SUSTAINABLE
SOILS
ALLIANCE

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The Sustainable Farming Incentive: Will it deliver for soils?

Briefing Note

In March 2021, Defra announced the pilot scheme for its Sustainable Farming Incentive (England), one of three new schemes that will help the country transition from direct payments and pave the way to the introduction of Environmental Land Management in 2024.

Under the scheme, there will be an initial set of eight Standards in the pilot which farmers can choose from, including two that are specific to soils - *Arable and Horticultural soils* and *Improved Grassland soils*.

Public funding for soil protection and improvement is an untested concept, so many aspects of the scheme will be experimental. If soils are to remain central to the Sustainable Farming Incentive (SFI), and Environmental Land Management (ELM) when it follows, the standards must work – and be seen to work – for three stakeholders in particular.

1. **Farmers,** for whom investment in the SFI must justify the manpower and land area committed (as if it was any other crop decision),
2. **The Treasury** who will be committing the funds for this and ultimately ELM, and will need to see a demonstrable ROI, and finally,
3. **The Environment** – or more specifically the suite of 'Public Goods' that were identified by the Agriculture Act, and which well-managed soils can deliver.

Defra made it clear that the March proposal was a high-level summary only. A full description of where and how Standards can be applied, further detail on actions, and how success will be gauged, is due in June 2021. We hope that, as part of this process, the following areas will be addressed:

1. <u>Payment rates:</u> Defra have provided a summary of actions and payments for each standard, and according to three levels for participants to choose from – introductory, intermediate and advanced. For arable and horticultural soils this means a range of £30-59/ha.

   These figures have been reached on the basis of the 'income foregone plus costs model', an approach that has been criticised for being too rigid, for failing to reflect different farming types and most importantly for being too low to incentivise lasting management change.

   Income forgone plus costs also doesn't reflect the value of the Public Goods the Standards are designed to deliver – in terms of natural capital benefits or asset decline. By way of context, degraded soils cost the economy an estimated £1.2-1.4bn pa (England and Wales). Will this be factored into the calculation? What about third-party valuations of soil's importance? Water companies use data about the value that healthy soils deliver for filtration, storage and regulation to justify investing in upstream ecosystem services. Soil carbon offsets are retailing at between £10-£20 in the voluntary market.

   Defra has emphasised that these payments are *a starting position only, and updated rates will be developed next year*. These rates need to reflect both a) real-life costs on farm and b) the societal value of the outcome. Concrete figures are increasingly available for these and need to be somehow factored into the ultimate payment calculation.

2. <u>Private sector:</u> The growing market for ecosystem services delivered by soil carbon increases also needs to be factored into the payments equation, and Defra has indicated it will consider how the scheme might extend to *people receiving payments under a private arrangement, such as carbon trading or biodiversity net gain credits.*

   The SFI has potential unintended consequences for the private market which need to be addressed including the payments price-point, the scheme structure and even the language use, especially if Defra envisages a 'stacked' approach whereby private investment can supplement public funds.

   An example of the issues at stake is additionality. Many carbon traders will only pay for activities that would not happen without the (e.g. offsets) funding they are providing. If a farmer thinks that the SFI will disqualify them from (more lucrative) private investment, they might be reluctant to engage.

   The technical and legal issues at stake will be a work in progress (both the SFI and the soil carbon market place are at conceptual stage), however a clear statement of intent from the government about their vision for soil carbon would provide peace of mind for all sides that the two funding streams can exist in harmony.

3. <u>Prescriptiveness:</u> To be a success for soil health, the scheme needs to deliver both small, gradual improvements across a large area, and targeted improvements in areas where degradation – and potentially the cost of intervention is greatest.

   To embrace both outcomes, as well as the inherent variability from differences in climate, soil types, crops etc., flexibility is needed. However, there are concerns that the scheme, and in particular the 3 tiers, are too rigid. For example, the 'stacking' of the different interventions will deter some farmers, who might want to apply for *Advanced* Level payments, but have an issue with some of the *Intermediate* conditions. Similarly, all fields will have to be entered into the scheme at the same level – even if they have varying degrees of degradation.

   It is also noteworthy that arable and horticultural soils have been bundled together given that the scale, economics and practicalities of these two farming types vary greatly.

   There is also the issue of regional variability – especially where climate is concerned. Imposing practises in one part of the country might have unintended consequences elsewhere – especially when it comes to erosion prevention, and the respective requirements of the (dry) south-east, and the (wet) south-west.

   To overcome this, the scheme might consider a less prescriptive approach. One suggested option is a suite of core, baseline obligations, alongside optional practices that can be added for additional payments. The rate of payment might also be tailored to reflect different variables, outcomes etc.

4. <u>Results/outcomes:</u> Defra emphasise that the scheme will motivate outcomes and improvements, rather than penalising shortcomings. Further detail about specific actions, or how outcomes will be measured will be published in June.

   The challenge, as ever, will be a scheme that is clear, understandable and practical for farmers (delivery and measurement). It also needs to be robust enough to justify government investment and generate figures that can be incorporated into nationwide reporting – especially when it comes to carbon sequestration.

   According to Defra *Our understanding of how much carbon the new schemes might save will deepen as they develop, but it is expected to be significant.* And yet there is no reference to routine soil measurement and monitoring within the Standards.

Defra is in the process of establishing metrics that will feed into its reporting progress against the target of sustainably managed soils embedded in the 25 Year Plan for the Environment – starting with soil structure, incorporating soil organic matter (SOM) and biology. Soil organic matter is the universal indicator of soil health, and (thanks to net zero) critical for engaging non-farmer stakeholders. SOM measurement needs to be embedded within the Standards.

5. Regulations: Defra are quick to emphasise that none of the Standards would pay for things that are minimum expectations required by law - so it is noteworthy that the wording in the Standards is so close to the conditions of the 8 Farming Rules for Water:

Rule 6 of the 8 Farming Rules for Water (Reasonable precautions to prevent soil erosion).	*Arable and horticultural soils standard Introductory level (£30 per hectare.*
You must take all reasonable precautions to prevent significant soil erosion and runoff from: Land management and cultivation practices (such as seed-beds, tramlines, rows, beds, stubbles – including harvested land with haulm – polytunnels and irrigation); Creating farm tracks or gateways (etc.).	Protect your soil from runoff, erosion and flooding and help increase crop yields by taking measures to maintain soil structure and avoid or alleviate soil compaction.

As currently written, the scheme confuses regulatory compliance and Standards eligibility. This makes the regulatory elements hard to enforce and may deter farmers who aren't sure whether they are in a position to participate. It also places a question mark against the role of the Environment Agency (EA) who might find themselves giving mixed messages to land managers where the lines are blurred.

The lack of a clear, universal definition of many of the critical terms is a common problem throughout the SFI proposal.

Defra promises further guidance on elements of the scheme *e.g. how to identify grassland types (improved, or low and no input), how to develop management plans, and how to carry out soil assessments.* This process needs to be extensive, and address some fairly rudimentary terms. For example, the scheme promises payments for additional actions in specific circumstances, but these require definition, 'areas of high run-off/erosion flooding risk' etc.

To clarify the situation, the scheme might distinguish between practices relating to soil damage (specifically erosion) which should only be covered by regulation and continue to be policed by the EA, while soil health and improvement (e.g. carbon) should be eligible for incentivisation and therefore fall under the remit of the SFI. This has the benefit of simplicity, however knowledge of the rules is very low and Defra may see the SFI as an opportunity to kickstart greater awareness with a view to raising the bar once the scheme is up and running.