BCM rural property specialists

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CLIENT BRIEFING NOTE

15 December 2020

AGRICULTURAL TRANSITION PLAN

BCM Top Tips

1. Stress test your current business for the reduction in direct payments and begin to look at how the income foregone can be replaced under the new funding schemes.

2. Review diversification opportunities on your farm that can replace some of the lost income previously coming from BPS.

3. Keep your eyes peeled for more information that will be released regarding the lump sum exit scheme and the reference period that will be used to calculate payments from 2024 until the end of BPS in 2027.

4. Start to consider the environmental assets and opportunities on your holding.

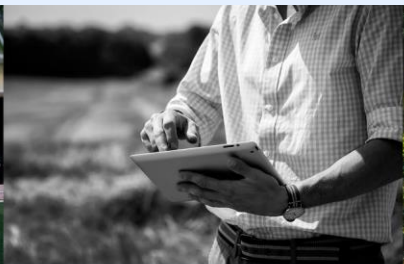
5. Consider joining your local farm cluster or similar collaborative group.

6. Apply for planning permission for your diversification projects such as glamping sites or farm shops to allow you to apply for grant funding as soon as it becomes available.

7. Ensure you understand the terms and end dates of any tenancy or contract farming agreements you are party to and start to consider how these will function with the absence of direct payments.

8. Discuss future plans with the next generation to see if you could take advantage of schemes aimed at new entrants or retiring farmers.

9. Where your land is within a National Park or AONB start to lobby your local MP, the NFU, CLA etc. to ensure that the money directed to these areas makes its way to farmers.

Overview

On the 30 November 2020 Defra published 'The Path to Sustainable Farming: An Agricultural Transition Plan 2021-2024'. The Agricultural Transition Plan (ATP) covers the period 2021 to 2027 and intends to set out how direct payments to landowners will be phased out and how agriculture will be supported through alternative channels.

The intention is that farmers will be paid to improve the environment, animal health and welfare and reduce carbon emissions. The ATP aims to set out the changes Defra intend to make and implications for farmers. Defra has stated its aims for 2028 to be as follows:

- *A renewed agricultural sector, producing healthy food for consumption at home and abroad, where farms can be profitable and economically sustainable without subsidy*
- *Farming and the countryside contributing significantly to environmental goals including addressing climate change'*

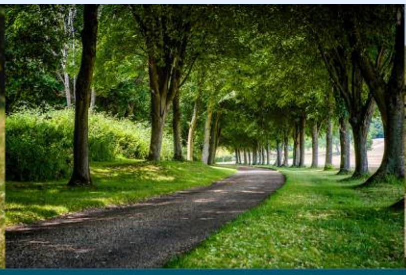
Changes

1. Reduction in BPS Payments

The ATP has reconfirmed the intention of Defra to phase out subsidy payments over the seven-year period 2021-2027. All claims will be reduced by at least 50% by 2024 with the largest claims reduced by 70%. Farmers will need to replace this income or substantially reduce costs in order to ensure longevity of their business. If you wish to understand the future income for your business from BPS, please contact us and we can provide you with this. A table showing the reductions can be found below:

Payment banding	% BPS Reduction for the band			
	2021	2022	2023	2024
Up to £30,000	5	20	35	50
£30,000-£50,000	10	25	40	55
£50,000-£150,000	20	35	50	65
Over £150,000	25	40	55	70






2. Lump Sum Exit and De-Linking of Payment Options

Defra have proposed a 'lump sum exit scheme' for farmers in lieu of the remainder of their expected direct payments during the agricultural transition period, this is likely to be offered only in 2022. This involves calculating the remaining payments due and offering this as a one-off sum.

The current intention is also that payments will be 'delinked' from land ownership from 2024 making it simpler to distribute the remaining direct payments owed from 2024 onwards. After payments are delinked in 2024 they intend to calculate the payment value, based on a currently unknown reference period and reduce payments progressively to 2028 with no requirement for the recipient to actively farm at all.

The calculations for both the lump sum payment and delinked payments from 2024 onwards are still unknown as Defra are currently consulting on the methodology for this.

3. Changes to Environmental Schemes

The current Countryside Stewardship Scheme will be open to new applicants with the final group of agreements commencing in January 2024.

Future environmental schemes will be provided under the Environmental Land Management Scheme which is intended to reward farmers that deliver against set, environmental goals. Defra aim for participation of, in excess, of 70% of farmers by the end of the transition period. The structure will be based on three offerings:

- **Sustainable Farming Incentive:** available to all farmers, paying them for actions taken to manage their land in an environmentally-sustainable way.
- **Local Nature Recovery:** will pay for actions supporting local nature recovery and deliver specific, local environmental priorities. There may be competitive elements, but it will encourage collaboration between farmers.
- **Landscape Recovery:** will support delivery of landscape and ecosystem recovery through longer-term land use change projects such as large-scale tree planting or peatland restoration. Eligibility will be project specific and projects will be required to deliver a wide range of environmental outcomes including contribution to nationally set targets. This scheme will be competitive and is particularly aimed at larger farm clusters.

4. Other Support

Support for agriculture is intended to be facilitated through a range of smaller schemes and grants including:

- A new-entrants support scheme.
- Grants aimed to improve and maintain farm productivity.
- Increased support for a professional body aimed at providing skills and training for the agricultural and horticultural industries.
- Support for those farming in 'protected landscapes' such as National Parks and AONBs during the transition period.
- Introduction of a Tree Health Pilot aimed to inform development of a new forestry grant scheme.

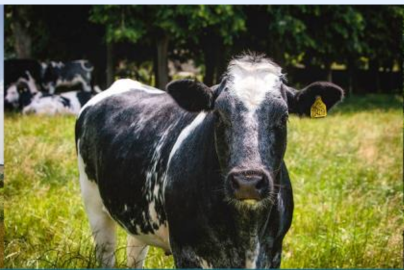
5. Implications for Farmers & Landowners

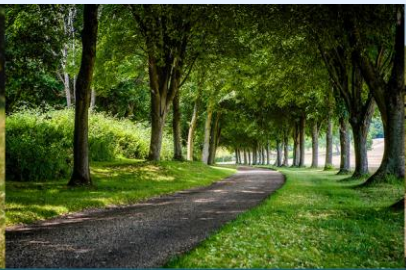
Clearly the derivation of agricultural income for most farms and estates is going to change substantially with the progressive removal of the direct payments paid under BPS. The details of the new policy, as released to date, makes it clear the saving from the reduction in direct support will be ringfenced and redeployed to fund new agricultural support schemes.

The challenge for farmers and landowners is to assess how they can alter their farming systems and management of their land to avail themselves of this extra income. This may well involve root and branch reform of their current farming structure and will need to consider other sources of funding such as biodiversity offsetting and natural capital.

The drive to diversify away from mainstream agriculture looks to continue. This has been happening for many years now, but any diversification project needs to be framed within the overarching objectives of the estate, the tax situation and requirements and demands of future generations.

The almost inevitable move of some away from directly farming their land, forced by these new announcements, may bring with it inherent risks in tax planning. Conversations around how the next generation might wish to enter the business and strategic planning for the next 10 years may need to be had sooner rather than later.





6. Issues Specific to the Transition Period

Landowners and farmers who are considering entering into new tenancy agreements will need to clearly understand the impact of the new proposals on future farm income. The new policy will require the parties to review the terms of any agreement to ensure they are forward facing and able to deal with the changes that the transition is going to bring. This will include matters such as whether tenants of land are able to engage in schemes which include items such as nature and landscape recovery.

The policy changes will also have an impact on rent reviews for existing agreements. As the payment reductions are now published, these should be considered by arbitrators when assessing the productive capacity of holdings under the Agricultural Holdings Act 1986 and it may be that as direct payments reduce this will impact rental levels accordingly.

A consideration where farmers are approaching retirement is whether they could avail themselves of the proposed 2022 exit scheme. This will need careful scrutiny, as currently proposed, the exit scheme will only apply for one year in 2022. Parties wishing to benefit from the exit scheme will need to consider whether they can fulfil the requirements of the exit and, particularly, if they are tenants will need to discuss with the landlord how their exit in 2022 would work.

Landowners and farmers who are entered into contract farming agreements will need to carefully consider whether the structure of their existing agreement is fit for purpose given the reduction in direct payments coming over the transition period. Many agreements currently in force will default to making a loss if they are not substantially altered going forward.

END

If you have any queries, please contact Hannah Rickards

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