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Progressive Reductions of Direct Payments

Below in a question and answer format is information on the Government and Defra's plans to reduce direct payments that are paid to farmers in England between 2021 and 2027. This replaces versions with an earlier date.

Terminology - We refer within this briefing to the phrases 'direct payments' and the 'Basic Payments Scheme or BPS', these mean slightly different things, which is important to note when we refer to delinked and lump sum exit payments:

- **Direct Payments** - is a form of support payment given to eligible farming businesses, in the main this is in the form of the Basic Payment Scheme (BPS) today. They were first introduced under the Common Agricultural Policy (CAP) in the mid-1990s to compensate farmers for reductions in the value of market price support that existed at the time, Arable Area Payments and Single Payment Scheme being earlier examples.
- **Basic Payment Scheme** – This is currently the main delivery model for essentially direct payments in England. It is or has been made up of 3 elements: 1) BPS payment entitlements; 2) Greening and 3) Young Farmer Scheme.

1 What are the origins to the move to reduce the level of Direct Payments made to farmers in England - In February 2018, the last Government launched its Health and Harmony consultation where it first outlined its plans to reform agricultural policy post Brexit. Within this consultation it set out via Defra to develop an agricultural policy with a clear aim of moving away from the CAP and towards a system based around paying public money for public goods. This consultation set out for the first time the proposal to remove direct payments stating '*Direct Payments are poor value for money, untargeted and can undermine farmers' ability to improve the profitability of their businesses. They have distorted land prices and rents, can stifle innovation and impede increases in productivity.*' Defra at the time gave a number of options on how to cut direct payments including progressive reductions and also asked amongst other things how long a transition should be to removing these payments. The NFU response to this consultation can be [found here](#).

2 What has been said by the Government since February 2018? - Following receipt of Health and Harmony responses, the then Government published its consultation response on 14 September 2018 and can be [found here](#). It confirmed the following: *We will phase out Direct Payments in England, giving time for farmers to adjust. We said we planned to begin the agricultural transition as soon as we are able to do so and we plan to start reducing payments in 2021. We aim to phase out Direct Payments completely by the end of the transition, with the last payments being made for the 2027 scheme year. This seven year agricultural transition will make sure there is a gradual transition from the current world to the new, avoiding a cliff-edge for businesses. It will give farmers sufficient time to adapt and prepare for the new environmental land management system which will be piloted and rolled out during the transition. The payment reductions will be applied in a fair way, with higher reductions initially applied to amounts in higher payment bands.* It went onto say that '*This method of progressive reductions balances the views of those who feel recipients of the highest payments should initially face higher reductions, with the strong calls for the reductions to be shared amongst all farmers from the start of the transition*'. Defra also set out for the first year of the transition what the maximum cuts to BPS could be, these are set out in Question 3 below.

During the following period to 30 November 2020 Defra has continued to develop this policy largely behind closed doors confirming at various points that BPS would be retained for both 2019 and 2020. Also prior to 30 November 2020, Defra issued two further official documents to inform the industry of these aforementioned policy changes including a Defra policy update document, entitled: *Farming for the future - Policy and progress update* which was published on the 25 February 2020 and can be [found here](#).

3 What did the Agricultural Transition Plan (ATP) published on the 30 November 2020 say that has given us a bit more detail? - Defra and the Government stated that whilst the ATP covers a 7 year period to 2028, the ATP document itself only covered in detail the first 4 years activity (2021-24). Defra within the ATP reaffirmed their plans to move away from direct payments over the 7 year transition period (2021-2027). Defra set out further details as follows:

- the previously published maximum rates of reduction for 2021 were to be implemented as set out below:

Payment Band	Reduction
1. Up to £30,000	5%
2. £30,000 - £50,000	10%
3. £50,000 - £150,000	20%
4. More than £150,000	25%

A worked example: For a claim worth £40,000, a 5% reduction would be applied to the first £30,000 (a reduction of £1,500) and a 10% reduction would be applied to the next £10,000 (a reduction of £1,000). So, the revised payment would be reduced by £2,500 to £37,500.

- also, confirmation for the first time of the progressive reductions for payments for the 2022 to 2024 scheme years as set out below:

Payment Band	2022	2023	2024
1. Up to £30,000	20%	35%	50%
2. £30,000 - £50,000	25%	40%	55%
3. £50,000 - £150,000	35%	50%	65%
4. More than £150,000	40%	55%	70%

- the intention to continue to make progressive reductions in direct payments beyond 2024 until the last planned year of direct payments in 2027, but these details have not been determined yet.
- confirmation that they would use the 2020 BPS financial ceiling for England as the baseline for future annual financial ceilings, which would in turn be used as the basis for calculating BPS and applying progressive reductions to direct payments. All payments from 2020 onwards are already issued in sterling but were originally based on the 2019 euro sterling exchange rate. Since the ATP was published, it has been confirmed that all references to euros will be removed from the calculation of direct payments going forward.
- progressive reductions will start to be made to direct payments in the form of BPS and then in the form of delinked payments which are planned to come into operation in 2024.

4 Will there be any more consultation on the policy of reducing direct payments and are the details now law? - It should be noted that there is no further formal consultation on the profile of progressive reductions expected, Defra say it was covered in the 2018 Health and Harmony consultation. In terms of future legislation, following the Agriculture Bill gaining Royal Assent in

November 2020 there was then the need for secondary legislation (in the form of a Statutory Instrument) to be approved by both houses of parliament before these changes can become law. These were laid before parliament in December 2020. The way the legislation is set out, a new Statutory Instrument needs to be laid each year to confirm each year's reductions. We expect legislation to be passed by early 2022 to confirm the progressive reductions in 2022.

5 Can you tell me how the progressive reduction in BPS will work in 2021? – A number of farmers have got confused with the information that has been published to date, below are the two most common issues to be aware of:

- The published progressive reduction rates apply to the post reduction value of the claim made in 2021.
- The progressive reductions work in a very similar way to how income tax is applied, except there is no personal tax allowance. The whole payment profile is impacted by one or more reduction percentages and as stated above the progressive reductions are based on the value of the claim made that year, (as illustrated in Question 7 below), but here is an example for one year: for a claim worth £40,000, a 5% reduction would be applied to the first £30,000 (a reduction of £1,500) and a 10% reduction would be applied to the next £10,000 (a reduction of £1,000). So, the revised payment would be reduced by £2,500 to £37,500.

6 Can I use a calculator I have seen promoted to work out my future payments? – You may have seen a number of tools promoted to work out progressive reductions to direct payments. However, it is important to note that we have not seen all the details of how such reductions will impact on actual BPS claims made, in particular how the transition from BPS to delinked payments will operate. The calculators generally work on the premise that the BPS claim is static from 2021 onwards. Whereas there is still the ability up to 2023 for a farmer to increase or decrease their BPS claim, this is illustrated in the Annex below. Calculators therefore have their limitations in being able to work out accurately the future direct payment value profile for a farm.

7 Can you tell me more about the issues I need to consider when working out the reduction to my current BPS payment going forward? The following elements need to be taken into account when working out future direct payment reductions:

- **Cross Border Holdings** - The progressive reductions only apply to the English claim element for a business that may also farm in another part of the UK, referred to as a cross border holding. This is because it is an English only policy. From 2021, cross border holdings will no longer be treated as one single holding for BPS. BPS applications in England, will now be treated completely separately from any other applications submitted to other UK administrations for land in another part of the UK.
- **BPS claims can flex from year to year** - Whilst we still have BPS as the direct payment delivery model (which is confirmed to 2023), farmers will still have the ability each year to flex the claim they make, for example, add to or reduce the number of claimed entitlements they are paid on. Thus, making the impact of the cuts more difficult to predict if the claimed area is likely to flex. For this reason, the progressive reduction rates for the year in question will be applied to the total value of the BPS claim for that same year. There are examples of how changes in BPS claims between 2021 and 2023 will interact with the application of progressive reductions in the Annex at the end of this Q&A.
- **Entitlement values may flex from year to year** - The value of entitlements will flex to a small degree each year until we do not have BPS. Those values will not be known until November each year whilst BPS exists, as the RPA still need to divide the total BPS ceiling between the number of entitlements in existence at that time. The variances should be minimal from now on as the number of entitlements will be more static as the 2 year entitlement usage rule has been removed.

- **Current large BPS claimants** - We have now seen the removal of the large claimant reductions that were previously applied at a rate of a 5% reduction for BPS values that totalled over €150,000.
- **After receiving a final Young Farmer Scheme Top Up Payment** - Some claimants will see a larger drop in direct payments in the coming years if they were claiming the young farmer top up payment which is only paid up until the fifth BPS claim (originally set as a 25% uplift on the average of the first 90 entitlements BPS value from 2015 to 2020, now 17.5% uplift from 2021 onwards as now based on the inflated entitlement value which includes ex greening monies), BPS 2021 will be the seventh year of BPS.
- **Progressive Reductions after all other reductions** - Progressive reductions to BPS will be made after all other penalties and other reductions have been applied to the claim, such as for late claim submission, over declaration of land or a cross compliance penalty.
- **What about exchange rates affecting the level of BPS payments** – This is no longer an issue as effectively the rate set in 2019 has been used as the basis of converting the previous euro payments into sterling for BPS 2020 and from 2021 onwards all payments will be calculated in sterling. Equally, the overall ceiling of BPS monies is expected to be the same each year, but due to progressive reductions, not all those funds will be drawn down. The monies not drawn down will be recycled to fund other schemes being developed by Defra under the ATP, such as Environmental Land Management scheme.
- **2021 Claim statement** – The claim statement received after the 2021 BPS payment is made, will be different this year. The changes made to the statement will include:
 - All figures will be shown in pounds sterling. Previously, payments were first calculated in euros, even if they were paid in pounds sterling.
 - There will be no greening section in the statement as the greening payment has been removed. The greening funds will be included in the value of BPS entitlements.
 - A table will show your BPS payment before progressive reductions are applied, and a second table will show how progressive reductions are calculated and applied to the overall payment.
- **BPS to Delinked Payments** - Defra state BPS will end as the delivery model for all farmers for direct payments in 2023, with it being replaced by the delinked payment model in 2024. Delinking will remove the requirement to follow existing BPS based rules including the need to farm. All remaining farmers will need to continue to comply with good land management and husbandry standards via a new regulatory framework that will be put in place for 2024. Progressive reductions that started to be made to direct payments in the form of BPS, will continue to be applied to direct payments made in the form of delinked payments from 2024 onwards. By 2024 Defra will have developed an approach to capture and calculate the remaining reference payment value based on a BPS reference period and which in turn will then have applied to it future progressive reductions. The reference period or mechanism and rules associated with the move from BPS to delinked payments have yet to be determined. This was covered in the Lump Sum Exit Payment and Delinked Payment consultation that ran between May and early August 2021. We are expecting a response to this consultation in January 2022. Once we have a delinked value, this will be reduced over the final 4 years of the agricultural transition period 2024 to 2027. Using the delinked approach will effectively fix the reference amount that a reduced payment is made against and that a farmer will receive for each of those remaining years. They would not be able to manipulate it, as is currently the case under the BPS delivery method. Further information on the consultation mentioned above can be [found here](#).

Lump Sum Exit Payment - This payment is currently proposed to be offered in 2022. Allowing farmers to leave the sector, a lump sum exit scheme is being proposed in place of the remainder of the direct payments due during the agricultural transition period (whether under BPS 2022 or 2023 or delinked payments 2024 to 2027). Like delinked payments, the proposed Lump Sum Exit Payments will have conditions attached to it and this as well as the calculation method used to arrive at a lump sum value are still to be determined. As mentioned above, we expect the outcome of the consultation covering the Lump Sum Exit Payment and delinked payments to be published in early 2022. There is a clear interrelationship between lump sum value and progressive reductions to direct payments set out in this briefing.

- **Eligibility for payments beyond BPS** – Finally it is important to note that Defra state ‘*To be eligible, it may be necessary to have claimed, and been eligible, under the Basic Payment Scheme in a particular scheme year or years.* We do not have many of the details on this at the moment.

8 What happens to funding released from reductions in direct payments? - Defra state that these funds will be re-invested into delivering new schemes in this current Parliament as set out in the aforementioned *The Path to Sustainable Farming: An Agricultural Transition Plan 2021 to 2024 November 2020* found [here](#). Key for the NFU is that monies taken from direct payments are used and that farmers have full access to the redistributed funds (bearing in mind that ELMs is not a replacement for BPS), and that monies are not lost to administration or are used to substitute other funding streams. Equally, that there is close monitoring of the movement of money from BPS on an annual basis throughout the transitional period to ensure spend keeps in line with reduction of BPS funds.

9 Where can I find out more from Defra on the progressive reductions to direct payments and when will more information become available? – As mentioned above progressive reductions to direct payments is set out in the document entitled: *The Path to Sustainable Farming: An Agricultural Transition Plan 2021 to 2024 November 2020* found [here](#). As mentioned above, we expect the response to the Lump Sum Exit and Delinked payment consultation to be published in January 2022.

10 Where should I get more advice from? - NFU members are advised to seek professional help when considering future business plans as a result of the progressive reductions to direct payment, this advice will need to come from a range of professionals. Defra are also offering a Future Farming Resilience Fund support package which gives free and confidential advice to farmers receiving BPS, more information on this can be found here: <https://www.nfuonline.com/cross-sector/farm-business/future-farm-support/future-farm-support-news/find-out-about-the-support-available-under-defras-future-farming-resilience-fund/>. NFU can help members in a number of ways by calling NFU CallFirst on 0370 8458458, where you will have access to advisers that could put you in contact with our expert panel of land agents or legal panel firms. More information on NFU member benefits can be found on NFU Online here: <https://www.nfuonline.com/membership/your-nfu-member-services/>.

Annex

Impact of Progressive Reductions on differing BPS Claim Value Profiles between 2021 to 2023									
Example 1 - BPS Claim static									
Year	2021			2022			2023		
Elements	Reduction Rate	Net BPS Value	Reductions	Reduction Rate	Net BPS Value	Reductions	Reduction Rate	Net BPS Value	Reductions
Value Band		51,000			51,000			51,000	
Upto £30,000	5%	30,000	1,500	20%	30,000	6,000	35%	30,000	10,500
£30,000 to £50,000	10%	20,000	2,000	25%	20,000	5,000	40%	20,000	8,000
£50,000 to £150,000	20%	1,000	200	35%	1,000	350	50%	1,000	500
More than £150,000	25%			40%			55%		
Total Reductions			3,700			11,350			19,000
Net Payment after progressive reductions			47,300			39,650			32,000
Example 2 - BPS Claim reducing									
Year	2021			2022			2023		
Elements	Reduction Rate	Net BPS Value	Reductions	Reduction Rate	Net BPS Value	Reductions	Reduction Rate	Net BPS Value	Reductions
Value Band		51,000			40,000			25,000	
Upto £30,000	5%	30,000	1,500	20%	30,000	6,000	35%	25,000	8,750
£30,000 to £50,000	10%	20,000	2,000	25%	10,000	2,500	40%		
£50,000 to £150,000	20%	1,000	200	35%			50%		
More than £150,000	25%			40%			55%		
Total Reductions			3,700			8,500			8,750
Net Payment after progressive reductions			47,300			31,500			16,250
Example 3 - BPS Claim increasing									
Year	2021			2022			2023		
Elements	Reduction Rate	Net BPS Value	Reductions	Reduction Rate	Net BPS Value	Reductions	Reduction Rate	Net BPS Value	Reductions
Value Band		51,000			55,000			65,000	
Upto £30,000	5%	30,000	1,500	20%	30,000	6,000	35%	30,000	10,500
£30,000 to £50,000	10%	20,000	2,000	25%	20,000	5,000	40%	20,000	8,000
£50,000 to £150,000	20%	1,000	200	35%	5,000	1,750	50%	15,000	7,500
More than £150,000	25%			40%			55%		
Total Reductions			3,700			12,750			26,000
Net Payment after progressive reductions			47,300			42,250			39,000
Example 4 - BPS Claim varying									
Year	2021			2022			2023		
Elements	Reduction Rate	Net BPS Value	Reductions	Reduction Rate	Net BPS Value	Reductions	Reduction Rate	Net BPS Value	Reductions
Value Band		51,000			30,000			70,000	
Upto £30,000	5%	30,000	1,500	20%	30,000	6,000	35%	30,000	10,500
£30,000 to £50,000	10%	20,000	2,000	25%			40%	20,000	8,000
£50,000 to £150,000	20%	1,000	200	35%			50%	20,000	10,000
More than £150,000	25%			40%			55%		
Total Reductions			3,700			6,000			28,500
Net Payment after progressive reductions			47,300			24,000			41,500

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