



ENVIRONMENT AND LAND USE

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REFERENCE

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PHASING OUT OF THE BASIC PAYMENT SCHEME (ENGLAND ONLY)



1. INTRODUCTION

The Basic Payment Scheme (BPS) has been the foundation of agricultural support through the EU Common Agricultural Policy (CAP) since 2015 when it replaced the Single Payment Scheme. Across England it accounted for 87% of the total CAP budget, with the remaining funding going towards Agri-environment schemes and the Rural Development Programme that included grants for new infrastructure and equipment.

The introduction of the Agriculture Act in 2020, set the scene for a new agricultural policy that shifted the focus away from direct payments towards 'payments for public goods. The public goods that were identified included biodiversity, clean air and water, soil health, climate mitigation and public access. The Act set out the timetable for a phased reduction of Basic Payment Scheme over 7 years starting in 2021.

The reductions in Basic Payment Scheme payments will affect all current recipients. The payment cuts between 2021 and 2024 are banded, and work in a similar way to income tax bands (See table below), so those with highest payments will have the highest cuts.

The total funding going into the agriculture sector from government is expected to stay the same until the end of this parliament. Money that is taken away from BPS recipients will be recycled into different schemes that will benefit the industry such as grants for equipment, technology and infrastructure, funding for advice and the new Environmental Land Management schemes.

This Guidance Note sets out the detail of the phasing out of Basic Payment Scheme, some analysis of what this might mean for different farming businesses and advice on next steps.

2. ANNUAL CUTS THE BASIC PAYMENT SCHEME

The Basic Payment Scheme (BPS) in England will be phased out over seven years from 2021 to 2027. Annual reductions will be applied to the total BPS payment (including any young farmer payment) a farmer would have been due in that year. An annual application for BPS will still be required until 2024, after which Defra intends to 'delink' the payments, where future payments will be calculated based on a reference year and no annual applications will be needed.

BPS payments will be reduced progressively – this means that the cuts will depend on the amount in each band, with higher cuts for higher bands.

Table 1 Defra progressive cuts in Basic Payment Scheme from 2021 to 2024

Payment banding	BPS cut for that portion			
	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%

Source: Adapted from Defra

Typically, this will result in reductions by 2024 of around 50% for the majority of recipients and increasing to over 60% for the largest recipients.

Table 2 Example of cuts on Basic Payment Scheme payments from 2021 to 2024

Payment value before cuts	2021 payment	% cut	2022 payment	% cut	2023 payment	% cut	2024 payment	% cut
£5,000	£4,750	5%	£4,000	20%	£3,250	35%	£2,500	50%
£10,000	£9,500	5%	£8,000	20%	£6,500	35%	£5,000	50%
£20,000	£19,000	5%	£16,000	20%	£13,000	35%	£10,000	50%
£40,000	£37,500	6%	£31,500	21%	£25,500	36%	£19,500	51%
£80,000	£70,500	12%	£58,500	27%	£46,500	42%	£34,500	57%
£160,000	£134,000	16%	£110,000	31%	£86,000	45%	£62,000	61%

Analysis by Defra in their [Evidence Compendium](#) from 2019 indicated that:

- On average Basic Payment Scheme made up 10% of revenues across all farm types but rose to 23% for grazing livestock farms. This translates on average to 58% of profits across all farm types, and over 80% for grazing livestock and mixed farms.
- Only 25% of farming enterprises are profitable without the Basic Payment Scheme.
- Two thirds of farming businesses had some form of diversification accounting for about 30% of profit.

The changes in direct payments will clearly have an impact on many businesses unless action is taken to mitigate the impacts.

3. CLA ADVICE

It is crucial to understand the changes in basic payment scheme and how it will affect your business cashflow and profitability.

Use the online calculator to see future payments: The Rural Payments Agency has developed an [online calculator](#) that you can use to identify the cuts in 2021, 2022, 2023 and 2024. It is simple to use with just your current Basic Payment Scheme figure required to produce an indicative statement of the percentage cuts, the value of the cuts, and estimated payments after the reduction for each of the years.

- The actual cuts will be based on your annual claim made each year up to 2024.
- These figures can be used in your cashflow, with payments usually paid from December of the year of claiming.
- The calculator only goes up to 2024, but it is expected that the payments will continue to taper until no further payments after 2027.

Use these figures in business plans for future years: A forward business plan will be important to assess the impact on the business profitability, and to evaluate any planned changes needed in the business. You can do this yourself using a range of tools available online. The CLA has a handbook available to members at a discounted price, [HB CLA73 A guide to developing a business plan](#), or seek some professional advice.

- Defra is currently funding business advice through the **Future Farm Resilience Fund** which may be a useful starting point. The current programme closes in March 2022 but will be opened again later in 2022. Details can be found in the CLA Guidance Note or on the [Defra website](#).

Investigate options to mitigate the impacts of BPS removal: There will be few businesses that will not be affected by the phasing out of the Basic Payment Scheme. Every farm is different, so there is no one solution. Some may find that simple changes are all that is required, while for others, more fundamental changes will be needed. We would recommend you:

- Review input and overhead costs and make savings where possible.
- Identify opportunities for collaboration, such as machinery and labour sharing or contract farming.
- Undertake a review of farm enterprises and farming systems – increasing profitability doesn't always come from doing more but can come from doing less with lower costs.
- Consider new market opportunities in farming and the environment.
- Review the new government schemes that are in place to support the agricultural transition. These include the Sustainable Farming Incentive, which is being introduced from 2022, the Farming Investment Fund which provides grants for investment in infrastructure and new equipment, and funding for business support. There is also the continuation of current schemes such as Countryside Stewardship and the new English Woodland Creation Offer available until the ELM schemes for Local Nature Recovery and Landscape Recovery are available in 2024.
- Consider diversification, or even off farm work.
- Review the lump sum exit scheme if you are thinking of leaving farming.

The CLA has resources available to help, including the Rural Asset Management plan template available at <https://www.cla.org.uk/rural-asset-management-ram-plans#>. The CLA regional and national advisory team are here to help you understand the changes, and how they will affect your business and will sign-post you to more detailed information and advice.

4.FURTHER INFORMATION

The Defra Future Farming and Countryside Programme has a number of other schemes to support agricultural productivity, animal health and welfare, and environmental land management. These schemes are summarised in the CLA Guidance Note Overview of Future Farming and Countryside Programme schemes. There are individual CLA Guidance notes for many of the schemes that each provide key information and advice on whether and how to apply.

If you have any questions, please contact your regional office or the national team. If you wish to keep up to date with changes in Defra Future Farming Program, please register for their email blog [here](#).

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