

# Working out the value of subsidy entitlements

As we should all acutely be aware, commodity prices are strongly linked to supply and demand being increasingly played out on a world stage.

Of course the price of purchasing a single payment scheme (SPS) entitlement is no different – albeit the stage is somewhat smaller.

Those that have been determinedly sticking their head in the sand during common agricultural policy reform may be asking why should there be a demand for an asset that is about to expire? In order to establish Basic Payment Scheme (BPS) entitlements you will need to be in possession of SPS entitlements on the 31 December 2014 and have a corresponding area of eligible land on which to claim on these in 2015.

Any excess entitlements will be lost i.e. if you have 220 SPS entitlements and only 200 hectares of land in 2015 you will only be allocated 200 BPS entitlements. Conversely 200 ha of land and 180 SPS entitlements you will only be allocated 180 BPS entitlements. There will be the possibility of a transfer window in early 2015. However the Rural Payments Agency (RPA) will be working with a new IT system and I am sure I do not need to remind you of the fun and games we all went through last time the RPA shifted from an abacus to slate and chalk. If you need to buy or sell entitlements do it before

the 19 October 2014 deadline.

Of course before you set about trading entitlements it may help to have an idea of what the payments from BPS are likely to be. Although SPS entitlements will effectively be converted to BPS entitlements it is only the number of entitlements that will translate onto the new system. The payment value attached to entitlements will be recalculated taking into account the new BPS landscape.

Under SPS England was split into three zones and entitlements in each provided different levels of payment. Under BPS two of these zones, non severely disadvantaged areas (SDA), including all land in the South East, and moorland non SDA will be merged, effectively moving additional funding up the hill and watering down the payment that we in the South East will receive. But fear not this dilution is estimated to reduce payments by a mere €3/ha.

Modulation in England under BPS will be set at 12%. The introduction of a young farmer scheme will inevitably impact on entitlement values. Those under 40, who have started farming in the last five years will be eligible for a 25% top up on the first 90 ha of their claims. As in 2005 there will be a national reserve available for new entrants to apply to obtain entitlements for free. Both the national reserve and young

farmers scheme will draw funds from the BPS pot.

The minimum claim size under BPS will be five ha: under SPS there are about 15,000 claimants claiming on fewer than five ha. Many of the 50,000 ha of entitlements claimed on by the sub five ha brigade will end up being put back in the pot thus bolstering the payment value of BPS entitlements. One dynamic that can have a bigger influence than all those previously mentioned combined is the euro/sterling exchange rate. BPS entitlements will be valued in euros and our experience of the last eight years shows that the strength of the pound will have a huge part to play. Once the RPA have taken all this into account we are likely to be left with a BPS payment value in the region of £200/ha.

With a payment value established it is useful to understand what may affect supply and demand. 5,000 entitlements, 10% of the sub 5 ha brigade entitlements, coming to the market would certainly help to drive down the market price. The large number of solar farms covering significant areas will result in additional spare entitlements available to be marketed.

The implications of the active farmer regulations for water companies and other corporate bodies may result in even more entitlements reaching the market place if they continue



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to manage land in hand. The guidance that DEFRA provides later this year on naturally kept land and its eligibility or otherwise may also further increase supply. I am consistently surprised annually by the number of people looking to buy entitlements. But with the prospect of the national reserve for new entrants I can see no reason why demand will outstrip supply this year.

Historically we have seen the price of entitlements drop as we approach the close of a trading window; as I write entitlements are currently trading for around £160 plus VAT. Simple maths means that you should therefore see a return on any investment in the first year of the scheme. The BPS is due to run until 2020; five minutes spent checking your entitlement statement against your eligible hectares will be time well spent. Remember any excess entitlements will disappear entirely in 2015.

