lock them into existing farming practices.<sup>52</sup>

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## **2. Farmers and land managers may be confused about what support is available**

As set out in part two, during the agricultural transition period, farmers and land managers must navigate a complex web of different support schemes, which could affect uptake. This includes legacy agri-environmental schemes (such as the Countryside Stewardship Scheme), transitional schemes (like the Farming in Protected Landscapes Scheme) and new support schemes (like the ELMS). Farmers have already raised concerns about this complicated picture, which can make it difficult for them to know what schemes will make best financial sense for their businesses.<sup>53</sup> Continued uncertainty about how different schemes fit together – and how farmers will be transitioned from existing schemes into new ones – adds to the confusion.

Defra is alive to these concerns, but has said that some degree of complexity is unavoidable – at least during the transition. To address these worries, it must prioritise providing as much information as possible about the new schemes and how they interact. It should continue to monitor its Future Farming Resilience Fund to ensure that farmers and land managers can access the business support they need to make informed decisions about the schemes available. A dedicated advisory service to help farmers and land managers engage with the new support schemes, as the House of Lords Science and Technology Committee recommended, should also be considered.<sup>54</sup> Farmers may also need training in how to deliver public goods, given it may require a notable change in how they operate.

## **3. Payment rates could be unattractive to farmers and land managers**

Even if farmers and land managers support the new regime, uptake depends on it making financial sense to take part in the new schemes. As Dr Little has put it: “Participation must be the best option for most farmers.”

Defra seems to be alive to this, with Eustice arguing that “the way we get the uptake necessary is by making the payment rates generous enough such that it becomes a no-brainer for farmers to take part”.<sup>55</sup> Defra maintains that payment rates under the Sustainable Farming Incentive Scheme will be “around 30% higher” than under earlier schemes,<sup>56</sup> although the department has to ensure payment levels are compliant with the UK’s international obligations, such as World Trade Organization rules (but these are likely to be flexible enough to accommodate payment rates that are attractive enough to farmers).<sup>57</sup>

Detail of payment rates under the 2022 Sustainable Farming Incentive Scheme were provided in December 2021 and (perhaps inevitably) attracted criticism for being inadequate. As the high-profile Lake District farmer James Rebanks put it on Twitter:

**“If you think I can stand in my community and argue that the new dawn is producing public benefits for public money at the latest figures for the commons then dream on. All land is on the scales and if green outcomes don’t pay better than commercial outcomes then the game is being lost.”<sup>58</sup>**

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And it is not clear whether payments will be attractive enough to persuade those who do not currently receive basic payments to take part. Current high market prices in the agriculture sector also mean that some farmers may be cushioned against reductions in direct payments, reducing their financial incentive to take part while prices stay high.

Defra has acknowledged that it may revisit payment rates for the Sustainable Farming Incentive in future and take a more flexible approach than under existing schemes.<sup>59</sup>

#### **4. Taking part in the new schemes may disadvantage farmers in other ways**

As explained in part one, the farming sector benefits from favourable treatment by the tax system. But the Office of Tax Simplification has highlighted that farmers could lose their eligibility for capital gains tax relief if they change how some or all of their land is used as part of the new support schemes.<sup>60</sup> As it concludes, there is a wider risk that these tax issues could deter participation, making it more difficult for the government to meet its environmental targets. Defra needs to be aware of this risk and consider whether it needs to amend its new support schemes so they are compatible with farmers retaining eligibility for tax relief, amend payment rates to ensure the new schemes are economically viable for farmers, taking into account the changes in tax treatment, or persuade the Treasury that it is worth changing the tax rules.

#### **5. Some farmers may not be eligible**

Defra also needs to make good on its promise that some parts of the farming sector will not unexpectedly fall through the gaps. There are particular concerns around tenant farmers (who fear that their landlord might make it difficult for them to take part, or that tenants may be required to take on the responsibilities of the new schemes while the financial benefits go to the landlord), upland farmers (who have often been most reliant on direct payments) and commoners (who must reach agreement to take part among all those with rights to farm the common). Defra has promised that all three elements of ELMS will be accessible to those farming uplands, commons and tenanted land.<sup>61</sup> It has also taken steps to address the concerns in the design of the Sustainable Farming Incentive and set up a new tenant farmers working group to allow tenant farmers to share their views.<sup>62</sup>

But worries remain. Many tenant farmers are concerned that the new regime could see land taken out of the rental market by landlords wishing to take part in the new schemes, such as Landscape Recovery, which could involve fundamental land-use change. There are already anecdotal reports that some tenancies are not being renewed for this reason.<sup>63</sup> Around 39% of English farmland is tenanted, with many farms operating on land that is partly or wholly rented.<sup>64</sup> A reduction in the amount of agricultural land available for rent could affect the operation of many farm businesses, and potentially be terminal to some farmers who rent all the land they farm.<sup>65</sup> Tenants may also find that their agreements are not compatible with longer-term land-use change, especially if this involves ending farming on the land, as agricultural tenancy contracts can require farmers to manage land only for agricultural purposes.<sup>66</sup>

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Defra will need to stay vigilant to ensure that parts of the farming sector are not inadvertently excluded.<sup>67</sup> As the House of Lords Science and Technology Committee has recommended, the government may need to support greater flexibility in tenancy agreements, including mechanisms that allow landlords and tenants to share the costs and benefits of participation in environmental schemes.<sup>68</sup>

## **6. The schemes may be too bureaucratic or administratively unworkable**

Unless the new schemes are administratively workable, they are unlikely to be attractive to farmers. Two factors will affect whether farmers and land managers see the new schemes as too bureaucratic to commit to.

The first is whether they are accessible enough for farmers to apply without exorbitant administration and the need for an unreasonable amount of professional support, at least in the case of the entry-level Sustainable Farming Incentive. Many likely Sustainable Farming Incentive recipients share this ambition. For example, the RSPB has said: "If we are having to pay for advisers to come in and consult on how that is delivered, fundamentally the scheme design is wrong." One interviewee told us that Defra needs to avoid the new schemes becoming a "boon" for land advisers.<sup>69</sup> Information about the new schemes and application processes must also take account of poor rural digital connectivity, which means some farmers may struggle to apply. If it becomes clear in the pilots that participants are struggling to make sense of or access the new schemes, Defra and its arm's length delivery bodies may need to consider providing additional resources for farmers and land managers to access professional advice – through bodies such as Natural England, industry groups or professional farm advisers.

Second, Defra needs to get its own house in order and be able to make accurate payments on time. Defra's poor track record means that it has its work cut out to maintain trust among stakeholders. The vice president of the National Farmers' Union, Tom Bradshaw, told MPs on the Public Accounts Committee that his "great concern [is] about whether everything will be in place for it to be delivered efficiently and effectively for our members".<sup>70</sup>

In the past, IT problems have been a key problem. Over-ambitious IT plans introduced without proper risk assessments were a key reason for the late payments in 2005<sup>71</sup> and 2015.<sup>72</sup> But Defra is confident that it has learnt lessons from the past.<sup>73</sup> It is planning initially to use its existing IT system for applications to the schemes, albeit with a new user interface. It also has contingency plans in case this is not ready in time and has already decided to run the Sustainable Farming Incentive pilot without it.

From 2024, Defra plans that both the Sustainable Farming Incentive and the Local Nature Recovery Scheme will be accessible through a simple digital service that shows each farmer all the options open to them.<sup>74</sup> But it appears that no decision has yet been taken about what system will be used in the long term, with a possibility that Defra may seek to introduce a new IT system for ELMS in future that is more compliant with Government Digital Service requirements.<sup>75</sup> David Kennedy, director general of food and farming at Defra, told MPs that the department "would not implement IT

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changes if they were to put at risk the schedule”.<sup>76</sup> However, the latest Infrastructure and Projects Authority (IPA) review gave the department’s plans for the new IT system an amber rating overall, with improving confidence in deliverability – indicating that some concerns remain.<sup>77</sup>

Defra needs rigorous programme management and external challenge to ensure that the schemes command confidence from the outset. It needs to avoid unnecessary complexity and be realistic about timelines and capacity. It will also need to minimise the risk of fraud, which is heightened when driving high levels of uptake is a priority.

If uptake is low, Defra must be prepared to revisit the new schemes and work with farmers and land managers to identify what is discouraging them from taking part. This could include tweaking payment rates or providing additional support with applications. If it is clear that the new schemes are still not going to achieve sufficient uptake to deliver their objectives, then Defra may need to consider whether other policy levers – such as regulation – will be needed to ensure public goods are delivered.

As part of its efforts to ensure the new support schemes deliver value for money, Defra hopes to limit the administration costs associated with the new regime. It has set a cap on costs under ELMS at 10%, a figure chosen as being midway between the costs of the Basic Payment Scheme (4%) and the Countryside Stewardship Scheme (18%), but it has not carried out a full assessment of whether it is achievable. The department has suggested that IT changes, greater automation, remote inspections and the use of trusted adviser schemes could all play a role in reducing administration costs.<sup>78</sup>

While it is sensible for the department to seek to keep administration costs down, it should be careful that its cap does not have unintended consequences, as the National Audit Office has warned.<sup>79</sup> For instance, one way of reducing costs is to scale back the provision of advice and support, but this could lead to greater confusion among participants, resulting in lower uptake or errors in applications. It is also reasonable to expect that the more complex schemes, such as the Local Nature Recovery Scheme and the tailored Landscape Recovery Scheme, may cost more to administer than the simpler Sustainable Farming Incentive. Defra will need to consider whether it should apply the 10% target rigorously to all three schemes, or to the programme more generally.



## Recommendations

Ensuring that the new support regime works well in practice is key to delivering a successful and sustainable replacement to the CAP. But it is already clear that implementation could prove difficult, threatening the government's vision for reform. Defra should:

- **Maintain the skills and capacity it has built, ensure it is not overly reliant on a few key officials to build resilience, and avoid moving key staff on to other priorities to ensure continuity in the programme.**
- **Provide clarity over what roles its arm's length bodies will play in all parts of the new regime.**
- **Develop a clear and realistic plan – underpinned by environmental evidence – to achieve the levels of uptake it is aiming for, and must be willing to revisit its proposals if take-up falls short.**
- **Carry out a full assessment of its planned 10% cap on administration costs for ELMS to ensure it is achievable and does not have unintended consequences.**

## Problem three: More needs to be done to ensure long-term value for money

The new agricultural support regime represents the government's largest environmental spending programme, and – as set out in part one – it is important that it delivers good value for money for taxpayers. But part of the reason for reform was to move away from the unpopular regulatory regime under the CAP. Defra therefore needs to build a new regulatory system that both addresses the criticisms raised about the CAP, while ensuring that the new regime is effective. There are already signs that this could prove difficult.

### The new regulatory and enforcement regime is underdeveloped

Big questions remain about the future regulatory and enforcement system that will underpin the new agricultural support regime. Put simply, what will the 'stick' look like to accompany the 'carrot' that the new support schemes provide?

Under the CAP, the government's approach to enforcement was largely governed by the requirements of EU law, as well as the need to manage the risk of disallowance penalties from the EU for errors in the administration and enforcement of it. The CAP regulatory regime is based on 'cross-compliance', which requires beneficiaries of payments to meet standards on animal and plant health, the environment, climate change, landscape retention and animal welfare. Failure to comply with these rules can result in financial penalties.

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Cross-compliance was not thought to work well for farmers, who resented the red tape, nor for the environment, as enforcement was quite lax – with very few farm visits to ensure cross-compliance conditions were being met.<sup>80</sup> Outside the EU, the government has the opportunity to address these shortcomings and adopt a different risk appetite for error and fraud.

As environment secretary, Michael Gove commissioned Dame Glenys Stacey to undertake a review of farm inspection and regulation. Her report was published in 2018 and identified a number of issues with the cross-compliance regime, including:<sup>81</sup>

- an excessively 'rule-bound' approach to regulation with little discretion
- an overly punitive approach to enforcement, with penalties often deemed disproportionate to the breach, which undermined confidence in the fairness of the system
- oversight of farming being too dispersed within Defra, leading to inefficiencies.

Dame Glenys made a number of recommendations, including calling for a new independent regulator for farming and land management, with responsibility for enforcing the new support schemes under ELMS. She also called for cultural change, so that regulation is seen as more than a set of binding rules and is used to maximise opportunities and minimise harm, with more emphasis on advice and guidance.

Defra has already made some changes to the regulatory regime since Brexit, most notably by relaxing some of the cross-compliance rules, such as moving away from default financial penalties, and with plans to end cross-compliance entirely once direct payments are 'delinked' in 2024. In its June 2021 progress update on the Agricultural Transition Plan, Defra said it wanted to "focus on outcomes and supporting improvement, rather than immediately penalising minor shortcomings – while at the same time ensuring public money is properly safeguarded".<sup>82</sup> But Defra will need to reconcile its ambition for a lighter-touch approach to enforcement with ensuring value for money and ease of administration.

Defra still has some way to go to set out how this will work. The new regulatory and enforcement regime is being developed separately from the main agricultural support schemes. Indeed, Defra appears to have made less progress towards designing the new regulatory approach and, as of November 2021, was recruiting for three grade-seven team leaders to work on agricultural regulation, suggesting a need for more resource in this area.<sup>83</sup> The government has also yet to provide a clear indication of how many of the findings of the Stacey review it plans to adopt. Speaking in July 2021, the environment secretary, George Eustice, said that the government accepted the "basic premise" of the review, and it appears the government has not yet ruled out the creation of a new single agricultural regulator.<sup>84</sup> This means there is currently little certainty over the interaction between the new payment schemes and the regulatory requirements that farmers and land managers will have to comply with.

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Conservationists and farmers have told us they are still confused about the 'regulatory baseline' – the minimum standards that farmers and land managers will be expected to comply with as a matter of law. Without clarity on those standards, there is a risk that Defra will be paying farmers through the Sustainable Farming Incentive for complying with the regulatory baseline. As the RSPB set out in its evidence to the Public Accounts Committee in October 2021:

**"The RSPB is concerned that Defra intends to pay for some activities which are currently required as condition of receipt of the Basic Payment or go little above current regulatory standards. However, paying for such activities represents poor value for money, incurring significant cost without delivering additional benefit."**<sup>85</sup>

This illustrates the tension Defra faces between making the Sustainable Farming Incentive Scheme attractive enough to drive uptake, without wasting public money by paying farmers to do things that are already mandated through regulation.

Defra also needs to ensure that there is not a regulatory gap once cross-compliance is removed. The RSPB has already warned that several regulatory requirements related to hedgerows will cease to apply, which could leave nearly 120,000km of hedges receiving little protection.<sup>86</sup> To some extent, new incentive payments under the ELMS may fill this gap, but the RSPB fears this will not be enough as it would only be partial in its coverage (due to the voluntary nature of the new regime) and potentially waste millions of pounds a year by paying for actions farmers currently have to adhere to.

The development of private markets for the delivery of environmental benefits also creates a risk that farmers are paid twice for the same public good – once by government and once by a private operator – so Defra needs to set out what safeguards it will put in place to ensure value for public money (and avoid the same set of environmental actions counting towards two different targets).

### **Defra needs to ensure that the activities it pays for deliver its objectives**

In an ideal world, Defra would be paying farmers by results. But as David Kennedy, director general for food and farming, has set out: "It is difficult, practically, to design a scheme that purely pays for 'outcomes', because there are multiple things that drive outcomes and they are difficult to measure."<sup>87</sup> It can also be hard to develop outcome-based schemes that are perceived as fair by participants who do not have total control over whether the desired outcomes are produced. So Defra is primarily adopting an 'actions'-based approach – particularly in the Sustainable Farming Incentive and Local Nature Recovery Schemes – whereby farmers and land managers are paid for undertaking a range of actions that are designed to deliver public good 'outcomes'.

But there are risks that the actions do not deliver the desired outcomes and, as the chair of Natural England told the Environment, Food and Rural Affairs Committee in June 2021, Defra may want to adopt a payment by results model in future – learning lessons from its tests, trials and pilots that have involved research into payment by results. Such a move would also allow a shift in regulatory approach, allowing the government to set the outcomes it hopes to achieve, while allowing farmers and

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land managers more flexibility in how they deliver them on their land. Defra is using the Sustainable Farming Incentive pilot to “explore a new model for monitoring the delivery of agreements” focused on “outcomes and improvements instead of penalties”, which could involve the use of virtual checks, remote monitoring and greater use of self-assessment and assurance schemes.<sup>88</sup>

The department will also need to show how public goods delivered through the new schemes will be maintained over time. Natural England has already expressed concern that “an inherent problem with voluntary schemes based on annual payments is that the environmental outcomes that they produce are essentially rented, not bought”,<sup>89</sup> suggesting that the public goods that the new support regime delivers may be vulnerable to reversal if participants decide to stop taking part in future. Defra has begun to explain how it will mitigate this risk – for instance, outlining that ‘conservation covenants’ may be used to protect land subject to the Landscape Recovery Scheme even once agreements end.<sup>90</sup> However, the department must remain alive to this risk and ensure that public goods can be sustained, through either ongoing public funding or alternatives, such as new regulatory obligations.

Creating private markets for the delivery of public goods could also help ‘future proof’ the delivery and maintenance of public goods, so there are incentives to retain them even if agreements under the new support regime come to an end.<sup>91</sup>

### **Defra will need to monitor the performance of the new regime to ensure public money is well spent**

The government has agreed to protect the current farm support budget only until the end of this parliament. Once this manifesto commitment expires, the budget will be set in the spending review, which normally covers three years ahead.<sup>92</sup> Unless a further political commitment is made to ring-fence the agricultural budget at the next election, the Treasury may well seek to cut support to free up money to spend on other government priorities – although Defra’s planning assumption is that the sector will continue to receive broadly the same level of funding as now until the end of the agricultural transition period in 2028.<sup>93</sup>

Funding uncertainty means that Defra does not have long to show that its new support regime is delivering the public goods promised – and in a way that is good value for money. The Treasury has long been sceptical of the case for providing large-scale financial support to the farming sector, and has welcomed the opportunity to phase out payments to farmers for farming. It makes little economic sense to assume that the amount of money inherited from the very different CAP regime is the appropriate budget for taxpayer support for public goods.<sup>94</sup> Analysis commissioned by the RSPB, the National Trust and The Wildlife Trusts and included in the national food strategy estimates that a budget of between £2.2bn and £2.3bn a year is needed to support the farming sector across the UK to contribute to environmental targets over the next 10 years (or between £2.4bn and £2.5bn a year if measures to include farm productivity are included, and more still if measures to improve access to nature are captured).<sup>95</sup> But these figures are calculated on a UK-wide basis. The study’s estimates for meeting the

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environmental targets in England suggest a budget of around £1.3bn to £1.5bn a year, notably smaller than the £2.4bn inherited from the CAP. Conversely, the Labour Party has suggested that the current ELM budget is not enough to meet its objectives.<sup>96</sup>

If the new regime fails to deliver the promised benefits, it is certain to come under intense scrutiny in future spending rounds as other spending pressures grow, especially given the tight public finances. Defra will need to monitor closely how well the new support regime is delivering on its objectives and have a robust plan for evaluation – and be willing to adapt its plans if necessary.

### **The new system should be in place long enough to show whether it is effective**

Another issue with the current funding commitment is that the budget is only secure until part way through the transition to the new regime. Reducing funding before the end of the transition could risk cutting the new support regime off at its knees, before it could ever be expected to show its full potential. A future reduction in the budget could require Defra to revisit the breadth, generosity or accessibility of the new support schemes just as the main ELMS are due to be rolled out in full and farmers are feeling the squeeze of losing direct payments.

Budget uncertainty also exacerbates uncertainty for farmers and land managers about what support will be available. This is particularly important as many farmers will be making decisions about how to adapt their farming practices to the new regime – such as whether to take land out of production, or what investments they should make to help improve productivity. A lack of clarity over the shape and size of the new support schemes over the long term means that these choices are more difficult to make.

Concerns about long-term funding were raised during the passage of the Agriculture Act. As a result, the Act requires ministers to set out multi-annual plans for how they will use their financial assistance powers. The first plan started in 2021 and lasts for seven years, beyond which future plans will last for at least five years. These plans should provide some long-term indication of the distribution of funding within the new support regime, but they do not provide certainty over the total amount of funding that will be available beyond the current parliament.

To provide certainty as the new regime is introduced, the national food strategy<sup>97</sup> recommended that the agricultural budget should be maintained in real terms until at least 2029, a call since echoed by the Environment, Food and Rural Affairs Committee.<sup>98</sup> Given the agricultural transition period is already fraught with delivery challenges, it would be unwise to add financial uncertainty to the mix. To ensure effective implementation – and to allow Defra time to gather evidence about how the new support schemes are working and the sector is adapting – the government should provide certainty over spending for the entirety of the agricultural transition period. However, this should be accompanied by Defra carrying out robust monitoring and evaluation of the new schemes, to ensure that they are on track to deliver the public goods intended.

## Recommendations

Ensuring that the new regime delivers value for money for taxpayers is key to its long-term success, but it is already clear that the regulatory and enforcement regime is less certain than it needs to be. To address this, Defra should:

- **Speed up the development of the new regulatory and enforcement regime and explain what its ambition to introduce a more proportionate regime means for its risk appetite and likelihood of error and fraud. This should include responding to the Dame Glenys Stacey review and plugging the gaps that the planned removal of cross-compliance will leave.**
- **Explain how it will ensure public goods are maintained over time. Failure to show that the new regime is delivering on its promises could see the Treasury cut funding in future.**

### The Treasury should:

- **Maintain spending over the duration of the transition to the new regime to ensure it can be fully implemented and achieve its potential, and to provide certainty to stakeholders. But the new schemes must be robustly monitored and evaluated by Defra to ensure they are on track to deliver the public goods intended.**

## Problem four: There is incoherence and contradiction between the government's agricultural support reforms and its wider policy agenda

Defra clearly faces big challenges in designing, implementing and evaluating its complex new agricultural support regime. But it is not making these reforms in a vacuum: they are being implemented against a complex backdrop of other policy changes the government is pursuing – some resulting from Brexit, and others not.

This complexity is important for two reasons. First, the range of competing pressures on the agriculture sector could fuel political opposition to the reforms. This is only exacerbated by the fact that the sector is – like many parts of the economy – grappling with rising costs and demographic pressures from an ageing workforce, with few young people choosing or feeling able to join the profession.

Second, there is incoherence and contradiction between different parts of the government's policy programme, which often appear siloed without joined-up thinking in government. This could lead to conflicting outcomes and incentives for farmers and land managers. The government has jumped straight into major reforms without a coherent post-Brexit policy agenda for food, farming and land use in England.

Below, we analyse the areas of the government's policy agenda that cut across its reforms to the agricultural support regime.

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## Trade policy

Leaving the EU has fundamentally altered the trading landscape for UK agricultural producers.

### **Brexit has made it harder for UK producers to trade with the EU**

The zero-tariff, zero-quota deal that the UK agreed with the EU prevented UK agricultural exports being subject to the EU's common external tariff – which would have made many UK products uncompetitive. But the deal struck has still led to the introduction of new non-tariff barriers, which make trade harder for UK producers. For instance, the EU's rules for food imports from outside the bloc create new requirements for paperwork and inspections. They also prohibit some trade entirely (such as trade in chilled minced meat) and restrict other types of trade. Limits on 'groupage', where imports from more than one supplier are transported on a single lorry, have also created problems.

The UK will ultimately introduce some of these new rules for imports from the EU. This is likely to put downward pressure on imports of food from the EU to the UK, although the size of the impact is difficult to calculate. A reduction in imports would have benefits for UK farmers in some sectors, although it could hit consumers with higher prices. For the time being, however, the application of new regulatory requirements has been largely one-sided. This is one reason why UK food and drink exports to the EU have fallen by proportionately more than UK imports from the EU since 2019.<sup>99</sup>

The movement of agricultural goods within the UK has also been affected. Under the Northern Ireland protocol, similar rules apply to agri-food shipments moving from Great Britain to Northern Ireland, although many checks at the Irish Sea border are not currently in place after the UK's decision to unilaterally postpone the introduction of controls as negotiations between the UK government and the European Commission continue over the operation of the Northern Ireland protocol.<sup>100</sup>

### **Post-Brexit trade deals with countries outside the EU will mean UK producers will face more competition**

Leaving the EU means that, for the first time in nearly 50 years, the UK government controls how the UK trades with the rest of the world. In exercising this power, ministers have to balance the interests of UK farmers (who may want protection from cheap imports) against those of UK consumers (who could benefit from lower prices and increased choice if trade is liberalised) and producers in other sectors (who might have new export opportunities from trade deals).<sup>\*</sup> The National Farmers' Union has warned that "trade policy could ultimately be more significant than environmental policy" for the sector.<sup>101</sup>

The UK plans to sign free trade agreements with some of the world's most competitive agricultural producers. It has already agreed to phase out tariffs on food in deals with two of these countries: Australia and New Zealand. Many of the rest will expect the same. The US is likely to demand not just the removal of tariffs, but also reductions in non-tariff barriers (such as the ban on hormone-treated beef and chlorine-washed

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<sup>\*</sup> As explained in part one, views within these groups are not uniform.

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chicken), which impede its exports to the UK. Over the longer term, a trade agreement with Brazil and its Mercosur bloc would expose UK farmers to competition even stiffer than that coming from North America and Oceania. Even countries which have already signed free trade agreements with the UK might push back when given the chance – Canada is likely to insist on being treated on a par with Australia and New Zealand when it negotiates a permanent trade agreement with the UK later in 2022.

And, of course, not all changes in trading relationships are in the hands of the UK government. Since the UK exports large quantities of lamb to the EU, for example, a trade deal between the EU and a big lamb exporter such as New Zealand would likely put pressure on UK sheep farmers. Wider geopolitical developments such as the Ukraine crisis may also have an impact. When Russia banned imports of EU dairy products in retaliation for sanctions imposed in response to its annexation of Crimea in 2014, there was significant pressure on EU (including UK) dairy farmers. This was, in the end, addressed with new EU support mechanisms.<sup>102</sup> How the UK government would respond to similar global shocks given its new-found independence is unclear.

### **The government needs to reconcile its trade and agriculture policies**

Farmers see a clear tension between the government's ambition to liberalise trade in agriculture through new free trade agreements with key agricultural producers and at the same time fundamentally changing the way they are supported and regulated. They feel that they are being asked to compete with producers who can benefit from natural scale advantages and less demanding standards on animal welfare and emissions.

New trade deals are likely to mean lower prices for domestic consumers – with the prices of some agricultural products, like beef, particularly likely to fall.\* This would be a good thing for UK consumers, who could see cheaper steak on their plates.\*\* But the government has generally been reluctant to promote consumer price falls as one of the gains of Brexit, probably because of its detrimental impact on some farmers.\*\*\* As Chris Southworth, secretary general of the International Chamber of Commerce, told an Institute for Government event in December 2021: "Agriculture was always going to be very impacted [by new trade deals]. Farmers have been living under a duvet in the EU."<sup>103</sup>

The government has acknowledged that farmers will need to adapt to increased competition from imports. But it believes that new trade deals should also provide a "golden opportunity to help our farmers to grow more, sell more and export more great British food".<sup>104</sup> But in reality, there are unlikely to be significant new trade

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\* One study found that unilateral liberalisation in the beef sector would cause UK beef prices to fall by 42%. This is because UK prices for beef are usually much higher than those in the rest of the world. See European Commission, 'Beef & veal market situation', 20 January 2022, retrieved 2 March 2020, [https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/farming/documents/beef-veal-market-situation\\_en.pdf](https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/farming/documents/beef-veal-market-situation_en.pdf)

\*\* Although this might not be in line with the government's net zero objectives.

\*\*\* A Newcastle University study found that, at the moment, around 15% of UK farms make a loss. If the UK were to get rid of tariffs on all food imports, that figure would rise to around 40–60%, even if the government continued to pay farmers subsidies at current levels. While ditching all tariffs in this way is unlikely, the government does have an ambitious manifesto commitment to have 80% of trade covered by free trade agreements, which will have a notable impact on many farmers. See Hubbard C ed, *Brexit: How might UK agriculture thrive or survive?*, UK in a Changing Europe, 1 November 2019, <https://ukandeu.ac.uk/wp-content/uploads/2019/11/Final-Report-Brexit-and-Agriculture-March2019.pdf>



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opportunities. UK producers are not significant exporters, largely because the price at which they can turn a profit is generally higher than those of larger, resource-rich competitor countries. While they have developed some markets overseas – which the government is investing considerable sums in growing – these are often high-price, low-volume niche markets for processed food and drink. Scotch whisky is well ahead of the pack with exports worth £3.8bn in 2020 (£4.9bn in 2019, pre-Covid), more than the next six products put together.<sup>105</sup>

Despite this, the government may still feel that the benefits of lower prices and consumer choice that new trade deals offer are worth it, even if domestic farmers may not see big new opportunities, especially given there are many more consumers than farmers. But the government needs to ensure that new trade deals do not undermine the aims of its new agricultural support regime. One risk is that some farmers may not survive new competition from imports – meaning fewer farmers are available to take up the new support regime and deliver public goods. Even if new trade deals do not push farmers out of business, the government’s trade policy could threaten participation in the regime. As Anna Sands, trade policy specialist at the WWF, has warned: “If we don’t give farmers the space [to adopt more sustainable agricultural practices] by making them compete with imports produced to lower standards, farmers will ask ‘well why do this?’.”<sup>106</sup> The danger is that they may instead look to adopt more intensive farming techniques in an effort to make themselves more competitive.

Another concern is that if trade deals open the UK market to food imports from countries with lower environmental standards, it could essentially allow the UK to ‘offshore’ agricultural emissions (also known as ‘carbon leakage’), undermining the government’s green ambitions for domestic production. Craig Bennett, chief executive of The Wildlife Trusts, has said that the government speaks with a “forked tongue” on agriculture, by saying it will protect the environment while agreeing to trade deals that would undermine standards.<sup>107</sup> This could be a lose–lose situation, whereby the domestic farm sector is harmed without reducing emissions or environmental degradation from UK food consumption.

The government has been forced to start addressing the risk that UK and foreign producers face different regulatory standards. During the passage of the Agriculture Act, the government conceded to pressure to put the temporary Trade and Agriculture Commission it had set up on to a statutory basis. The Trade and Agriculture Commission is charged with assessing the extent to which measures in free trade agreements that apply to agricultural products are consistent with maintaining UK levels of statutory protection for animal and plant health, animal welfare and the environment.<sup>108</sup> It has called on the government to produce an agri-food trade strategy to “enable a coherent approach to the sector across the UK government and the devolved administrations and provide a framework of priorities for future trade negotiations”.<sup>109</sup> In its response, the government said that trade would be considered in its forthcoming food strategy white paper, as part of the government’s response to the independent national food strategy led by Henry Dimbleby.<sup>110</sup>

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While the creation of the Trade and Agriculture Commission is welcome, it is not a panacea. It is yet to be properly tested; its first significant outing will be its scrutiny of the UK's new trade agreement with Australia. Critics have already argued that its remit is too narrowly focused on regulatory standards and does not cover the wider impact of free trade agreements on domestic producers, and that the body is 'toothless', as it can only review trade agreements that have already been negotiated. Notably, the commission is sponsored by the Department for International Trade and is chaired by Lorand Bartels, a Cambridge trade lawyer. Given this trade focus, it is not clear that the commission is close enough to the development of the new agricultural support regime in Defra to spot misalignment that may appear as the new support schemes are rolled out.

### Regulatory reform

For many in government, the rationale for Brexit was to allow the UK to regulate differently from the EU. Regaining this autonomy was the driving force behind the distant relationship negotiated in the Trade and Cooperation Agreement.

This has two main potential effects. First, regulatory divergence could make trading with the EU harder. Second, some divergence might actually help farmers.

The wish to be able to do things differently has led ministers to resist alignment with the EU even in areas where this would help alleviate ongoing tensions over the operation of the Northern Ireland protocol. For example, the EU has held out a sanitary and phytosanitary standards (SPS) agreement with the UK, which would oblige the whole of the UK to stay aligned to EU rules, as a simple way of removing many of the most onerous barriers to GB–NI trade. The Labour Party has said it would prioritise such an agreement as a way of "making Brexit work".<sup>111</sup> But the government argues this would undermine the opportunities of Brexit and stand in the way of a possible future deal with the US.

The government has already begun to flex its new regulatory muscles in the agriculture sector. Immediately after the transition period ended, it announced it would ban live animal exports, even though the National Farmers' Union argues that this puts the sector at a competitive disadvantage.

Chemicals regulation is another area of activity. Outside the EU, the UK is setting up a new 'UK REACH' chemicals database, to replace the EU REACH system. The farming industry has warned that the cost and complexity of complying with the new UK-only regime may lead some producers not to serve the UK market, causing a reduction in the range of chemical fertilisers and pesticides in the UK – affecting farmer choice and potentially driving up prices.<sup>112</sup> But regulatory autonomy could also bring benefits for the sector, providing an opportunity to speed up regulatory approval.

The UK government is proposing some changes in regulation that may be more favourable to farmers. Regulatory reform could free up English farmers to adopt more innovative production techniques and better leverage new technology, potentially supporting the 'productivity' strand of the government's agricultural reforms.

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As soon as he came into office, the prime minister, Boris Johnson, indicated that he saw relaxing rules around genetically modified food as a potential big win for the UK from Brexit. In January 2021, Defra followed this up by launching a consultation not on genetic modification, but on gene editing,\* although the government has indicated it may consider liberalising rules on genetic modification more broadly in future.<sup>113</sup> Gene editing may help produce more resilient and productive crops – helping the sector adapt to climate change and become more efficient.<sup>114</sup>

But, as the Institute for Government has previously argued in *Taking Back Control of Regulation*, the government needs to be clear about the trade-offs involved in diverging from inherited EU regulation.<sup>115</sup> Where divergence is proposed, there should be good reasons for reform, not change for change's sake. Ministers need to be confident that the benefits of doing things differently outweigh the costs, such as the new barriers to trade with the EU and potential conflict with the devolved administrations they could create. They also need to assess whether the proposed regulatory reforms are consistent with the wider environmental objectives that the new agricultural support regime is supposed to help deliver. For instance, it is not clear that the recent approval for the limited use of neonicotinoid and thiamethoxam pesticides – which can be harmful to bees – is consistent with the aim of protecting biodiversity.<sup>116</sup>

### Labour and migration policy

The end of the free movement of people has had a notable impact on the agriculture sector. Agriculture and food processing depended on EU labour for a substantial part of their workforce: in 2018, before either Brexit or Covid, only 1% of the seasonal workers that agriculture needed were British.<sup>117</sup>

EU workers who were already in the UK before the end of the transition period were eligible to apply to stay under the EU Settlement Scheme. But the best available data suggests that many EU nationals left during the Covid pandemic and have not returned. Some of those who do hope to come back to the UK may find that they have lost their entitlement to stay. Others will have decided to stay in their home countries.

This has created labour shortages for farmers, driving up costs even where local labour can be found. Three types of labour are affected. A shortage of on-farm workers, such as pickers, means some farmers have had to leave crops to rot in fields.<sup>118</sup> A lack of workers in food processing has reduced capacity in abattoirs, which has led to the need to cull healthy pigs on farms as they cannot be moved to slaughter and into the food supply chain.<sup>119</sup> And farmers have – as in other sectors – also been affected by shortages of logistics workers, such as lorry drivers. This is a more complex problem, being driven not just by Brexit (around a fifth of the pre-Brexit workforce was from the EU) but also by an ageing cohort of British drivers, the cancellation of heavy goods vehicle (HGV) tests during lockdown and the rise of other work opportunities for drivers with the boom in online shopping.<sup>120</sup>

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\* Defra defines gene editing as producing “organisms possessing genetic changes which could have been introduced by traditional breeding”. See Department for Environment, Food and Rural Affairs, ‘The regulation of genetic technologies’, consultation document, 7 January 2021, retrieved 2 March 2022, <https://consult.defra.gov.uk/agri-food-chain-directorate/the-regulation-of-genetic-technologies>

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The government has made some attempts to ease labour pressures. It piloted and then extended a new Seasonal Agricultural Workers Scheme that allowed foreign workers to come to the UK on short-term visas. The government is expected to announce a permanent Seasonal Agricultural Workers Scheme soon, although early indications are that it will not meet the 55,700 visas a year that the National Farmers' Union argues are necessary to meet the needs of the sector.<sup>121</sup>

The government has also opened up several ad hoc temporary visa schemes or concessions to allow the food sector to recruit foreign workers to fill the gaps and reduce the threat to food supplies.<sup>122</sup> But those schemes impose costs and bureaucratic burdens that did not exist before Brexit and depend on workers being willing to move at short notice for a short period. Initial reports suggested that demand for the new visas fell well below supply.<sup>123</sup> In any case, this patchwork of special schemes does not allow farmers to plan with the certainty they need – especially given farmers are already having to plan for the removal of direct payments and transition to the new agricultural support regime.

In the long run, a tight labour market may spur wage increases and make the agriculture sector more attractive to domestic labour. But attempts to attract British workers to fill vacancies in the agricultural labour force were a flop at the height of the pandemic and furlough. With record levels of vacancies in the economy and a well-established reluctance to undertake agricultural labour, this does not seem a viable way of addressing shortages.

There may be some scope for increased mechanisation and automation – with support available through the productivity strand of the government's agricultural reforms. But this is not an easy option in many parts of the farming sector. The short-run risk is that farmers decide to reduce planting or breeding, for fear of having their crops rot in the fields or their animals go un-slaughtered. This would affect the future availability of produce and could leave consumers facing shortages and higher prices.

The National Farmers' Union has warned that parts of the farming sector – notably pig farming and fruit and vegetable farming – are already contracting as a result of a lack of workers, with farmers planning to produce less in future to avoid the risk of waste if they are unable to find the staff needed.<sup>124</sup> Neil Parish, chair of the House of Commons Environment, Food and Rural Affairs Committee, has warned that the planting of vegetables is down 25% and poultry production is down 12.5% since Britain left the EU.<sup>125</sup>

The government needs to move beyond short-term sticking-plaster solutions and work with the agri-food industry to develop a long-term approach to the food and farming labour force. It needs to decide whether it is prepared to commit to significant inward migration over the medium to long term, or make clear to the food and farming industries that they need to adapt to cope with labour constraints. But it is important that farmers can plan ahead with greater certainty about the availability of labour.

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## The UK internal market

Agriculture policy was fully devolved in 1999, within the framework set by the CAP. There were already some differences in approach to how the four governments of the UK went about implementing CAP payment regimes, but these look set to increase now the different UK administrations have the opportunity to reform the CAP to best suit the needs of their different farming sectors and rural economies.

While the devolved governments in Scotland and Wales also plan to move to support systems based on the principle of public money for public goods, to date they have set out less detail about their planned reforms. They do not appear to envisage changes as far-reaching as those being made in England and propose to introduce their new regimes over a longer timetable. Scottish farmers seem likely to receive subsidies based at least in part on the area of land they farm for some time to come.<sup>126</sup> This means there will be even more discrepancy in farm support between the four nations of the UK.

The UK government has placed great emphasis on retaining the integrity of the UK internal market outside the EU – to ensure that leaving the bloc does not result in new internal trade barriers (beyond those necessitated by the Northern Ireland protocol), or affect the UK government's ability to strike trade deals or meet its international obligations. But the emergence of four distinctive farm support regimes across the UK could see farmers receiving different levels of support, with different expectations around what they must do in return for public money. Some have already raised the concern that this could create an unlevel playing field for producers, although others will argue that it simply reflects the varying interests of the very different farming sectors in the four UK nations.<sup>127</sup>

In policy areas that could affect the functioning of the UK internal market following Brexit, the four governments are agreeing 'common frameworks' to set out ways of working and managing divergence.<sup>128</sup> The Agriculture Act 2020 provided the legislative underpinning for the agreement of a common framework on agriculture. After much delay, the four governments agreed a provisional non-legislative agreement in February 2022,<sup>129</sup> with details on how the four administrations will engage with one another on a range of agricultural issues – including spending and associated regulation and enforcement.<sup>130</sup> It is now important that the UK government works with the devolved administrations to ensure that the common framework functions effectively and to keep track of the consequences of diverging agricultural support regimes. The government could consider whether it can learn lessons from Defra's Agricultural Change and Environment Observatory, a research programme set up to monitor the impact of reforms to the CAP regime on farming and the environment in England.<sup>131</sup>

The inclusion of agricultural support within the UK's post-Brexit subsidy control regime has attracted criticism from the Scottish and Welsh governments, which fear that this could limit their freedom to introduce agricultural support schemes to address the needs of their farming sectors. During the passage of the Subsidy Control Bill – which will implement the UK's new subsidy control regime – the Scottish National Party

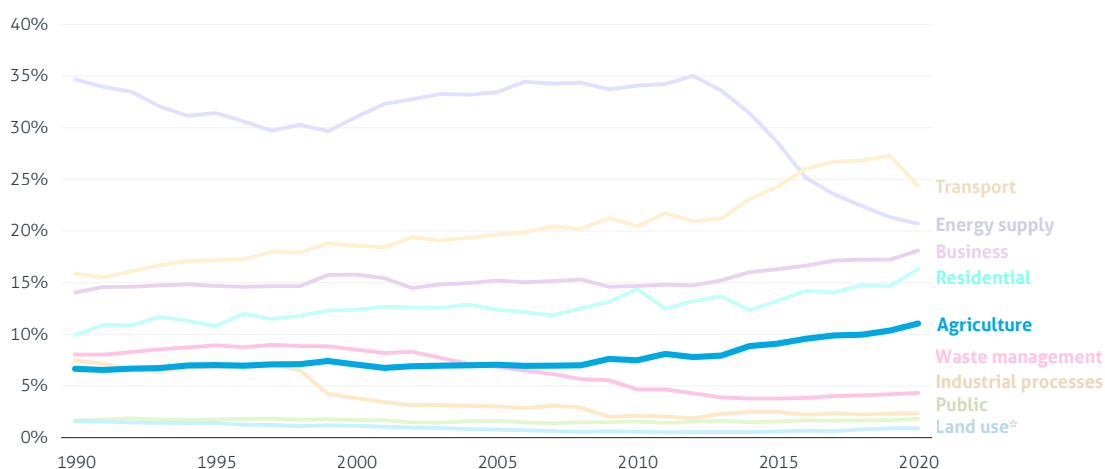
proposed removing agriculture from the scope of the regime, arguing that agriculture is often carved out of subsidy control regimes and the UK government’s plans could constrain the Scottish government’s ability to develop future policies tailored to the needs of Scottish agriculture.<sup>132</sup> Given the devolved administrations’ plans for agriculture and the new UK subsidy regime are not yet fully in place, it is hard to assess how valid these concerns are.

Another issue is the long-term allocation of farm support budgets across the UK. In the autumn 2021 spending review, the UK government provided additional money to the Scottish, Welsh and Northern Irish administrations to allow them to maintain current levels of spending on farm support until 2024–25,<sup>133</sup> in keeping with the UK government’s manifesto commitment. But beyond the current spending review period, it is not yet clear how farm support budgets will be split between the four nations. As part of the Northern Ireland protocol, farm support spending in Northern Ireland is capped by agreement between the UK and the EU, which will affect how much Stormont can spend on any new farm support regime it introduces.<sup>134</sup> The government should set out the basis on which it expects to allocate farm support funding beyond the current spending review period and make clear whether this will be based on the Barnett formula or a different mechanism.

### Net zero and the 25 Year Environment Plan

The farming sector is a big polluter.<sup>135</sup> Agriculture accounted for 11% of UK greenhouse gas emissions in 2020, despite representing just 0.5% of the economy.<sup>136</sup> Livestock farming and high-till (ploughing) farming methods are major contributors to agricultural emissions. Total emissions from the agriculture sector have remained pretty constant for decades, but as Figure 2 shows, the sector’s share of total emissions has increased steadily as other big polluting parts of the economy – such as energy – have decarbonised. If the government is serious about meeting net zero ambitions, farming will need to follow suit.

Figure 2 **Percentage of total UK greenhouse gas emissions (MtCO<sub>2</sub>e), 1990–2020**



Source: Institute for Government analysis of Department for Business, Energy and Industrial Strategy, 2020 UK Greenhouse Gas Emissions: Final figures, 1 February 2022, retrieved 2 March 2022, [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1051408/2020-final-greenhouse-gas-emissions-statistical-release.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1051408/2020-final-greenhouse-gas-emissions-statistical-release.pdf). \* = Land use, land-use change and forestry.

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The sector is also responsible for wider environmental degradation. A report by the House of Commons Environmental Audit Committee in January 2022 found that farming was responsible for 40% of pollution in English rivers,<sup>137</sup> while intensive farming practices have also contributed to a dramatic decline in farmland birds and other wildlife. More than 70% of land in England is used for agriculture,<sup>138</sup> so how it is used will play a crucial role in determining whether the government can meet its environment goals in the 25 Year Environment Plan.<sup>139</sup>

### **Net zero and adaptation to climate change**

In the run-up to COP26 in 2021, the government produced a net zero strategy and accompanying sectoral plans, but one was missing: the Defra plan to deliver net zero for agriculture and land management. The UK's climate change watchdog, the Climate Change Committee, pointed out the omission in its assessment of the UK strategy,<sup>140</sup> which also gave the agriculture and land-use section of the government's strategy the worst rating of any sectoral strategy.

Land management has the potential to play a significant role in the transition to net zero through the creation of carbon sinks involving tree planting and peatland restoration. Indeed, this was the emphasis of the "natural resources, waste and fluorinated gases" section of the net zero strategy.<sup>141</sup> The Climate Change Committee's sixth carbon budget set out that improvements in agricultural productivity have a key role to play in releasing land currently used for agriculture for carbon sequestering activities, such as afforestation and peatland restoration.<sup>142</sup>

As well as playing their role in the transition to net zero, farmers will need to adapt to changes in climate that are inevitable, irrespective of whether the COP26 commitments are delivered or not. In some cases, farmers will have a direct role to play, for example by investing in natural flood management and being compensated for this investment. But in other areas, farming will have to adapt to changing weather patterns – whether it is more intense flooding (which can wreck harvests), increasing temperatures (which can change growing seasons and the best crops to plant) or longer periods without rainfall.

The Climate Change Committee has been scathing about the UK government's failure to plan properly for adaptation. But in its latest assessment, two out of the four areas where it assessed there had been least progress in managing risk and the lowest-quality planning, related to farming: farmland habitats and species and agricultural productivity.<sup>143</sup>

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## The 25 Year Environment Plan

Beyond tackling and adapting to climate change, the government wants to deal with wider environmental degradation. The 25 Year Environment Plan sets out six key environmental goals:

- clean air
- clean and plentiful water
- thriving plants and wildlife
- a reduced risk of harm from environmental hazards such as flooding and drought
- using resources from nature more sustainably and efficiently
- enhanced beauty, heritage and engagement with the natural environment.<sup>144</sup>

In 2022, the government will set legally binding targets under the Environment Act 2021 for each target.<sup>145</sup> Making good on these targets will require major changes in how farmland is used and managed.

Defra has published some information setting out the environmental outcomes it expects the new agricultural support regime to deliver – including creating and restoring 300,000 hectares of habitat by 2042 and restoring and maintaining 200,000 hectares of peatland in England by 2050, to contribute towards the target of protecting 30% of land for nature by 2030. The new ELMS are also expected to reduce farm greenhouse gas emissions by 6Mt a year by 2035.<sup>146</sup>

But environmental groups and the House of Lords Science and Technology Committee have criticised Defra for not doing enough to explain how the new support regime will achieve the government's targets.<sup>147</sup> The Green Alliance argues that Defra is still unable to show how the new regime will contribute to meeting the government's fourth, fifth and sixth carbon budgets or reverse the continuous decline of priority species by 2030; it also points out that the expected reduction in farm emissions is far lower than the 15–25Mt a year called for in the government's net zero strategy.<sup>148</sup>

The Wildlife Trusts, the National Trust and the RSPB argue that the flexibility inherent in the new support regime is designed to allow "farmers to choose the best for their business, rather than being given guidance about what actions would be best for nature", and that not enough has been done to explain "how local and national priorities will be determined, ranked and allocated sufficient budget to achieve those target outcomes".<sup>149</sup> Similarly, economist Professor Sir Dieter Helm recently concluded that in none of the strands of ELMS "is there any attempt to take a top-down perspective and consider where the greatest environmental gains might materialise, and hence how the total subsidy budget might maximise outcomes against the goals of the 25 Year Environment Plan".<sup>150</sup>



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If Defra's current plans for the new support regime will not do enough to achieve the government's wider environmental objectives for the farming sector, it must explain how it expects to fill the gap. Defra must also make clear how its reforms to agricultural support will contribute towards the first set of legally binding environmental targets under the Environment Act, once they are set later this year.

### **Food security and production**

In 2019 Defra, under Michael Gove, commissioned Henry Dimbleby to prepare a national food strategy, the first independent review of the UK's food system in 75 years. The strategy was published in two parts: the first in summer 2020 and the second a year later. It made comprehensive recommendations for reforming farm support in England. When it was commissioned, the government committed to publishing a white paper in response to its recommendations within six months of its publication, and has since promised a 'food strategy white paper', building on the Dimbleby report and drawing together work from the Agriculture Bill and Environment Bill. This is now expected to be published in March 2022, but has yet to materialise.

The strategy covered issues of the food system broadly, rather than just agriculture. These included questions about domestic food production and self-sufficiency, which have become salient political issues as the Covid pandemic has disrupted supply chains.

Many farmers are concerned that the net effect of changes to both trade and subsidy regimes could be to reduce food production in the UK. Increased competition might make some farms unviable, while some new environmental support schemes explicitly aim to take land out of productive use.

Ministers and senior officials have argued that the new regime is compatible with maintaining current levels of domestic food production, and that there is no direct correlation between land area farmed and food produced.<sup>151</sup> For example, there is scope to give over low-productivity, marginal agricultural land to nature, without a notable impact on production.<sup>152</sup> In any case, Defra expects the new regime to lead to just 300,000 hectares being taken out of production, out of nine million currently farmed.<sup>153</sup>

The government has also long taken the view that the level of domestic food production is not directly correlated with food security.<sup>154</sup> This is not an unreasonable position. The UK's self-sufficiency ratio (the amount of food consumed in the UK that is produced in the UK) was substantially lower between the middle of the 19th century and when the UK joined the European Economic Community (EEC) in 1973 than it is now. And a high self-sufficiency ratio would not necessarily be good evidence of food security – for instance, if those levels of domestic production depended on fertiliser produced using Russian gas and animal feed made from Brazilian soybeans.

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But the government sometimes seems reluctant to say so explicitly. It has maintained ambiguity around whether food production is an objective of its new agricultural support regime. If it is the government's view that self-sufficiency in food is not important and should be left to market forces, it should say so and explain to the public why.

If not, it should say what level of self-sufficiency it considers adequate. It should set out how its agricultural policies across trade, subsidy, environment and migration will collectively deliver that target. It should consider whether this target is still achievable in a net zero world, where UK consumers will have to eat less locally produced meat and dairy products and more imported plant-based foods. Finally, it should also have clear plans for how it would adapt any of those policies if it emerged that government actions were reducing UK self-sufficiency below the target level.

The obvious setting for such a statement would be the reports on UK food security that the government is required, under the Agriculture Act 2020, to produce every three years. The first such report was published in December 2021,<sup>155</sup> but said little on the anticipated impact of the new support regime on food security.

Both the government net zero strategy and the national food strategy also demand substantial reductions in red meat and dairy consumption in order to reduce emissions from the farming of livestock (and particularly cattle). This is highly controversial within government – and it is not yet clear to what extent this ambition constitutes government policy. The government needs to be clear about whether its plans to reduce agricultural emissions and improve the nation's diet will require a marked shift in the type of agricultural products produced in England.

### **The rural economy and 'levelling up'**

The government has promised to level up the UK, seeking to address regional social and economic inequalities between different parts of the country and within the population (as illustrated in Figure 3 below). In February 2022, the government published the much-delayed levelling up white paper, setting out 12 'missions' to reduce inequality by 2030 and a set of structural changes and policies to achieve them.<sup>156</sup> The white paper defined levelling up very broadly, touching on almost every area of government policy.

Much of the public debate around levelling up has focused on so-called 'left-behind' regions and towns. But the government's plans for levelling up encompass rural communities too. The white paper includes aspirations to tackle long-term structural issues affecting many rural areas, such as poor internet and mobile coverage, poor transport links, low levels of skills and limited access to services such as banking. It also sets out an ambition to ensure that "every landscape is oriented towards nature" – including through its reforms to farm support. The government plans to publish a

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second report in spring 2022 that will set out how the government is working towards levelling up in rural areas by “strengthening the rural economy, developing rural infrastructure, delivering rural services and managing the natural environment”.<sup>157</sup>

If the government does want to tackle some of the long-term structural issues affecting the rural economy, it will need to take account of potential changes to the rural economy that could follow from the new agricultural support regime. The new support schemes will – potentially – have profound impacts on the shape of the rural economy, particularly if the nature and size of farm businesses change or some farms become unviable. The government also needs to explain how the measures proposed to support the levelling-up agenda interact with the new agricultural support regime; for example, how plans to support agri-tech diversification as part of levelling up speak to Defra’s efforts to increase the efficiency of the farm sector.<sup>158</sup>

The government’s plan for rural levelling up should be part of a wider debate about land use and management in England, and be used as an opportunity to address questions about how much land should be used for agriculture, nature restoration and natural flood management, and other alternative uses – for example, as sites for renewable energy or housing developments.

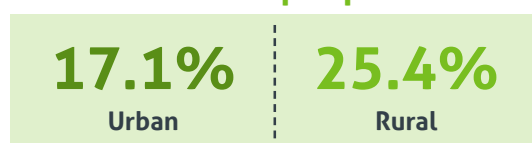
As well as the economic impact, there is a clear political dimension to rural levelling up. Until now, devolution in England has focused on regions centred on a major city, like Greater Manchester or the Tees Valley. City devolution has created high-profile figures, such as Andy Burnham and Ben Houchen, who can lobby government on behalf of those urban areas. Greater devolution is a key part of the government’s plan for levelling up. The proposed development of new ‘county deals’ to deliver devolution to county areas in England – set out in the white paper – could create new political constituencies lobbying the government on behalf of rural communities, adding to the chorus of stakeholders that the government will have to navigate in delivering its Brexit dividend in farming.<sup>159</sup>

Figure 3 The urban and rural economy, selected statistics

## Rural England has...

### People

...a higher proportion of old people



percentage of population over 65 (2020).

### Jobs

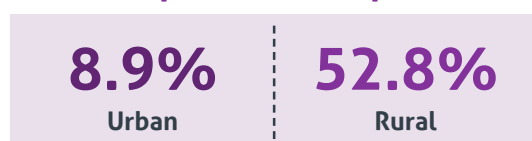
...lower unemployment



unemployment rate (2020).

### Transport

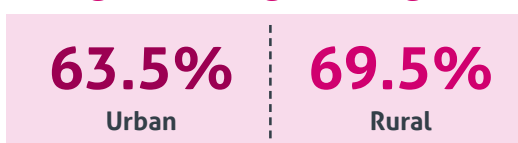
...greater dependence on private transport



cannot get to a place with 5,000+ jobs in under 45 minutes by public transport (2019).

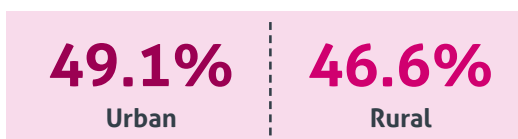
### Education

...higher average GCSE grades



leaving school with English and Maths GCSEs at a 9 to 4 pass (equivalent to A\* to C) (2017/18).

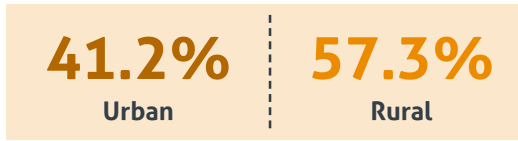
...but lower GCSE grades in deprived areas



leaving school with English and Maths GCSEs at a 9 to 4 pass (equivalent to A\* to C) in 10% most deprived areas (2017/18).

### Housing

...less affordable housing



house prices as a percentage of London price (Urban – excluding London) (2020/21).

Source: Institute for Government analysis of Department for Environment, Food and Rural Affairs, Statistical Digest of Rural England: January 2022 Edition, 27 January 2022; Department for Environment, Food and Rural Affairs, Digest supplementary data tables, rural economy, 27 January 2022; Department for Environment, Food and Rural Affairs, Rural Economic Bulletin for England, December 2021, 23 December 2021.

## Recommendations

Farming is at the nexus of many different government policies, with tensions particularly acute between the government's plans for agriculture and trade. But the government does not have a coherent vision for food, farming and land use in England.

### The government should:

- **Make clear its positions on food production, food security, health and rural levelling up and explain how these are consistent with the new agricultural support regime. This includes publishing its much-trailed 'food strategy white paper' in response to the Dimbleby review.**
- **Follow the recommendations of the House of Lords Science and Technology Committee and Food, Farming and Countryside Commission and produce a land-use strategy.\* This would provide an opportunity to explain how various government policies interact and show how competing pressures on land use and the farming sector will be managed.<sup>160</sup>**
- **Work with the devolved governments to ensure the common framework for agriculture works effectively and monitor the impact of diverging support regimes across the UK.**

## Defra needs a contingency plan in case the new regime does not live up to expectations

Given the problems Defra faces in delivering the new agricultural support regime, it should consider what its contingency plans are if implementation of the regime begins to falter, or if the new support schemes do not deliver on their objectives. There are five options the department could consider if things go wrong, although some are not within its gift and would require support from other parts of government:

### 1. Delay

The easiest option would be to delay the roll-out of the new regime and slow or pause the reduction in direct payments. This would allow the sector more time to adjust and give the department breathing space to iron out any problems that emerge in the regime.

Some stakeholders – such as the National Farmers' Union – have already called for a delay, and the Environment, Food and Rural Affairs Committee has recommended that Defra keep the option of delaying the phase-out of direct payments on the table. But so far, Defra has ruled this out,<sup>161</sup> with the environment secretary, George Eustice, clearly keen to get on with delivering a Brexit dividend for agriculture.<sup>162</sup>

\* The Food, Farming and Countryside Commission's recommendation refers to a 'framework'.

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Delay has its own risks. As Defra has acknowledged, it could create uncertainty among farmers and land managers about the government's commitment to reforms and what kind of support is available.<sup>163</sup> It could also damage momentum, making it more likely that the changes will never be delivered. Delay would also mean postponing the delivery of environmental benefits, which environmentalists believe the climate and nature can ill-afford.

## **2. Reduce environmental ambition**

Another option would be for the department to reduce its ambition. It could do this by either revisiting its objectives for the new regime, potentially narrowing the range of public goods that it is designed to achieve, or lowering the environmental outcomes the regime is meant to deliver.

But this is likely to involve accepting that the new agricultural support regime will play a smaller role in delivering the government's wider environmental goals – creating a shortfall that Defra (or other government departments) would have to pick up elsewhere. Such an approach would face strong opposition from environmental groups, and could also result in the Treasury seeking to reduce spending on the new regime, to reflect the reduced range of public goods delivered.

## **3. Spend more**

As outlined in part one, Defra has already been warned that budgetary constraints could affect whether the new regime delivers on its objectives. This could happen if not enough farmers and land managers choose to take part in the new schemes, or if the actions paid for are not extensive enough to deliver the outcomes expected.

If Defra finds that the new regime is not attractive enough to farmers and land managers, it could seek to spend more money on the new schemes to raise payment rates or fund the delivery of a broader range of activities.

But Defra will want to avoid giving farmers the impression that if they hold back on participation initially they may receive higher payments in future. In reality, the department is unlikely to find it easy to secure more money from the Treasury, which is already likely to harbour reservations about whether farmers are the best partners to deliver Defra's environmental goals. If no new funds are available, the department could be tempted to redirect money allocated to improving the productivity of the farming sector to the new environmental support schemes. But this could be counterproductive by undermining efforts to make the farm sector more productive and thereby self-sufficient, and instead make farms more reliant on the new support schemes to make ends meet – putting the schemes under even greater pressure.

Defra could also try to encourage more privately financed initiatives to increase the financial support available for the delivery of public goods.

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#### 4. Relax regulatory standards or compliance burdens

As set out throughout this report, a key concern among farmers is the difficulty in navigating complex and bureaucratic support regimes and regulatory requirements. While the government's new agricultural support regime is due to make life easier for farmers, they will still have to take steps to show that they are delivering what they have promised and are compliant with regulatory requirements – some of which, like animal welfare standards, have increased since Brexit.

To lessen these pressures on the sector, the government could decide to reduce compliance obligations – such as by conducting fewer farm visits and inspections or expecting farmers to keep simpler records. But relaxing compliance burdens is likely to increase the risk of breaches and non-delivery of public goods, and could be seen as a way of reducing ambition through the back door.

Similarly, the government could relax regulatory obligations on farmers, especially those (such as the ban on live animal exports) that some argue make the UK sector less able to compete with other countries. However, this is likely to meet with political opposition and run counter to the government's stated ambition – and promise to consumers – to maintain and raise animal welfare standards.<sup>164</sup>

#### 5. Relieve external pressures

As set out in parts two and problem four of this report, a range of external factors are putting pressure on the farming sector, increasing the likelihood that Defra will face opposition to its reforms and making delivery of the new support regime more difficult. Defra could seek to relieve the pressures that these external factors impose, so that the new regime is more palatable.

It could try to secure a relaxation in the rules on the migration of agricultural workers and workers in food processing – to ensure that farmers have greater potential access to (cheap) labour. While it is unlikely that this government would seek to renegotiate the new trade deals it has negotiated so far, it could be less willing to add to pressures through opening up UK agriculture in future trade deals, or insist on imports meeting higher environmental and welfare standards to level the playing field for domestic producers.

There might also be options for improving farm incomes by tilting the balance between supermarkets and producers, for example by helping them band together to increase their bargaining power or beefing up enforcement through the Grocery Codes adjudicator. But this would likely come at a cost to consumers who would face higher food prices.

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# Conclusion

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The government has ambitious plans to transform an EU agricultural support regime that pays farmers primarily based on the amount of land they farm, into one that makes receiving public money conditional on delivering largely environmental benefits. But laying out its vision for a Brexit dividend was the easy part. The EU's CAP was widely unpopular among farmers, environmentalists and politicians alike. There was a shared understanding that, outside the EU, the government could design a scheme that better met the shape of the English farming sector and domestic policy preferences.

The government's *Health and Harmony* white paper<sup>1</sup> spoke to these concerns and was broad enough to keep farmers and environmentalists on board – while also promising to deliver better value for money for taxpayers and protect the interests of consumers. But turning this vision into reality was always going to be a difficult if not impossible task.

Now, four years on, it appears the government may have been too optimistic. It has tried to please everyone for too long, deferring the difficult decisions and political pain that are inevitable as the new agricultural support regime is rolled out. By setting expectations so high – and making contradictory promises to different groups – the government has created a real risk that the new regime is viewed as a failure by some (if not all) farmers, environmentalists, taxpayers and consumers.

But even if the government is unable to deliver its vision for the new regime in full, its ambitions are laudable. Its planned reforms should still lead to major improvements on the CAP regime that went before. The new regime can still support significant environmental improvements, help deliver a sector that is viable without farmers being paid to farm and deliver benefits within (or under) the current budget. It can also sit within a coherent cross-government approach to the future of food, farming and land use in England.

To do this, the government must overcome four problems with its plans.

First, the government also needs to be more open about the choices it has made, or intends to make, between different objectives (and by extension the interests of different stakeholders). The primarily environmental nature of the initial vision for reform suggested that protecting nature would be prioritised over maintaining the farming sector in its current form. But early detail on the new support schemes – especially the Sustainable Farming Incentive – has led environmentalists to argue that the government has rowed back on its environmental aims and plans to reintroduce



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direct payments through the back door. Filling in the full picture of the new regime and providing the necessary detail will at least mean that everyone is on the same page and can plan for what is ahead. It would be even better if Defra exposed the thinking behind those choices to enable them to be properly debated and scrutinised.

Second, the government has more to do to ensure that the machinery is in place to deliver the new regime. Highly critical reports from the National Audit Office and the Public Accounts Committee make clear that successful delivery is already in doubt.<sup>2</sup> As we set out in problem two, Defra has much to do to ensure uptake and finalise the roles it expects its arm's length bodies to play.

Third, more needs to be done to put in place mechanisms to ensure long-term value for money. The government has promised to deliver a new enforcement and regulatory regime that is both robust and fairer for farmers and land managers. But it needs to make progress on the new regime, and make clear what adopting a more 'proportionate' approach to enforcement means for its appetite for error and fraud.

Fourth, the government must be clear about the difficult trade-offs involved in making its reforms to agricultural subsidies coherent with its wider policy priorities. It has been ducking many of these issues for some time. The government still lacks a clear trade strategy and it appears that the Department for International Trade ended up gaining the upper hand over Defra in recent trade deals. Decisions on the future labour force are being taken on a year-by-year basis. Plus, the government has yet to respond to the Henry Dimbleby review on food strategy, produce a net zero strategy for agriculture and land use, and publish the follow-up to its levelling up white paper, setting out how the agenda will be delivered in rural areas. Meanwhile, the government is rethinking its approach to housing and planning reform after opposition to earlier plans.<sup>3</sup> Making progress where expected policy papers have stalled, and responding to reports that highlight tensions in the government's agenda, would be a good start.

The government must also ensure it has clear contingency plans in case things do not go according to plan.

Throughout this report, we have made recommendations that would help address these problems. Key recommendations include:

- **Defra should prioritise providing as much detail as possible to stakeholders about how the new schemes will work in practice and be explicit about how it has prioritised between competing visions of reform.**
- **Defra should set out in detail how it intends to raise ambition over time, so farmers and environmentalists understand how the new support regime will evolve.**
- **Defra should resist pressure to reduce its environmental ambitions in the face of potential opposition from some farmers, and not allow the entry-level Sustainable Farming Incentive to dominate the new regime.**

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- **Defra should set out what roles its arm's length bodies will play in all strands of the new support regime.**
  - **Defra needs a clear and realistic plan – underpinned by environmental evidence – to achieve the levels of uptake it is aiming for, and must be willing to revisit its plans if take-up falls short.**
  - **Defra should speed up the development of the new regulatory and enforcement regime.**
  - **The Treasury should maintain spending over the duration of the transition to the new regime to ensure it can be fully implemented and achieve its potential, and to provide certainty to stakeholders. But the new schemes must be subject to robust monitoring and evaluation to ensure they are on track to deliver the public goods intended.**
  - **The government should produce a land-use strategy that sets out how different government policies interact and shows how competing pressures on land use and the farming sector will be managed.**
  - **The government should also make progress on areas of its wider agenda that have stalled – which includes publishing its much-trailed 'food strategy white paper' in response to the Dimpleby review.**

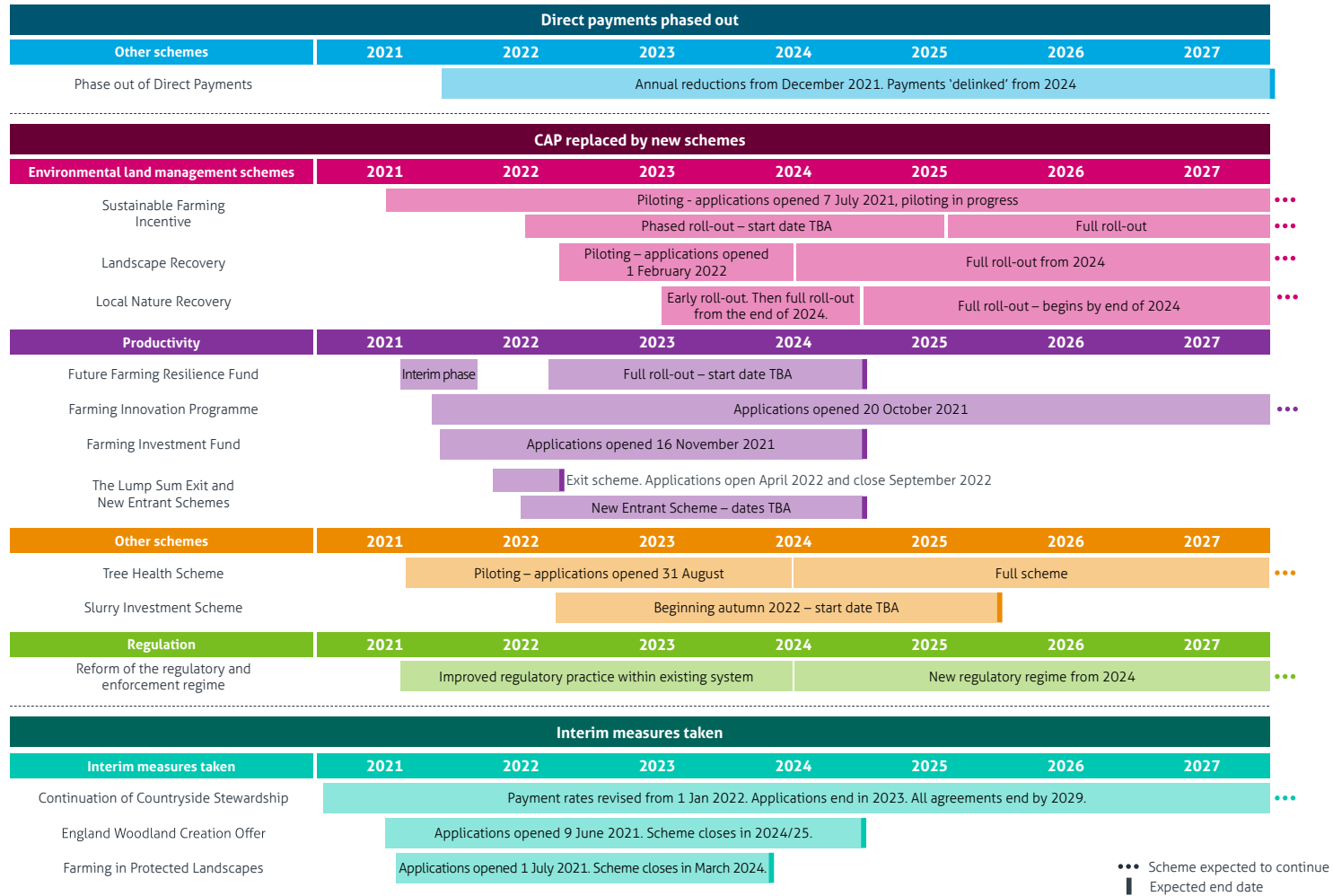
Ministers who campaigned to leave the EU rightly said that this would mean that those who made decisions would be held directly accountable for them by the British public. For the first time in five decades, UK politicians can no longer blame bureaucrats in Brussels, French protectionism or small-scale farmers in continental Europe for a wasteful and poorly designed agricultural support regime with potentially perverse outcomes. Nor can they argue that others are denying British consumers access to cheap imports or making them uncompetitive through unscientific risk aversion. They fought for control and now have it.

That means they need to show not just that Brexit can deliver the better outcomes promised for British interests – whether producers, the environment, taxpayers or consumers – but also that the government is capable of making clear decisions about the future direction of policy. This involves demonstrating that it understands, can explain and win consent for the trade-offs it is making, and put these ideas into practice.

The way in which agricultural reform is developed and implemented over the next decade will be a test of whether ministers can rise to the opportunity and responsibilities they have created for themselves.

# Annex

Figure A1 Overview of the agricultural transition period, 2021–28



Sources: Institute for Government analysis of Department for Environment, Food and Rural Affairs, 'Overview: how farming is changing', blog, Future Farming, 23 June 2021, retrieved 24 February 2022, <https://defrafarming.blog.gov.uk/2021/06/23/how-farming-is-changing> and <https://defrafarming.blog.gov.uk/wp-content/uploads/sites/246/2021/06/FiC-Ag-Show-Leaflet-Aug-21-sm.pdf>; Department for Environment, Food and Rural Affairs, 'Get ready for our 3 new environmental land management schemes', blog, Future Farming, 6 January 2022, retrieved 2 March 2022, <https://defrafarming.blog.gov.uk/2022/01/06/get-ready-for-our-3-new-environmental-land-management-schemes>

Table A1 **The Environmental Land Management Schemes (ELMS)**

ELM scheme	Aim	Eligibility	Timeline	Compatibility with farming
Sustainable Farming Incentive (SFI)	Farmers and land managers will be paid for taking actions (referred to as 'standards') above minimum legal requirements to promote wildlife diversity, use water efficiently, enhance hedgerows and manage croplands and grasslands. Within the scheme, farmers and land managers will be able to choose actions at different levels of ambition, with corresponding levels of payment.	SFI will be the most widely available strand of ELMS. It will reward actions that any farmer on any farm can take.  Initially, SFI will be open only to current Basic Payment Scheme (BPS) recipients, although this requirement will be dropped in 2024 at the earliest.	A pilot scheme launched in November 2021, with an early version of the scheme open to all eligible farmers launched in 2022.  Further iterations of the scheme – encompassing a wider range of activities – will be rolled out between 2022 and 2025.	SFI is aimed at farmers, paying for actions that relate to farming activities.  But farmers and land managers may have to adapt their farming techniques to meet the scheme's requirements.
Local Nature Recovery	Building on the existing Countryside Stewardship Scheme, farmers will be paid for actions that support nature recovery in local areas, such as creating, managing and restoring habitats, within the farmed environment.	The scheme is open to all farmers, including those also taking part in the SFI Scheme. It will primarily work through agreements with individual farms, but also with groups of farmers who co-ordinate their activities.	Early roll-out to a limited number of land managers will begin in 2023. Full roll-out to all farmers in England will begin by the end of 2024.	Some options under the Local Nature Recovery Scheme will pay for public goods that are compatible with farming activity, while others will pay for public goods not compatible with farming activity.

Landscape Recovery	Land managers will be paid for 'fundamental land-use change', such as large-scale tree planting, peatland restoration projects and rewilding. Projects will run over areas between 500 and 5,000 hectares in size and could last a couple of decades.	Given the scale of projects involved, this scheme will favour those owning large areas of land with potential for transformational change, but groups of individuals may also bring together land and develop projects collectively.  Projects will compete for funding, with Defra selecting those with the most potential.	A national pilot of up to 15 projects will commence in 2022. Applications opened in February 2022. Successful projects will begin a two-year project development phase from early 2022. The programme will be scaled up from 2024.	It is likely that the Landscape Recovery Scheme will involve significant reductions or a complete cessation of farming on the affected land.
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## Conclusion

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