



Department
for Environment
Food & Rural Affairs

Direct Payments to farmers: Lump sum exit scheme and delinked payments in England Consultation

May 2021



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www.gov.uk/defra

Contents

Foreword	1
1. Introduction	2
2. Purpose of the consultation	3
3. The consultation process.....	4
Who will be affected by this consultation?	4
Timing and duration of this consultation	4
Responding to this consultation	4
After the consultation	5
4. Background	6
5. Consultation questions	7
About you.....	7
Lump sum exit scheme	8
Delinked payments	17
Annex A: Overview of the Basic Payment Scheme in England	21
Annex B: Progressive reductions.....	23
Annex C: Analysis of farm exits	24

Foreword

There are many things that make the farming business unique but one of the most powerful is that most farmers have an emotional connection with their land. For farmers, home is more than just the house they live in. In many cases land has been in the same family for generations. Herds of cattle or flocks of sheep have genetic lines running back generations. For all of these reasons, the decision to retire or to exit the industry can be the most difficult of decisions, and is frequently postponed.

The generational nature of farming also means that a younger generation often feels a great sense of duty to carry on the family tradition, but that might not be right for all. What of those who feel pride in what their family have achieved but actually yearn to pursue a different career? Or what of those who would like to do something different for a while, but maybe return to the family farm in later life? Often, inter-generational conversations on such dilemmas are too difficult to have.

At the other end of the spectrum are a completely different set of people. Those who yearn to go farming but cannot afford to enter the industry nor get access to land. Those who left the family farm as teenagers and saw their parents sell their land only to discover that in later life they would like to return to the countryside they miss, to do something that is fulfilling and has meaning, and for their children to have the childhood they had.

This consultation sets out to address these twin challenges. Our proposal is to offer farmers who want to exit the industry a one-off lump sum payment to surrender their BPS entitlements and then either rent out, sell their land or transfer it by gift if they are an owner occupier, or surrender their tenancy if they are on tenanted land. The amount of land we have is fixed. It is only by assisting people to exit the industry with dignity that we can help others fulfil their dream, and people at either end of this spectrum will ultimately be happier if more people manage to confront difficult decisions.

Those of us who grew up with farming know that families face these dilemmas all the time, but that too often difficult decisions are ducked rather than confronted. I do not pretend that the policy outlined in this document on the lump sum exit scheme and delinked payments will make those conversations and decisions easy, but I hope they might make such decisions easier.



**The Rt Hon George Eustice MP
Secretary of State for the Environment, Food and Rural Affairs**

1. Introduction

- 1.1 Over a 7-year agricultural transition period (2021 to 2027), we will gradually reduce and then stop untargeted Direct Payments to farmers in England. We will invest the money we free up to support agriculture in different ways. We will pay farmers to improve the environment, improve animal health and welfare and reduce carbon emissions.
- 1.2 Making the changes over a 7-year transition period will give everyone time to plan and adjust. We will be offering help to those who need it to plan and manage their businesses through the transition.
- 1.3 We published information about the changes we are making to agricultural policy in England in our Agricultural Transition Plan on 30 November 2020¹. This included information about the other schemes that will be available to farmers and land managers.
- 1.4 As part of the transition to our new agriculture policy in England we plan to:
 - in 2022, offer farmers who wish to exit the industry the option of taking a lump sum payment in place of any further Direct Payments; and
 - in 2024, ‘delink’ Direct Payments from the land for all farmers. This means that recipients will no longer have to farm the land to receive the payments.
- 1.5 We believe that offering a lump sum will help those who wish to retire or leave the industry to do so in a planned and managed way. This will make more space for the next generation of farmers, as well as providing opportunities for existing farmers who wish to expand to improve their profitability. This should help bring additional fresh thinking into the industry, helping to support an innovative and vibrant farming sector and boost overall farm productivity. The proposed lump sum exit scheme will sit alongside extra support to help new entrants into the industry, as outlined in our Agricultural Transition Plan.
- 1.6 Our plans to delink Direct Payments in 2024 will bring further simplification as we phase these payments out. When delinked payments are introduced, they will replace the current Basic Payment Scheme (BPS) for all farmers. Annex A provides an overview of BPS. By 2024, over halfway through the agricultural transition, we will have reduced the total amount we spend on Direct Payments by around 50% which will mean the rules and administration associated with BPS will be disproportionate. Once we have introduced delinked payments, recipients will no

¹ <https://www.gov.uk/government/publications/agricultural-transition-plan-2021-to-2024>

longer need to meet the current BPS rules and will not have to continue farming in order to receive these payments during the rest of the agricultural transition.

- 1.7 Delinking will have some impacts on the way we regulate agriculture. Much of our data on farmers and their land holdings comes from farmers' annual BPS applications. We use this data to support regulatory and other government activities, such as the annual June Survey of agriculture and horticulture in England². However, delinking will mean an end to the current annual BPS applications and the updated information they provide.
- 1.8 Delinking will also bring an end to the 'cross compliance' system for BPS recipients. Cross compliance is currently integral to how we regulate many of our important environmental and animal health and welfare legislative standards. We are committed to maintaining these standards, and the end of cross compliance gives us opportunities to improve how we regulate to achieve this. We will be designing these improvements in close collaboration with those affected by and interested in the way we regulate, between now and 2024.
- 1.9 The impacts of delinking on the way we regulate agriculture are not part of this consultation.

2. Purpose of the consultation

2.1 The purpose of this consultation is to seek your views on:

- the proposed lump sum exit scheme; and
- our proposed approach to delinked payments.

2.2 It seeks views on a set of questions including on:

- the eligibility criteria and aspects of how we should calculate the value of the lump sum; and
- the reference period to be used to determine eligibility for, and calculate the value of, delinked payments.

² <https://www.gov.uk/guidance/structure-of-the-agricultural-industry-survey-notes-and-guidance#june-survey-of-agriculture-and-horticulture-in-england>

3. The consultation process

Who will be affected by this consultation?

- 3.1 This consultation is directed at anyone who has an interest in the future of the agriculture sector in England. In particular, this consultation may be of interest to individuals and organisations who:
- are in receipt of payments under BPS, including those who are considering exiting the farming industry; or
 - are considering entering the farming industry during the agricultural transition; or
 - represent the interests of businesses involved in agriculture (e.g. trade associations).

Timing and duration of this consultation

- 3.2 The consultation period will commence on **19 May 2021** and will be open for a period of 12 weeks.
- 3.3 The consultation period will end at **midnight on 11 August 2021**.

Responding to this consultation

- 3.4 You can respond to this consultation online at the following link:
- <https://consult.defra.gov.uk/agricultural-policy/lump-sum-and-delinked-payments-england>
- 3.5 You can also respond by email to: DirectPaymentsConsultation@defra.gov.uk or by post to:

Direct Payments consultation,
Consultation Coordinator,
Defra,
2nd Floor, Foss House,
Kings Pool,
1-2 Peasholme Green,
York,
YO1 7PX.

After the consultation

- 3.6 After the consultation, a summary of the responses will be published on the government website at www.gov.uk/defra.
- 3.7 The summary may include a list of names of the organisations that responded but not personal names, addresses or other contact details. However, information provided in response to this consultation document, including personal information, may be published or released to other parties in accordance with the access to information regimes e.g. Environmental Information Regulations 2004, Freedom of Information Act 2000 and the Data Protection Act 2018.
- 3.8 If you want your response, including personal data, to be treated as confidential, please say so clearly in writing when you send your response to the consultation. Please explain why you need to keep the information confidential. We will take this into account if someone asks for this information. However, because of the law, we cannot promise that we will always be able to keep the information confidential. Please note that if your IT system automatically generates a confidentiality disclaimer, this will not be regarded as a confidentiality request.
- 3.9 This consultation is in line with the “Consultation Principles” as set out in the Better Regulation Executive guidance which can be found at: <https://www.gov.uk/government/publications/consultation-principles-guidance>.
- 3.10 If you have any comments or complaints about the consultation process, please email consultation.coordinator@defra.gov.uk or write to: Direct Payments consultation, Consultation Coordinator, Defra 2nd Floor, Foss House, Kings Pool, 1-2 Peasholme Green, York, YO1 7PX.

4. Background

Support for farmers remaining in the sector

- 4.1 Whilst we propose offering a lump sum for those exiting the industry (see section 5 for further information), there will be a range of other support schemes and grants available for farmers in England who wish to remain in the sector and for new entrants.
- 4.2 We intend to phase out Direct Payments in England gradually between 2021 and 2027 by applying progressive reductions (see Annex B). From 2021 we will make the money we save from Direct Payment reductions available through schemes, grants and other types of support for farmers to manage land and their businesses more sustainably. We will continue our tests and trials of the future environmental land management schemes and introduce pilots of those schemes from 2021. In March 2022, we will start to roll out the Sustainable Farming Incentive to recipients of BPS. The scheme will expand over time. It will start with a core set of sustainable farming actions, which will build gradually. We will launch the Local Nature Recovery and Landscape Recovery schemes in 2024.
- 4.3 During the agricultural transition, we will also offer grants to enable farmers, foresters, and growers to invest in equipment, technology, and infrastructure that will improve efficiency and productivity while also benefiting the climate and environment. We will also provide funding to enable the creation of more farm start-up innovation hubs to encourage council farms, cooperative and community land organisations and private and institutional landowners to provide new entrants with access to the land, infrastructure and support they need to thrive.
- 4.4 Further details are given in our Agricultural Transition Plan.

5. Consultation questions

About you

Q1. What is your name?

Q2. What is your email address?

Q3. If you are responding on behalf of an organisation, what is its name?

Q4. Would you like your consultation response to be confidential? If you select 'yes', please give your reason.

Q5. Are you responding as:

- A farmer and/or landowner
- A land agent / advisor working with BPS claimants
- A farming representative organisation
- Other stakeholder representative organisation
- Other (please specify)

Q6. If you answered 'a farmer and/or landowner' to the previous question, are you (tick all that apply):

- A BPS applicant
- A tenant
- An owner-occupier
- A landlord
- None of the above

Q7. If you farm, what size is the farm?

- Less than 25 hectares
- 25 to 50 hectares
- 50 to 100 hectares
- 100 to 200 hectares
- 200 to 400 hectares
- More than 400 hectares

Q8. What is your age?

- Up to 24
- 25 to 34
- 35 to 44
- 45 to 54

- **55 to 64**
- **65 to 74**
- **75 or over**
- **Prefer not to say**

Lump sum exit scheme

- 5.1 We plan to offer farmers (BPS applicants) in England who wish to exit the industry the option of applying for a lump sum payment in 2022. The lump sum will be in place of any further Direct Payments (whether under BPS or delinked payments) to the recipient during the remainder of the agricultural transition.
- 5.2 We do not currently intend to offer the lump sum in later years. We believe that offering the payment early in the agricultural transition, in 2022, will be better for farmers. This is because the lump sum will be larger than if it was offered later in the transition (as it will be in place of the Direct Payments remaining to be made). Offering the lump sum in 2022 should also create early opportunities for new entrants.

Why an Exit Scheme?

- 5.3 Phasing out Direct Payments and moving to our new agricultural policy will be a big change for some farmers. While supporting those who will continue to farm, we also want to support those who wish to leave and make it easier for new entrants wanting to join the industry.
- 5.4 Direct Payments hold back structural change and inflate farm rent prices³. This makes it harder for some new entrants to join the sector and for farmers who wish to expand to find land. This process of some businesses entering or expanding, with others exiting, is crucial to productivity growth across the economy, including the agriculture sector.⁴
- 5.5 The rates of business start-ups and closures for agriculture remain consistently below those for the UK economy as a whole. This means the churn of businesses

³ Defra analysis of the impacts of removing 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

⁴ There is a large and widely accepted body of evidence that ‘firm dynamics’ – the process of more productive firms gaining market share over time – play an important role in driving overall productivity growth across all sectors of the economy. This can be through entry of new firms, exit of old firms, or expansion or contraction of existing firms. The OECD has provided evidence for many years (see https://www.oecd-ilibrary.org/economics/firm-dynamics-and-productivity-growth_054842728775) that greater entry and exit is associated with greater productivity growth across the whole economy. The EBRD has also published evidence (see https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1984016) on the important link between entry and exit, and productivity growth

in the agriculture sector is limited, stifling innovation and business start-ups. The median age of farm holders in England is 60 years, and just 2% are aged under 35, highlighting the limited structural change in the sector.⁵

5.6 A common view from farmers⁶ has been that encouraging new entrants is important for the long-term success of the industry. There is also a view that some structural change could be encouraged by less productive farmers leaving the sector.

5.7 We know that some farmers who wish to retire or leave the industry can find it difficult to do so and lack of finance can be one of the barriers to exit (see Annex C). We believe that offering a lump sum payment could help such farmers. For example, they could choose to use the lump sum together with other funds (such as from sales of business assets like machinery and livestock and, for tenants, any payments they negotiate with their landlord) to contribute to the costs of moving somewhere new. It could therefore help farmers who may have spent a lifetime on the farm and are now ready for retirement. It could also help those who wish to leave farming to work in an alternative sector.

5.8 This in turn should free up land for talented new entrants and existing farmers looking to expand.

Conditions and eligibility rules

5.9 Our proposed lump sum exit scheme is aimed at those farmers who claim BPS and wish to exit the industry.

5.10 A condition of the lump sum is that all the English BPS entitlements held by the BPS applicant would be cancelled. Entitlements are what farmers use to get paid for BPS. We plan to cancel all the English entitlements the BPS applicant holds, including any they have leased-in from another farmer. Where they have leased-out English entitlements, these would be cancelled at the end of the entitlements' lease. We are not proposing to allow applicants to choose to keep some of their English entitlements and take a partial lump sum.

5.11 The farm business that takes the lump sum will not be able to claim any further Direct Payments. Where the business is a limited company, we propose that the directors will also be unable to claim future Direct Payments. Where the business is a partnership, we propose that all partners will be unable to claim future Direct

⁵ Source: The Future Farming and Environment Evidence Compendium, September 2019 - update (<https://www.gov.uk/government/publications/the-future-farming-and-environment-evidence-compendium-latest-edition>)

⁶ Source: Defra Future Farming discussion groups held with farmers in preparation for the introduction of the Agriculture Bill (45 discussion groups over 18 months).

Payments. This is because the lump sum is aimed at those who are leaving farming.

- 5.12 We also intend that if a lump sum recipient enters into certain new land management agreements (or adds land to existing agreements), such as Countryside Stewardship and the Sustainable Farming Incentive, during the remainder of the planned agricultural transition, they will have to repay the lump sum. We propose that the same condition will apply to directors of limited companies and all partners of a partnership.
- 5.13 We do not propose to prevent a lump sum recipient from working as a contractor or working for other farmers.
- 5.14 To be eligible for the lump sum payment, the farmer (BPS applicant) would have to give up their land in England. This means that:
- an owner-occupier must sell and/or rent out their land in England, and/or transfer it by gift; and
 - a tenant must surrender their tenancy for land in England. The tenancy can either be a Farm Business Tenancy under the Agricultural Tenancies Act 1995 or an Agricultural Holdings Act 1986 tenancy. The length of the tenancy does not matter.
- 5.15 In some cases, a farmer will be an owner-occupier on some land and a tenant on other land, in which case each of the above conditions would apply to the relevant land. When we publish the scheme rules, we will confirm the earliest date that farmers are allowed to sell or rent out their land, transfer it by gift or surrender their tenancy to qualify for the lump sum. See paragraphs 5.35 to 5.37 for information about the farmers taking on the land vacated by the lump sum recipient.
- 5.16 Owner-occupiers: To qualify for the lump sum, where an owner-occupier chooses to rent out their land, we propose that they must do so on a Farm Business Tenancy with a term of at least five years. We think this length of term is appropriate to provide opportunities for a new entrant or another farmer to secure a tenancy and plan for the future. Whilst short-term tenancies can be right for some farmers, we know that others welcome the security provided by a longer tenancy. We think a requirement for a minimum tenancy length of five years would help address this need.

Q9. To qualify for the lump sum, an owner-occupier who chooses to rent out their land must do so on a Farm Business Tenancy with a minimum term of five years. Do you agree? Please give reasons for your answer and if you select 'no' please explain what rules you would prefer to see instead.

- Yes
- No

5.17 Tenants: Some Agricultural Holdings Act tenancies have statutory succession rights. We propose that where a farmer with such a tenancy exits the industry and the tenancy passes to a successor, this is treated as the tenant having surrendered their tenancy for the purposes of them qualifying for the lump sum. We think this could help encourage generational change.

Q10. Where a tenant passes on an Agricultural Holdings Act tenancy to a successor, this should be treated as them having met the requirement to have surrendered their tenancy. Do you agree? Please give reasons for your answer.

- Yes
- No

5.18 Some farmers who wish to stop farming may want to stay in the farmhouse. This could include cases where a tenant surrenders their tenancy but negotiates with their landlord to stay in the farmhouse. It may therefore be appropriate to design the rules for the lump sum exit scheme to allow them to do this, to keep any commercial property and non-agricultural land they may have and to keep a small amount of their agricultural land. We do not propose to apply any restrictions over what they do with this land.

Q11. Should a successful applicant be allowed to keep their residential or commercial property, non-agricultural land, and up to 5% or 5 hectares, whichever is the smallest, of their agricultural land in England? Please give reasons for your answer.

- Yes
- No

5.19 The lump sum exit scheme is designed to help farmers who wish to leave farming. We do not think it would be appropriate to offer the lump sum to those who have only recently entered farming. To prevent recent entrants from receiving the lump sum, we propose that applicants to the exit scheme must have first claimed Direct Payments in 2015 (i.e. in the first year of BPS) or earlier. Using a year earlier than 2015 would increase the likelihood that the Rural Payments Agency would need to cross-check data from schemes prior to BPS, which would complicate the checking process.

5.20 We propose having an exemption from this requirement for farmers who have inherited a farm, or succeeded to an Agricultural Holdings Act tenancy, after 2015. This is because we recognise that there may be cases where a farmer has inherited a farm but may not wish to farm long-term. A lump sum payment may help these farmers exit the industry smoothly, making way for others who wish to take on the land.

Q12. Should it be a requirement to have first claimed Direct Payments in 2015 or earlier to qualify for the lump sum? Please give reasons for your answer.

- Yes
- No

Q13. If you answered ‘yes’ to the previous question, should there be an exemption from this requirement for farmers who have inherited a farm, or succeeded to an Agricultural Holdings Act tenancy, after 2015? Please give reasons for your answer.

- Yes
- No

5.21 We know that it can take time for a tenant to negotiate a surrender or succession of their tenancy with their landlord or apply to the First-Tier Tribunal (Property Chamber) for succession to be approved and for owner-occupiers to sell their land. We aim to provide the key rules of the lump sum exit scheme by the end of October 2021, in advance of the introduction of the scheme in 2022. This should help farmers with succession planning and to begin to make decisions about whether they wish to apply for the lump sum to help them exit the industry. We will not require the farmer to have completed the transfer of their land or tenancy, or to have confirmed their take-up of the exit scheme, at the time they apply for the lump sum.

Q14. How long, from the publication of the scheme rules, should an applicant be given to transfer their land? Please give reasons for your answer.

- 1 year
- 18 months
- 2 years
- Other

5.22 Farmers can currently claim BPS for their use of common land or area of shared grazing, based on the rights that they hold. Different rules apply to the New Forest⁷. In some cases, owners of common land or shared grazing can use it to claim BPS. Farmers who use common land to claim BPS, and who wish to claim the lump sum, would have to give up their rights of common (as well as meeting the other rules of the scheme). By this we mean they would have to sell their rights of common and/or lease them out for a minimum of five years and/or transfer them by gift. Where the rights are attached to the land, the rights and land would need to be

⁷ How we allocate common land in the New Forest for the purposes of the Basic Payment Scheme was subject to a consultation which closed on 3 February 2021. That consultation and the Government’s response can be found at <https://www.gov.uk/government/publications/new-forest-consultation-november-2020>.

transferred together. Where a farmer has leased-in rights of common, they would need to surrender this lease.

5.23 If the rules of the lump sum exit scheme allow a farmer to keep a small amount of land (see question 11), we propose that this would also apply where rights are attached to that land.

Q15. To claim the lump sum, should farmers who use common land to claim BPS have to give up their rights of common as proposed? Please give reasons for your answer and if you select 'no' please explain what rules you would prefer to see instead.

- Yes
- No

Q16. Are there any circumstances in which lump sum recipients should be allowed to retain their agricultural land (above the small amount that may be allowed – see question 11), such as if they enter the land into a scheme for woodland creation or landscape restoration? Please give reasons for your answer and if you select 'yes', please provide details.

- Yes
- No

Q17. Do you have any other comments on the proposed conditions and eligibility rules for the lump sum exit scheme?

Calculation of the lump sum payment

5.24 We expect to be able to fund all the eligible applications that we receive.

5.25 We plan to calculate the value of the lump sum based on the BPS payments made to the applicant (in relation to their English entitlements) in a specified reference period. To do this, we will calculate a 'reference amount' for each potential recipient of the lump sum, based on that reference period. (See paragraphs 5.31 to 5.33 for information about the reference period).

5.26 The lump sum payment will be calculated as 2.35 times the reference amount, with a proposed payment cap (see paragraph 5.34 for information about the payment cap).

$\text{Lump sum reference amount (£)} \times 2.35 = \text{lump sum (£)}, \text{ subject to a proposed cap}$

For example, if the farmer's reference amount is £40,000, the lump sum would be £40,000 x 2.35 = £94,000.

- 5.27 Using the 2.35 figure means that (except for farmers affected by the proposed payment cap) the lump sum will be approximately equivalent to the amount the farmer could have received in Direct Payments for 2022 to 2027 as they are phased out over the remaining years of the planned agricultural transition⁸. This takes account of the announced progressive reductions for 2022 to 2024 and continued gradual reductions until the end of 2027 (see Annex B).
- 5.28 The lump sum will be in place of payments for BPS 2022 and any Direct Payments for future years.
- 5.29 We are aware that the tax treatment of lump sums, as well as delinked payments, is an important issue for many farmers. We are discussing this with HMRC and guidance about the tax treatment will be provided in due course.
- 5.30 As is the case with BPS, there will be no rules about what the lump sum can be spent on.

Reference Period:

- 5.31 To calculate the lump sum reference amount, we plan to use the value of BPS payments made to the farmer in relation to their English entitlements before any penalties or progressive reductions (where applicable) were applied. The reference period could, for example, be a single year or could be the average of a number of years. Using a single year would be simpler for the Rural Payments Agency to administer but could disadvantage those farmers who had a smaller BPS payment than usual in that year. Using an average of a number of years should avoid any such potential disadvantage. For this reason, we consider that using an average over a specified number of years would be the fairest approach.
- 5.32 We propose using a three-year average based on the 2018, 2019 and 2020 BPS scheme years. Using these three years should give the Rural Payments Agency time to calculate the reference amounts ahead of the lump sum application period. If earlier years are chosen (i.e. before 2018), the number of business changes occurring between the reference period and introduction of the exit scheme would be greater, making the administration of the lump sum exit scheme more complex.
- 5.33 We plan to apply a percentage reduction to the lump sum payment if the farmer transfers out entitlements after the reference period if this results in a significant overall decrease in the entitlements they hold. The percentage reduction will be proportionate to the decrease in the farmer's entitlements. These rules are needed

⁸ A 3.5% discount has been applied to reflect the benefits of receiving the money up-front rather than over the rest of the agricultural transition, and an adjustment made for forecast inflation, in line with Treasury's Green Book (https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/938046/The_Green_Book_2020.pdf).

to avoid us paying twice, both under the lump sum exit scheme and BPS where future payments may still be claimed by another farmer against the transferred entitlements. We will decide the detailed rules after this consultation.

Q18. What reference period should the lump sum payment be based on? Please give reasons for your answer.

- **The average of the 2018 to 2020 BPS scheme years**
- **The 2020 BPS scheme year**
- **Other. (Please state your preferred reference period).**

Payment cap:

5.34 To ensure value for money, we consider that a payment cap should be applied to higher-value lump sums. We propose a payment cap of £100,000. Farmers who have a reference amount of around £42,500 or less would not be affected by the cap⁹. £42,500 is well above the average (the mean) BPS payment value of £21,375¹⁰ so most farmers would not be affected.

Q19. What cap should be applied to the recipient's lump sum payment? Please give reasons for your answer.

- **No cap**
- **£100,000**
- **Other. (Please state your preferred cap level).**

The farmers taking on the land vacated by the lump sum recipient

5.35 Where a new entrant takes over land from a farmer leaving the industry under the lump sum exit scheme, the new entrant could choose to buy or lease BPS entitlements from another farmer. They could then use that land to claim BPS payment (while BPS continues to run) using these entitlements. Similarly, an existing farmer who takes over land from a lump sum recipient can use that land to claim BPS if they (the existing farmer) have sufficient entitlements or buy or lease some.

5.36 Under current BPS rules, new and young farmers can apply for free BPS entitlements from the BPS national reserve. As we are phasing out Direct Payments, we intend from the 2022 BPS scheme year to stop issuing free entitlements to new and young farmers in relation to land, or commons rights, they have recently taken on.

⁹ £42,553 reference amount x 2.35 = £100,000 lump sum.

¹⁰ Source: Rural Payments Agency BPS 2019 data.

5.37 The farmer taking on the land from the lump sum recipient will be able to apply for other payments available under our new schemes, including our environmental land management schemes, as they are rolled out over the agricultural transition.

Business change

5.38 It is likely there will be a variety of changes to farm businesses (such as businesses splitting and merging and changes to share farming agreements and partnerships) which will happen after the start of the reference period. We will work with stakeholders to develop rules and guidance on how each type of business change will be treated for the purposes of calculating the lump sum payment.

5.39 We intend to put measures in place to prevent the lump sum being paid in cases where farmers have made artificial changes to their business to claim payment (such as splitting their business for the purposes of trying to maximise their lump sum payment).

Further information

5.40 We expect the application period for the lump sum exit scheme to be in the first half of 2022. We aim to provide information about the expected timing of payments, along with the key scheme rules, by the end of October 2021.

Q20. Based on the information you've read on the lump sum exit scheme, do you think this would encourage farmers to take a payment and exit the industry? Please give reasons for your answer and any supporting evidence you have.

- **Yes, many farmers**
- **Yes, a small number of farmers**
- **No, very limited interest**
- **We should not encourage exits**

Q21. Is extra professional advice and guidance needed to help a farmer decide whether to participate in the scheme? Please give reasons for your answer.

- **Yes**
- **No**

Q22. Which groups do you think are likely to benefit from the lump sum exit scheme? Please tick all that apply and give reasons for your answer.

- **Farmer exiting the industry**
- **New entrant entering the industry**
- **Existing farmer expanding business onto vacated land**
- **Other (please specify)**

Delinked payments

5.41 We intend to introduce delinked payments in 2024. Once we have introduced delinked payments, recipients will not be required to continue farming in order to receive payments in each of the remaining years of the agricultural transition. There will be no need to have land or payment entitlements. Instead, we will make payments based on a reference period (see paragraphs 5.55 to 5.57). When delinked payments are introduced, they will replace the current BPS in its entirety (including the young farmer payment) for all farmers for the remaining years of the agricultural transition. Delinking will not be optional for farmers.

Why are we introducing delinked payments?

5.42 Responses to our 2018 ‘Health and Harmony’ consultation on our future agriculture policy¹¹ showed a strong desire to simplify the current Direct Payment scheme. We made some simplifications to the 2020 BPS scheme, such as simplifying the penalties in cases where farmers make a small overclaim of land. As outlined in our Agricultural Transition Plan, we have made further simplifications for 2021, such as removing the ineffective greening rules. This removes some of the bureaucracy for farmers.

5.43 As we phase the payments out over the agricultural transition, we want to simplify them further. Replacing BPS with delinked payments in 2024 will deliver significant further simplification for both farmers and the Rural Payments Agency. This will free up farmers to focus on running their business and delivering the public goods that can be rewarded under our new schemes, including the environmental land management schemes. Meanwhile, by 2024, our approach to regulation of farmers will be modernised and improved and will no longer depend on cross compliance.

5.44 The introduction of delinked payments should also help to further speed up restructuring of the farming industry. As payments will no longer be based on land area, each recipient will be free to make decisions which are right for their business and their own circumstances. Some may decide to downsize or leave farming altogether. This could create further opportunities for businesses to expand or diversify and for new entrants to join the industry, on top of the opportunities created by the lump sum exit scheme proposed for 2022.

5.45 It is possible rents could fall as Direct Payments are phased out. This is because there is evidence that some of the BPS payment is indirectly paid to the landowner through increased rent prices, rather than kept by the tenant. Delinking payments, which removes the link between the value of the payment and area of land for which it was previously claimed, could speed up this adjustment in rent prices.

¹¹ Health and Harmony: the future for food, farming and the environment in a Green Brexit - February 2018.

Eligibility rules

5.46 Eligibility for delinked payments will be based on a reference period (see paragraphs 5.55 to 5.57). We propose that it will be necessary to still be farming at the end of the reference period, and in 2023 if the reference period is earlier than this.

Tenants:

5.47 Where land is let to a tenant, it is the tenant and not the landlord who is eligible to use it to claim under BPS. Tenants who received a BPS payment during the reference period, and who still farm at the end of the reference period, should be eligible to receive a delinked payment.

New entrants:

5.48 New entrants who enter farming after the reference period will not be eligible for delinked payments. However, during the early years of the agricultural transition we will provide funding to create more lasting opportunities for new entrants to access land, infrastructure and support to establish successful and innovative businesses working with Council Farms and other landowners. This should help them get a foothold in the industry. New entrants will be able to apply for other payments through our new schemes, including our environmental land management schemes, as well as grants to help them to sustainably increase their productivity through on-farm investments.

Calculation of the delinked payments

5.49 We plan to calculate the value of the delinked payment for each year from 2024 to 2027 based on the BPS payments made to the applicant (in relation to their English entitlements) in a reference period.

5.50 To do this, we will calculate a 'reference amount' for each potential recipient of delinked payments, based on a reference period. This reference amount will be used to calculate the delinked payment each year (2024-2027). Progressive reductions will be applied to the payments as they are phased out over the remainder of the agricultural transition. This means the value of the delinked payment each year will be less than the reference amount.

5.51 The delinked payment will be calculated each year as follows:

$\text{Delinked reference amount (£)} \times \text{progressive reductions for that year} = \text{delinked payment (£)}$

For example, if the farmer's reference amount is £40,000, the progressive reductions for 2024 (see Annex B) will be used to calculate the 2024 delinked payment. This means a 50% reduction would be applied to the first £30,000 (a

reduction of £15,000) and a 55% reduction would be applied to the next £10,000 (a reduction of £5,500). So, the delinked payment for 2024 would be £19,500. We intend to apply different progressive reductions for years 2025 to 2027 as we continue to gradually phase the payments out.

- 5.52 The delinked payments will not be affected if the farmer expands or reduces their farm size after the reference period. The farmer must not have stopped farming before 2024.
- 5.53 Receiving a delinked payment will not disqualify the recipient from applying for payment under our new schemes, including our environmental land management schemes.
- 5.54 Guidance about the tax treatment of delinked payments will be provided in due course.

Reference period:

- 5.55 To calculate the delinked reference amount we plan to use the value of BPS payments made to the farmer in relation to their English entitlements, before any penalties or progressive reductions (where applicable) were applied. The reference period could, for example, be a single year or could be the average of a number of years. Using a single year would be simpler for the Rural Payments Agency to administer but could disadvantage those farmers who had a smaller BPS payment than usual in that year. Using an average of a number of years would avoid any such potential disadvantage. For this reason, we consider that using an average over a specified number of years would be appropriate.
- 5.56 Using the same reference period as for lump sums (which we currently propose to be the average of the 2018, 2019 and 2020 BPS scheme years), could make it simpler for the Rural Payments Agency to calculate the reference amounts. However, a longer reference period which includes years closer to the year of delinking would mean the reference amount would take account of more recent changes made to the size of the farm business. It would also reduce the amount of business change occurring between the reference period and introduction of delinked payments.
- 5.57 Having a reference period which does not go beyond the 2022 scheme year should give the Rural Payments Agency time to calculate the reference amounts ahead of the introduction of delinked payments.

Q23: What reference period should the delinked payment be based on? Please give reasons for your answer.

- **The average of the 2018 to 2020 BPS scheme years**
- **The average of the 2018 to 2022 BPS scheme years**
- **The 2022 BPS scheme year**
- **Other. (Please state your preferred reference period).**

Q24: Do you have any other comments on the proposed eligibility rules for delinked payments?

Business change

5.58 As with the lump sum exit scheme, it is likely there will be a variety of changes to farm businesses which will happen after the start of the reference period. We will work with stakeholders to develop rules and guidance on how each type of business change will be treated for the purposes of calculating the delinked payment.

5.59 We intend to put measures in place to prevent delinked payments being paid in cases where farmers have made artificial changes to their business to claim payment.

Further information

5.60 Following this consultation, we will confirm the reference period that will be used to calculate the delinked payments. We will tell farmers their reference amount before we start making delinked payments in 2024.

Annex A: Overview of the Basic Payment Scheme in England

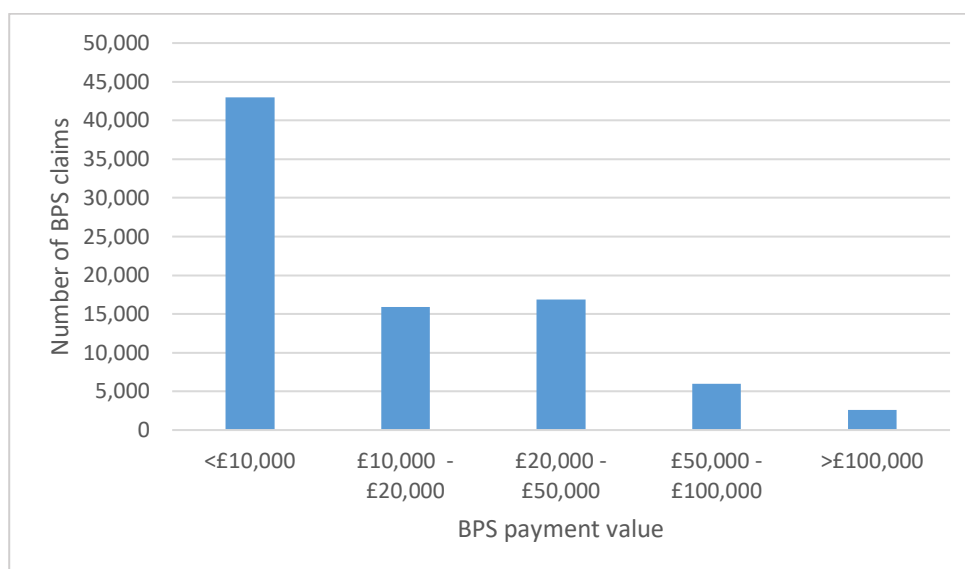
In England, the Basic Payment Scheme (BPS) is the largest of the rural grants and payments made to farmers. It was introduced in 2015 under the Common Agricultural Policy and, since the UK left the EU in January 2020, has been run as a domestic scheme.

It is an area-based annual payment scheme. The largest farms therefore typically receive the largest payments. Farmers apply once a year - between March and May - and the payment window runs from December to the following June. BPS in England is operated by the Rural Payments Agency.

In England, BPS payments are currently worth around £1.8 billion each year. The Rural Payments Agency received 85,147 applications from farmers for the 2020 BPS scheme.

For the 2019 scheme (the most recent year for which full payment data is available) the distribution of payments, by size of payment, was as shown in the table below. Nearly 43,000 BPS 2019 claims (around 50% of claims) were worth less than £10,000.

Figure 1: Number of BPS 2019 claims by payment value



Eligibility

To qualify for BPS applicants must be a 'farmer'. They must produce, rear or grow agricultural products, or keep some land in a state suitable for grazing or cultivation.

Farmers use 'entitlements' to receive payments under BPS. One hectare of eligible land is needed to claim payment for each entitlement. Farmers must have this land 'at their disposal' on 15 May of the scheme year. Where land is let to a tenant (under a Farm

Business Tenancy or an Agricultural Holdings Act 1986 tenancy), it is the tenant who has it at their disposal.

Payment regions

Entitlements and land in England are divided into 3 payment regions:

- Non-Severely Disadvantaged Area (non-SDA)
- Severely Disadvantaged Area (SDA)
- SDA Moorland

Entitlements in the SDA moorland region have a lower value than the other regions. Entitlements within each region have the same value. It is possible to transfer entitlements (either by lease or sale) to another farmer on the open market.

The young farmer payment

Young farmers who apply for BPS can apply for a top-up payment for a maximum of five years (while BPS continues to run). They must be no more than 40 years old when they first apply for BPS.

Greening rules

In previous years, around 30% of a farmer's Direct Payment was made conditional on them meeting so-called 'greening' rules, which were intended to benefit the environment but delivered little in practice. We announced in July 2020 that we will remove the greening rules for the 2021 scheme year onwards. The greening money will instead be added to farmers' BPS entitlements.

Penalties

If farmers don't meet the scheme rules, the Rural Payments Agency can reduce their payments and apply penalties. This includes penalties for claiming on more land than meets the scheme rules and for late applications.

Cross Compliance

Farmers can also face reductions to their payments if they do not meet the cross compliance rules. These rules require farmers to meet minimum standards on the environment, animal and plant health and animal welfare.

Further information about the Basic Payment Scheme

More detailed information about BPS can be found in the BPS guidance for 2021¹².

¹² <https://www.gov.uk/guidance/basic-payment-scheme-rules-for-2021>

Annex B: Progressive reductions

We will apply reductions to farmers' Direct Payments in England to gradually phase them out over the agricultural transition. We will begin to apply reductions for the 2021 BPS scheme year. Higher reductions will initially be applied to amounts in higher payment bands. This is designed to help farmers manage the transition as smoothly as possible.

We intend to apply the following reductions to payments for the 2021 to 2024 scheme years:

Payment Band	2021 scheme year	2022 scheme year	2023 scheme year	2024 scheme year
£30,000.00 or less	5%	20%	35%	50%
above £30,000.00 and no more than £50,000.00	10%	25%	40%	55%
above £50,000.00 and no more than £150,000.00	20%	35%	50%	65%
above £150,000.00	25%	40%	55%	70%

For example, for the 2021 scheme year, for a claim worth £40,000 in 2021, a 5% reduction will be applied to the first £30,000 (a reduction of £1,500) and a 10% reduction will be applied to the next £10,000 (a reduction of £1,000). So, the revised payment will be reduced by £2,500 to £37,500.

While we continue to run BPS (2021 to 2023), the claim value will depend on the number of entitlements, with eligible hectares, claimed in the relevant scheme year and on whether the young farmer payment has been claimed. The progressive reduction percentages will be applied to the total claim value (after any reductions or penalties). The BPS guidance for 2021¹³ gives more information about how the BPS payment will be calculated.

For years 2024-2027 we plan to replace BPS with delinked payments. Progressive reductions will be applied to the reference amount for delinked payments (see paragraph 5.50 for information about this reference amount). We intend to continue to make gradual reductions to the payments in the later years of the agricultural transition, with the last payments made for the 2027 scheme year.

¹³ <https://www.gov.uk/guidance/basic-payment-scheme-rules-for-2021>

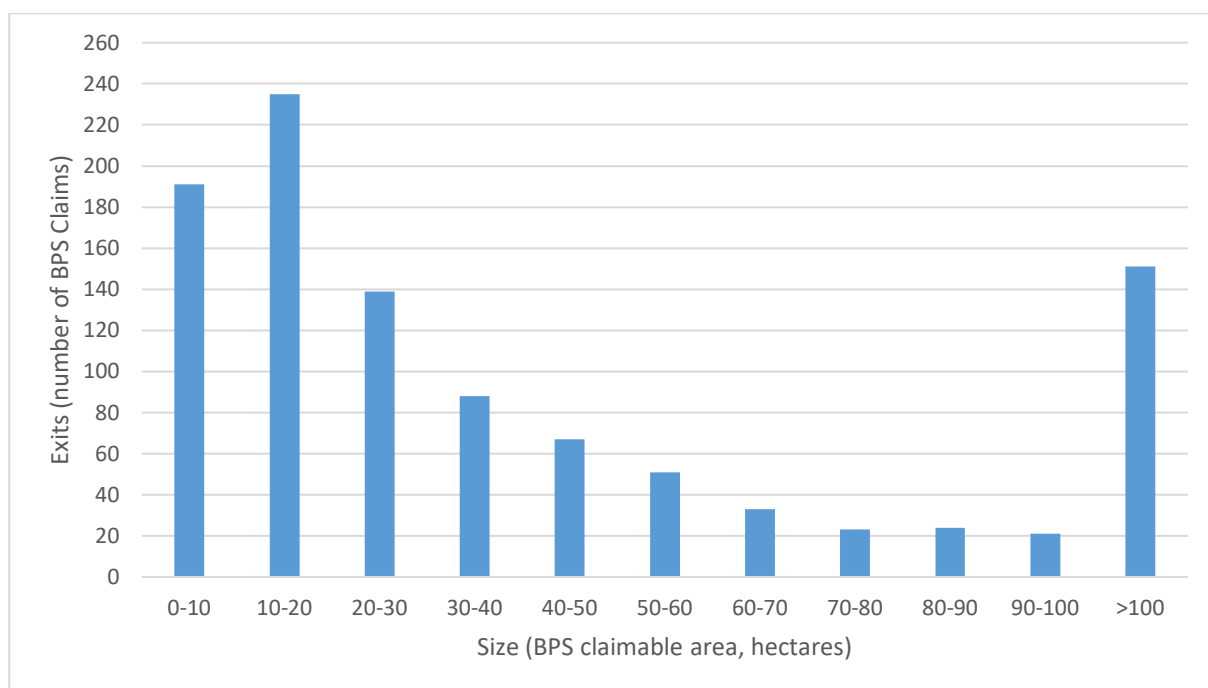
Annex C: Analysis of farm exits

How many BPS claimants exit each year?

According to data from the Rural Payments Agency, in 2020 around 1,000 BPS claimants in England (around 1% of BPS claimants) can be assumed to have exited the industry¹⁴.

Claimants who exit the sector tend to be those claiming on smaller areas. The chart below shows the farm size (based on BPS claimable area) for those farmers who submitted a BPS 2019 application but did not submit one for BPS 2020. The highest number of exits is for BPS claims of 10-20 hectares.

Figure 2: Farm exits by BPS claimable area



How many farmers want to leave farming?

When we undertook a survey¹⁵ with around 1,000 farmers as part of planning for the Agriculture Bill, we found most (71%) said their future was within farming. 12% said they planned to leave within 5 years and 6% wanted to leave but felt they were not able to do so at that time.

¹⁴ Source: Rural Payments Agency's BPS data, 2019 and 2020. Where farmers transferred out 90% or more of their land they were assumed to have exited farming.

¹⁵ Defra e-survey with 1,053 farmers conducted in spring 2018 on the future of farming.

Of those who said they wanted to leave within 5 years, three quarters said it was a planned succession or retirement plan and a quarter said it was earlier than planned due to other reasons. Of those who said they wanted to leave but couldn't, financial reasons were the main barrier. For both groups, succession planning was likely to be the main enabler, followed by financial assistance and then advice.

What motivates farmers to exit?

When it comes to decisions to leave the industry, there are a range of reasons for leaving and some barriers. Whatever the motivation, a planned exit has better outcomes than an unplanned exit, such as bank foreclosure.

In the 2018 Defra e-survey, farmers gave several reasons for leaving (in addition to planned retirement or taking a step back from day-to-day management as a result of succession). These included poor profitability, poor physical health and seeking opportunities outside farming.

What are the barriers to exit?

Succession planning is a key factor in any farm business where the most common option is passing the farm on to family members. Those who farm without family support or have no succession option tend to stay in farming longer as there are limited avenues to pass on the farm business. Farmers with children and/or partners living on the farm have an increased possibility of succession, allowing the farmer a gradual path to retirement. However, succession is not always smooth as family-run businesses have personal relationships at their core which can sometimes lead to inter-generational disagreements, including reservations about the direction a successor will take the farm in. This can contribute to farmers staying in farming longer than they would want to.

There are other factors that mean opportunities for planned exits are not always adequately available. Farmers understandably want to maintain close ties with their communities. However, some evidence suggests there can be a lack of affordable and suitable housing in the local area for farmers wishing to exit the industry, in particular for tenant farmers. This can become an obstacle to exiting.

There are also financial barriers to exiting. It is often difficult for farmers to generate capital to leave, particularly as funds are often tied up within the farming business. Looking specifically at retirement, a lack of pension provision can cause difficulties when considering exiting, with farmers often preferring to invest their capital back into the farm rather than making pension contributions. There might also be limited employment opportunities for those wishing to leave farming but not retire.

Financial issues are important, but it is also important to consider personal and emotional factors. Many farmers enjoy the lifestyle of farming, with work and family life interwoven as well as having an attachment to their home, which may have been in the family for generations. It is complex ending a lifetime's work. Plans need to be put in place for

livestock and crops, as well as staff. Leaving farming can be a tough decision as many farmers are emotionally attached to their farm and are anxious about severing ties with their business.