

The Single Farm Payment

General

The price support aspects of the CAP have been very substantially modified and reduced over the last 15 years. The various direct payments have now been almost entirely capped and consolidated under the Single Farm Payment Scheme.

On 1 January 2005, the Single Farm Payment Scheme (SFPS) took effect under the Common Agricultural Policy (CAP) reforms. The SFPS is a decoupled subsidy scheme with no requirement to keep livestock or grow crops. For some producers the SFPS is the only source of subsidy income. For those farming in less favoured areas certain other schemes continue to exist.

The scheme replaced existing livestock and crop payments and broke the link between production and support. Instead, farmers are obliged to demonstrate that they are keeping their land in good agricultural and environmental condition (GAEC) and comply with requirements in relation to the environment, public and plant health, animal health and welfare. The details of the scheme are set out and described in the Single Payment Scheme Handbook for England, which is available on the DEFRA website.

For the purpose of the SFPS, the United Kingdom is divided into four regions, namely England, Northern Ireland, Wales and Scotland. England is divided into a further three areas, namely disadvantaged areas, moorland and the rest.

Qualifying for the SFP

Farmers who were carrying out an agricultural activity when the scheme commenced in 2005 were entitled to apply to establish entitlements for eligible agricultural areas on their holdings. These entitlements could be activated in 2005 and then for every year as long as the scheme continues to generate a support payment. For each entitlement activated, a farmer must have at his disposal an equivalent area, usually

1 hectare of eligible agricultural land and must satisfy cross compliance conditions on all the agricultural area of their holdings.

To claim under the SFPS, the applicant must be a “farmer”. This means a natural or legal person who exercises an agricultural activity. An “agricultural activity” means producing, growing or rearing agricultural products including, harvesting crops, keeping animals for milking breeding or other farming purposes, or maintaining land in GAEC. Therefore, there is no requirement to undertake any production in order to be regarded as a farmer for the purposes of the scheme. The SFPS payment entitlement could be established on a once off basis in 2005 and is not available to new entrants. SFPS payments are capable of being purchase and sold.

Eligible land under the SFPS is any agricultural area of holding taken up by arable land or permanent pasture. Land in the following uses is not eligible; permanent crops such as Christmas trees; use for pre-production; forest; non-agricultural use and non grazeable pasturage. Permanent crops are non-rotational crops, that have occupied land for more than 5 years and have repeated harvest, for example grapes and vines.

Land used for equine purposes may be eligible in part or whole. Land in agri-environmental schemes can still be eligible for payment under SFPS.

Until recently, lands could only be used to support an application for entitlement if it was at the applicant’s disposal for a minimum of 10 months in the year. This has been revised so that the farmer need only have the land at his disposal at one specified point in the year. This could include lands owned or held under an agricultural tenancy.

Entitlements

The payment entitlement forms the basis of the SFPS. There are two types of entitlement, namely “normal” and “set aside”.

An entitlement must have been established as a once off exercise in 2005. For each hectare of eligible land declared on the 2005 application form, the applicant received

an entitlement to claim payment under the SFPS. It is possible that land which was not eligible at the outset could become eligible in order to activate an entitlement.

The entitlements are of various different types, depending on their source. A normal entitlement is “standard” entitlement that most applicants are entitled to. There are also set aside entitlements; national reserve entitlements and various other types of entitlements, arising where lands were in use for some particular purpose at the relevant date.

The reference amount was allocated to applicants between all his holdings in the United Kingdom. For arable farmers, the arable element of the reference amount was allocated according to where crops were grown during the reference period. For dairy farmers the reference amount is allocated according to the location of the total grass land declared in 2005.

Once entitlements have been established, they must be activated in each year in order to make a claim. In order to activate an entitlement, the applicant must have an equal number of eligible hectares at his disposal. If fewer eligible hectares are available, then entitlements can only be activated for the number of eligible hectares. Entitlements which are not used for three years are taken away and placed into the National Reserve. Entitlements can be rotated to ensure they are used once in every three years.

Value of Entitlements

The value of entitlements for most farmers is made up of two elements; the flat rate element and the historic reference element. There is a budget for support payments for each of the English areas and a proportion of this is taken to fund the flat rate element. The sum is divided by the number of declared eligible hectares to give the flat rate element for each area. Every entitlement in that area will hold a portion of the area budget.

The flat rate element is funded by taking 10% of the area budget. This is to increase progressively from 2005 to 2012, 30% in 2007 45% in 2008, 60% in 2009, 90% in 2010 and 100% in 2012. The historic reference amount, which is the addition to the flat rate is based on the historical claim during the 2002 reference period. If the

applicant received no support during the reference period the flat rate element only is paid

Under certain circumstances the reference amount can be increased. The value of normal entitlement can be increased as a result of dairy reference allowance, national reserve allocations and transfers of historic reference amounts from one farmer to another. Reductions can also arise.

Under certain circumstances, it was possible to make application for entitlements from the National Reserve. This included circumstances where particular investments were being undertaken during or after the reference period, for example where the applicant participated in agri-environmental scheme.

Certain area payments are not de-coupled and remain separate from the Single Farm Payment. These include area payments for nuts and grain crops, protein crop premium and hill farming allowances.

Entitlements were originally established in 2005. Entitlements can only be transferred between farmers. An entitlement can only be used to claim a payment in a regional area in which it was established. An entitlement can be transferred with and without the land. The leasing of entitlements must always take place with the leasing of land.

Cross Compliance

There are ongoing Cross Compliance obligations under the SFP Scheme. The cross compliance requirements consist of “Statutory Management Requirements “SMR” and domestic English requirements requiring that land is kept in good agricultural and environmental condition (GAEC). See our separate guides.

This Guide is intended as an overview and broad outline of the matters covered in it. Its purpose is to inform and raise awareness. We are happy to offer specific legal advice on particular circumstances.

This Guide should not be relied on as a substitute for comprehensive legal advice with reference to the particular circumstances.

While we have taken due care in the preparation of this publication, we do not accept legal liability as a result of any reliance placed on anything in this Guide. The reader should rely only on specific legal or taxation advice.