

HORIZON



Assessing the impact
of the Sustainable
Farming Incentive on
farm businesses

SUMMARY

Farmers in England are experiencing what is probably the most rapid period of change that any of us have known since accession to the EU back in 1973. With the removal of Direct Payments and the phasing in of the Environmental Land Management Scheme (ELMS), farm businesses will need to change and adapt to ensure they can benefit financially from the environmentally positive actions they take, while ensuring any actions are right for the business as a whole.

AHDB is committed to ensure that our levy payers have up-to-date information regarding policy changes, and that they fully understand the implications of those policy changes for their farm businesses.

In 2021 we commissioned Harper Adams University to work with us to examine attitudes towards the Sustainable Farming Incentive (SFI) on farms in England, as well as its potential impact. The SFI pilot began towards the end of 2021 and has eight standards which farmers could apply on their farms. The wider rollout of the SFI is due to begin in summer 2022 and will initially consist of three standards, two of which are available in the pilot scheme.

This work is made up of two parts:

1. Discover farmers' attitudes and perceptions: whether they are likely to participate in the SFI, and how they feel about the agricultural transition
2. Measure likely economic impact on farm businesses by carrying out modelling using AHDB virtual farms

Farmers' attitudes and perceptions

We asked 34 farmers what the key drivers were that determined whether they are likely to participate in the SFI, as well as their attitude to the agricultural transition more widely. We explored whether they had examined what the impact of the removal of direct payments will have on their farm business and what plan, if any, they had made to mitigate this loss of income.

The findings from farmer interviews

The key findings from this work are as follows:

1. Farmers vary considerably in level of preparedness for the loss of Direct Payments: just over half of those interviewed have made plans.
2. Of farmers that had made plans, diversification was the most favoured strategy. Other plans included entering new environmental schemes, working out how their Direct Payments will reduce, scaling production either up or down and improving efficiency.
3. Many farmers were unsure what impact the policy change would have on their business. This may have been exacerbated by strong market prices last year masking the first staged reduction in Direct Payments.
4. For those farmers not participating in the SFI pilot scheme the main barriers to entry were cited as:
 - Not seeing the standards fitting in with their current systems
 - The process being too burdensome
 - There is too much uncertainty to consider the SFI in its current form
5. For those who did participate, financial incentives (namely, the one-off £5,000 learning payment) were the key driver for farmers choosing to engage.

1. Most participating farmers chose standards that they were already meeting on-farm.
2. Farmers who applied to take part in the pilot were split on whether the current payment rates would be enough for them to continue participating, with most being uncertain how much the costs incurred for participating would be.

Economic impact on farm businesses

We looked at the financial side, using AHDB virtual farms to model likely outcomes. The virtual farms have been created as middle 50% performing businesses. This means that physical performance is comparable to national or regional averages. A summary of the virtual farms used in this analysis is provided below:

1. Arable farm (1,325 ha), East of England
2. Arable farm (375 ha), South West England
3. Arable farm (455 ha), East of England
4. Mixed farm (220 ha), Yorkshire and the Humber
5. Beef & sheep farm (150 ha), South West England

We have used these to calculate the effect on farm business income for participating in both the SFI pilot and SFI 2022. To calculate this, we included:

- Defra's latest SFI pilot payment rates
- Defra's latest SFI 2022 payment rates
- Basic Payment Scheme (BPS) support reductions over the time period
- Output and key cost prices
- Income foregone, e.g. to land taken out of production

For the SFI pilot, the standards examined in the analysis were:

- Arable & horticultural land
- Arable & horticultural soils
- Hedgerows
- Improved grassland
- Improved grassland soils

For SFI 2022, the standards examined were:

- Arable & horticultural soils
- Improved grassland soils

We applied the payment rates and the details of each standard so far announced by Defra for both the pilot scheme and for SFI 2022 to our virtual farms, in order to assess the impact on the bottom line for businesses. Farmers cannot assume the payments will be an automatic addition to their farm businesses as there are costs involved.

Each standard will require a specific action – for instance assessing initial soil health or establishing a cover crop – and the costs incurred need to be taken into consideration. After factoring in the costs involved, we calculated the net payments (i.e. payment less cash cost of participating) for all of the standards investigated. Figures 1 and 2 show the gross and net payment rates for the introductory level of the two soils standards available for SFI 2022.

Figure 1. Gross and net payment rates for SFI 2022 arable and horticultural soils standard (introductory)

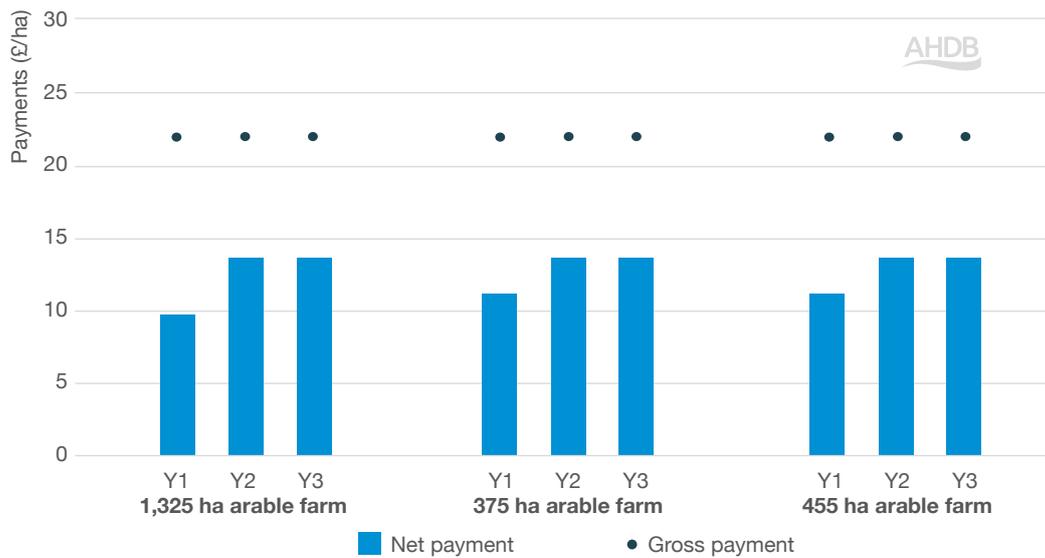
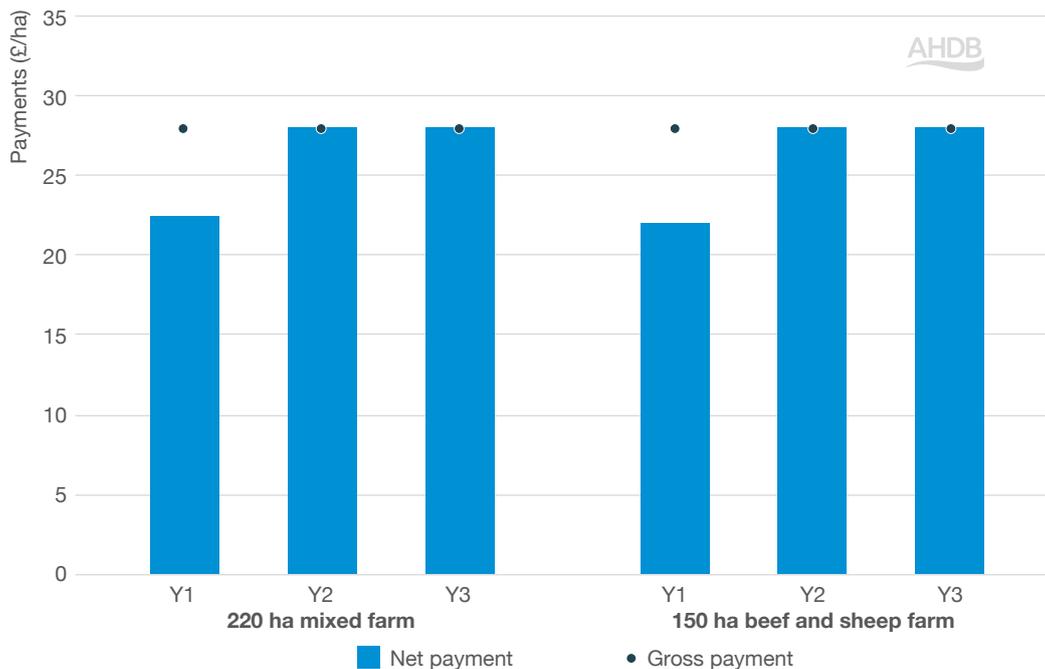


Figure 2. Gross and net payment rates for SFI 2022 improved grassland soils standard (introductory level)



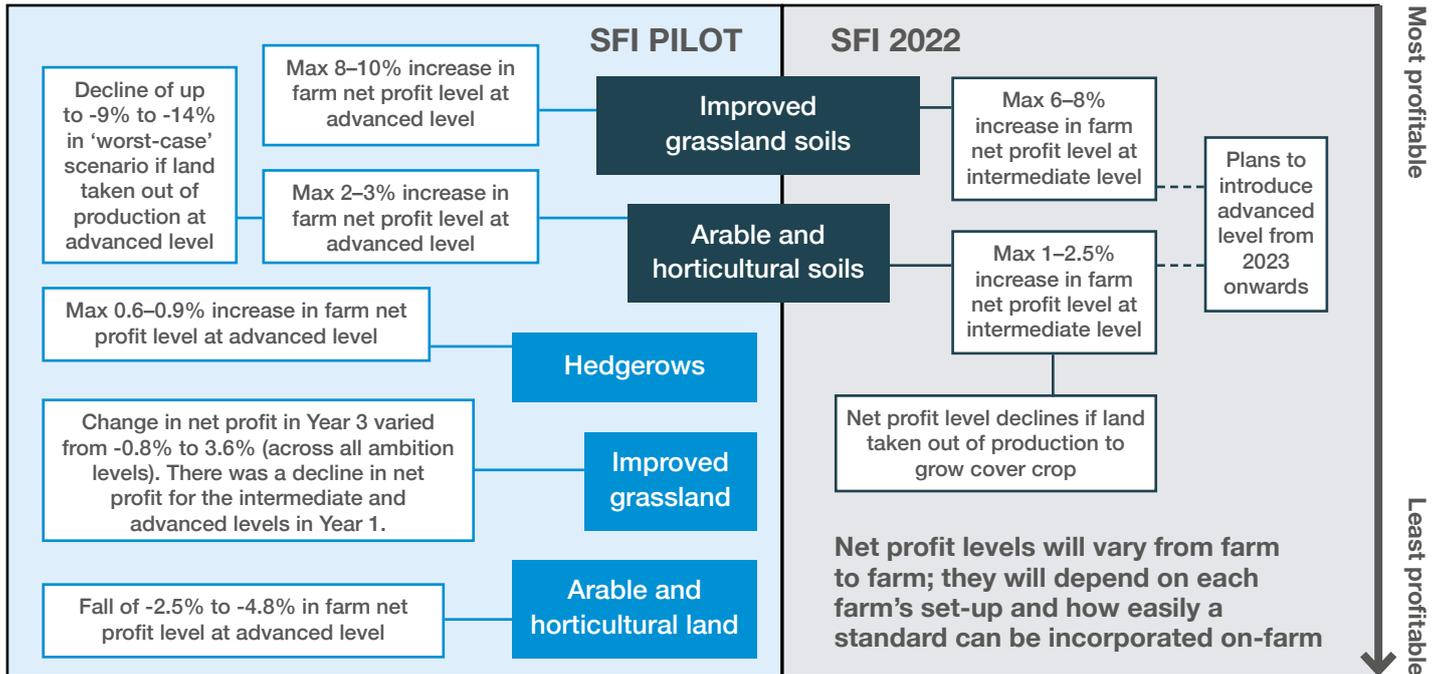
The net payments were then incorporated into the virtual farms' accounts to see what effect of taking part in the SFI had on the farms' net profit (difference between the total revenue of the business and total costs.)

Key findings from AHDB virtual farms

While the net payments for most of the standards in the SFI standards examined were positive, the overall impact on the farms' net profit levels was negative once land taken out of production was considered.

Figure 3 illustrates the headline effect of carrying out the five SFI standards examined in this analysis on the net profit levels of the AHDB virtual farms.

Figure 3. Outcomes of carrying out the five SFI standards on net profits of the AHDB virtual farms



Note: Changes in net profit levels shown refer to the third and final year of the scheme.

Out of the five standards considered the ‘improved grassland soils’ followed by ‘arable & horticultural soils’ standards had the most positive effect on the virtual farms’ net profit levels. This is encouraging given that these standards will be available in the wider rollout of the SFI.

Our analysis shows that it is unlikely to be financially beneficial to farmers to participate in certain standards unless they are already undertaking at least some of the actions required.

The net effect of participation will vary greatly between individual farms. The schemes will be most attractive for those who are already experienced at delivering environmental goods and who are already undertaking many of the tasks outlined in the SFI. We conclude that farmers would benefit from treating environmental outputs like any other agricultural output within their businesses. If they became a top performer in terms of the efficiency with which they can produce these public goods, they will benefit the most from the current and future schemes. The SFI will not replace direct payments, even for those most efficient at producing environmental goods, so it is important that farmers consider the SFI within a wider review of their business in order to ensure they mitigate the loss of direct payments and remain profitable throughout the agricultural transition period and beyond

Conclusions

Key messages for both the pilot and SFI 2022 are:

- If farmers are already carrying out actions on-farm which are required under the SFI, it is beneficial to join the scheme because they will receive extra income
- If farmers are not carrying out the actions required but their farm set-up will allow them to do so with little additional cost, it is beneficial to join the scheme
- For farmers where this is less apparent, it is worthwhile to carry out the calculations for their own farms to see if taking part in the scheme will be worthwhile for them

Our analysis shows there is no generic answer, because each farm and each business is unique. Farmers will need to do what is best for them. For this, they need to be well-informed.

Download the full report:

Assessing the impact of the Sustainable Farming Incentive on farm businesses:
ahdb.org.uk/assessing-the-impact-of-the-sustainable-farming-incentive-on-farm-businesses

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