1 Strengthening farmers' finances to reward their stewardship of the natural world

GOAL ONE

Increase the scope, ambition, and financial return available to farmers under the Environmental Land Management schemes (ELMs)

POLICY RECOMMENDATIONS

- Restore the annual ELMs budget in real terms to £2.8 billion, and, at the very least, index the budget to increases in inflation in the next parliament.
- Any underspend of the ELMs budget should also be secured and used to support sustainable farming, such as additional SFI options for livestock farmers or incentives for the take-up of low-carbon fertiliser.
- Create more market-based payment rates for ELMs, reflective of the demand from farmers and our environmental needs, with higher payments for environmentally important but undersubscribed options.
- Appoint and fund regional and local farm champions to support farmers to understand and access ELMs.
- Review how ELMs deliver the Environment Act and net zero targets, including whether payment rates and the ambition of the schemes are helping to meet these targets.
- Target ELMs funding using the Land Use Framework to safeguard food production and maximise environmental benefits.
- Introduce new options under SFI, funded by the wind down of direct payments, to support livestock farmers to adopt more sustainable practices. These could include conversion of land back to hay meadows, mob grazing , and feed additives to reduce methane emissions.

Brexit has provided a once-in-a-generation opportunity to reform farm payments. The new ELMs are based on the principle of "public money for public goods" and are replacing EU-derived subsidy schemes.

ELMs will deliver much greater value for taxpayers' money and create a new revenue stream for farmers to complement the money they receive for food production. ELMs will also tackle long-term threats to our food security by encouraging more sustainable farming practices and improving key assets for food production, like soil health and water quality.

All of ELMs' more environmentally ambitious programmes are oversubscribed, demonstrating the appetite among farmers to both conserve our natural world and diversify their income.

However, farmers currently lack the certainty they need about the government's financial commitment to ELMs beyond the next election. As a result of inflationary pressures over the course of this parliament, the ELMs budget has fallen in real terms. This has a detrimental impact on farmers transitioning to more regenerative practices, given the associated upfront costs and income volatility during that period. To ensure farmers have the confidence to adopt regenerative practices and engage with ELMs, and to help close some of the funding gap to achieve our biodiversity goals, the government should, at the very least, increase the current ELMs budget in line with inflation over the last four years and index the future budget in line with future rises in inflation. Consumer price inflation ran at an average of 4.18 percent from December 2019 to October 2023.[5] The £2.4 billion annual budget should therefore increase by at least £400 million to restore its original value. Without this support, some farmers may decide not to take up ELMs.

Given the important role farmers will play in the transition to net zero and restoring our natural world, Defra should also secure any underspend of the ELMs budget and ensure this is used for its original purpose. This could be substantial for farmers. In the 2021-22 financial year, Defra reported an underspend in the ELMs budget of around £106 million.[6] The government's announcement of fifty new ELMs options and an average uplift of ten percent in the value of payment rates, together with improved uptake of the schemes available, will help to alleviate some of this underspend. While the government is right to build contingency into the farming budget for faster-than-anticipated scheme uptake, it is important that the government meets its commitment for this parliament. Any underspend should be used to support the early adoption of the measures proposed elsewhere in this plan, such as additional options in the Sustainable Farming Incentive (SFI) for hay meadows, mob grazing, and the use of low-carbon fertilisers.

The purpose of ELMs is to pay farmers for delivering a service. Since it is not a subsidy, but a market payment, it is appropriate that farmers are incentivised accordingly. Rather than flat payment rates dictated from Whitehall, therefore, Defra should regularly review payment rates. In the first instance, payment rates should reflect both the demand for and environmental benefit of different SFI and Countryside Stewardship (CS) options - with those with the lowest sign-up rates and greater environmental benefits having their payment rates increased to boost uptake. This will ensure farmers receive a fair return for their stewardship of the natural environment and that we incentivise the most effective forms of environmental action.

To ensure farmers have the confidence to engage with ELMs, adopt more sustainable practices, and meet Defra's target of 70 percent of farmers signing up to SFI by 2028, farmers need greater access to advice on how to access the opportunities available. Ministers should appoint regional and local farm champions to provide peer-to-peer advice and training on sustainable, profitable farm practices. Demonstration farms could also be accredited to train the next generation of farmers. The Farming and Wildlife Advisory Group Association, which provides independent advice to farmers on environmental issues, is a good model for this.

In addition to reviewing payment rates based on uptake and attractiveness to farmers, ministers should also regularly audit progress towards the targets set out in the Environmental Improvement Plan and publish the results. This will enable farmers to see the value of their contribution to the recovery of our natural environment and the public to retain confidence in this government spending. Achieving high levels of uptake of the schemes is essential for its success. At the same time, however, the environmental change that ELMs incentivise must be sufficient to halt nature's decline by 2030. The linkage between the ELMs and the legally binding targets is important for ensuring the longevity of their funding settlement.

We should also be more strategic about the areas targeted under these schemes. Defra's long awaited Land Use Framework, for example, should identify the most productive land available for food production and, conversely, the least productive areas where the food production impact of nature restoration programmes would be smaller. The National Food Strategy found that the least productive 20 percent of our land produces just 3 percent of our calorific intake.[7] Whilst all farms should be encouraged to adopt more nature-friendly practices, and while decisions about land use rightly lie with the farmer, by focusing the government's nature recovery incentives on our least productive land, we can minimise the impact on our food security.

There are fewer options available for livestock farmers under SFI, despite their potential to make a very significant contribution to delivery of public goods on their land. To rectify this, new options under SFI should be introduced to improve the sustainability of their practice. Incentives could target the conversion of fields back to hay meadows to support farmland birds, greater uptake of mob grazing to improve soil health, and the use of feed additives to reduce methane emissions.

GOAL TWO

Provide investors and land managers with the confidence to engage with new private markets in environmental services

POLICY RECOMMENDATIONS

- **Accelerate plans to develop the necessary regulation and accreditation for markets in environmental services, like carbon offsets.**
- **Consolidate existing tools to calculate on-farm carbon and biodiversity under a single government-backed standard to allow farmers to benchmark carbon and biodiversity on their land.**
- **Abolish Inheritance Tax on farmland which is delivering benefits for nature as part of the Environmental Land Management schemes or private nature markets, to equalise the treatment with land used to grow crops and rear animals.**

Taxpayers' hard-earned money is not the only means of incentivising work to conserve our natural inheritance. ELMs are also designed to spark the creation of new markets in natural capital, widening the opportunities for farmers to diversify their income and unlocking more funding for farmers.

The independent Joint Nature Conservation Committee estimates that just 0.031 percent of the UK's gross domestic product is spent on protecting or improving biodiversity.[8] Furthermore, in a 2021 report, the Green Finance Institute estimated that the gap between spending already committed for nature-related outcomes and the figure needed for those outcomes to be achieved could be as high as £97 billion over the next decade.[9] Given the scale of this gap and the strain on public finances, we must unlock more private investment for nature. In doing so, we can crowd more money into the agricultural sector and open up new commercial opportunities for farmers. The government's Green Finance Strategy includes a target of raising £500 million every year in private capital for nature's recovery in England by 2027, rising to £1 billion per year by 2030.[10] Much of this money is set to go directly into farmers' pockets to reward their work to restore our natural environment, and could represent a significant opportunity for them to earn more in addition to the revenue they receive for food production.

In March 2023, the government published its first report on the progress of natural capital markets in the UK.[11] The report noted that farmers and investors have so far held back because they lack regulatory certainty. Uncertainty about nutrient neutrality regulations, for instance, has damaged market confidence. To boost confidence in investing, the government should accelerate plans for new standards in natural capital, confirm guidance on the stacking of credits to ensure that multiple environmental benefits can be delivered on the same parcels of land, and specify how private revenue streams for nature could be blended with ELMs money. For centuries, the City of London has been at the forefront of financial innovation. It is time for the UK to lead the world's emerging markets in natural capital trading.

We also need to establish a clearer baseline for farmers and land managers to work from. The market already features a range of tools that allow farmers to calculate the carbon locked in, and on, their land, as well as its biodiversity. Many work on differing metrics and little guidance is available to farmers on which is most appropriate for their land or the most environmentally rigorous. To provide farmers with the confidence to engage in new carbon offsetting and biodiversity projects and strengthen their hand in negotiating fairer deals, Defra should consolidate these tools under a set of government-backed standards. To encourage innovation, these standards should be flexible enough to be inclusive of different offsetting tools provided that they meet rigorous criteria.

At the same time as creating new mechanisms to encourage the restoration of our natural world, we also need to remove the barriers which prevent landowners from taking action. Agricultural Property Relief (APR) was created in 1984 to help protect farm businesses from being broken up due to Inheritance Tax and to enable farms to be passed down the generations. The relief only applies to 'agricultural' land. Since some farmland which enters into ELMs may undergo substantial land use change, there is a risk that some farm businesses could lose their APR as a result.

The government should equalise the treatment of productive farmers with those who have land in recognised nature restoration programmes - whether ELMs or private nature markets - to remove the perverse incentive to avoid entering into agri-environment schemes. Inheritance Tax is forecast to raise more than £7 billion for the Treasury in 2023-24.[12] Existing APR reduces the Treasury's income by around £340 million per year, so the cost of this exemption is unlikely to be material.[13] The Treasury has already consulted on this measure and should confirm the change at the next fiscal event.[14]