

Supporting the
land-based industries
for over a century



SAC

Single Farm Payment Scheme: Rules and Regulations *your at-a-glance guide*

produced by Farm Business Services, SAC





Single Farm Payment Scheme: Rules and Regulations *your at-a-glance guide*

Published April 2005

© SAC 2005. SAC, West Mains Road, Edinburgh EH9 3JG

SAC receives support from the Scottish Executive Environment and Rural Affairs Department



Contents

	Page
Introduction	4
Allocation of SFPS Entitlements	5
Establishment and Activation (Use) of Entitlements	5
Eligibility of Land and The 10 Month Rule	6
Set-aside Entitlement and Land Eligibility for Set-aside	6
Adjustments to Entitlement Value for Beef and Dairy Farmers	7
National Reserve, Modulation and Financial Discipline Deductions	8
Usage Rules and Trading of Entitlements	8
Payment Timing & Currency	10
Coupled Payments for Beef Calves, Protein and Energy Crops	10
The National Reserve	11
Cross Compliance	14
Penalties	15

Introduction

Under CAP reform which took effect on 1 January 2005, the **Single Farm Payment Scheme (SFPS)** replaces all the production based subsidy schemes introduced under the previous two rounds of CAP reform. The SFPS is a decoupled subsidy scheme with no requirement to keep livestock or grow crops. For some producers the SFPS will be their only source of subsidy income. For those who farm in the LFA and maintain breeding flocks or herds, the Less Favoured Area Support Scheme (LFASS) will continue as a stand-alone scheme, as will agri-environment schemes such as the Rural Stewardship Scheme (RSS). Suckled calf producers and growers of protein and energy crops will also be eligible to receive production based top-up payments.

This leaflet is intended to act as a simple guide to the SFPS and to assist farmers and crofters with key decisions in the run up to submission of their 2005 IACS forms. This document is not a substitute for the detailed guidance notes published by SEERAD and should be read in conjunction with them and any correspondence issued by SEERAD to producers.

While SAC has made every attempt to ensure the accuracy of the information, neither SAC nor its employees can accept any liability for the contents of the leaflet and any actions taken on the basis of information contained therein. It should be noted that SEERAD is still clarifying certain rules and their final interpretation may differ from the one presented here.

If in any doubt as to the correct course of action, contact SEERAD or your local SAC Consultant (contact details on back cover of this booklet).



Allocation of SFPS Entitlements

Payments under the SFPS will be made to farmers and crofters holding entitlement who 'marry' each unit held to a hectare of eligible farmland, at their disposal for at least **10 consecutive months**. In Scotland, the adoption of the **historic basis** for allocating entitlements means that for most, future subsidy levels will depend on claims made during the **reference period 2000-2002**. SEERAD wrote to producers in November 2004 detailing the calculation of their entitlement. Unless this information has been challenged (force majeure, exceptional circumstances, participation in agri-environment schemes, incorrect data) or an appeal is made to the National Reserve, then the calculations presented will form the basis of the allocation and value of entitlement.

Establishment and Activation (use) of Entitlements

Before entitlements can be **activated (used)** to support an application for SFP they have to be **established** in the name of the relevant producer. This process will take place as part of the 2005 IACS declaration. To be eligible to establish entitlement, producers must declare a **minimum of 0.30ha** on their IACS form and field data sheets. Established entitlement can then be matched to eligible hectares in order to claim SFP.

Eligibility of Land and the 10 Month Rule

Land eligible to support an application for SFP includes arable land and all forage area. Land under permanent crops (including forestry) or used to grow fruit, vegetables or potatoes (other than starch potatoes), is not eligible. Land used for non-agricultural activities is also ineligible but in some circumstances grazing by horses will count as an agricultural activity. Land taken out of production under an agri-environment scheme will also be eligible provided Cross Compliance conditions are met (see later section).

The **10 Month Rule** states that producers must have eligible land on which they have a right to carry out an agricultural activity, **at their disposal for 10 consecutive calendar months**. The 10 month period can start any time from **1 October 2004 until 30 April 2005**. However only **two start dates** are permitted per IACS application. For land that is permanently held SEERAD will assume a **1 February 2005** start date unless otherwise informed.

Common grazings will continue to contribute to a producer's eligible land as normal. In the case of **shared grazing**, claimants will have to agree on the proportion that each is going to declare.

Set-Aside Entitlement and Land Eligibility for Set-Aside

Producers who had **obligatory set-aside** during the reference period will be allocated **set-aside entitlements** equivalent to 10% of their average arable aid claim for 2000-2002.

- Set-aside entitlement can only be activated by matching each unit to a hectare of land eligible to be set-aside and managed under the set-aside rules, detailed in SEERAD Information Note 6.
- **Set-aside entitlement must be used before a producer can be paid on their standard entitlement.**
- A producer who only uses a proportion of their set-aside entitlement will have a pro rata reduction in the number of standard entitlements on which they are paid. Thus it is **extremely important** that set-aside is sited on eligible land to protect the whole SFP.

- **Land eligible to be set-aside in 2005 is land which was in arable crops or claimed as set-aside, at least once, during the five years leading up to 15 May 2003, i.e. declared as crop or set-aside on the 1998-2003 IACS forms.**
- **Organic farmers** do not need to take land out of production to activate set-aside entitlements.

Adjustments to Entitlement Value for Beef and Dairy Farmers

SEERAD has elected to create a **Beef National Envelope** and to use it to fund the **Scottish Beef Calf Scheme (SBCS)** (see later section). In effect, **10%** of beef producers historic beef subsidy will be deducted from the annual payment value of their entitlement. This deduction was detailed in the 'Statement of Provisional Payment Entitlements' sent to producers in November 2004.

As part of the CAP Reform, the **Dairy Premium** was introduced in 2004 to compensate milk producers for cuts in Intervention support for milk products. **From 2005 the Dairy Premium and Additional Payment will be decoupled from production and incorporated into the SFP.** The level of payment will be dictated by the amount of milk quota held (owned and leased in) by a producer on **31 March 2005**. Using current exchange rates, the uplift will equate to approximately 1.6 pence per litre in 2005 and 2.5 pence from 2006 onwards. The uplift will be added to the reference value of the producer's entitlement and will form part of the SFP whether the producer continues to hold milk quota or not.





National Reserve, Modulation and Financial Discipline Deductions

A **National Reserve** of entitlement will be set up to help 'hardship cases' (see later section). All allocations of entitlement will be subject to an initial 3% deduction to establish the reserve. A further deduction may be announced following analysis of National Reserve applications.

Two different types of **modulation** deductions will be applied to producers' reference amounts.

- **EU modulation** will result in a 3% deduction in 2005 rising to 5% in 2007.
- **Additional voluntary modulation (AVM)** will be applied at 3.5% in 2005, 4.5% in 2006 and a minimum of 5% in 2007.

Financial discipline may be introduced from 2006/7 onwards depending on the position of the CAP budget. No official estimates of likely deductions have been published at this time.

Usage Rules and Trading of Entitlements

Once established, a business must activate (use) all units of its entitlement at least **once every three years** or they will be removed to the National Reserve. Where producers hold more entitlement than land claimed on their IACS SEERAD will facilitate **rotation** of land around entitlement to ensure maximum usage. Thus, provided the average declaration of eligible land over a three year period is greater than one third of the entitlement held, a business will protect its entitlement.



The **permanent transfer** of entitlement falls into **two categories** depending on whether the transaction took/takes place before or after 15 May 2005.

- **Before 15 May 2005** entitlement can only be purchased or sold under the **private contracts clause**. This allows entitlement to be transferred with the sale of land, provided the contract of sale stipulates that this is in fact what happened and that the vendor continues to carry out an agricultural activity enabling him to establish the entitlement.
- **After the 15 May 2005** entitlement may be transferred either with or without land. **Transfer without land** will only be possible if the transferor has used at least **80%** of their initial allocation in a **single year**. By necessity those wanting to sell entitlement without land for use in 2006 will have to have used at least 80% in 2005. This 80% rule will not apply to transfers with land, i.e. 1ha of land for every unit of entitlement.

Leasing of entitlement will be possible both before and after 15 May but every unit leased must be accompanied by 1 ha of leased land.

Transfers will be restricted to within Scotland but there will be **no ring fences** within the national boundary. **No siphon** will be applied to transfers. Producers will **not** be able to purchase new entitlements and combine them with their existing entitlements to enhance their payment per hectare. They will however be free to purchase entitlement of a higher payment rate and use it instead of their original allocation.

Payment Timing & Currency

SEERAD's payment window for the first single SFP is **1 December 2005 to 30 June 2006**. SEERAD has a good track record in terms of early payment and is aiming to pay as early as possible within the payment window. Producers can elect to have their SFP paid in **euros** when they submit their IACS form but will be unable to change their minds later in the year.

Coupled Payments for Beef Calves, Protein and Energy Crops

A beef calf payment, funded by the Beef National Envelope, is available to producers of beef calves through the **Scottish Beef Calf Scheme (SBCS)**. Calves of **both sexes** are eligible provided they are at least **75% beef bred**, born on the claimant's holding from 2 December 2004 and reached **30 days** of age there.

Claims can be made manually on forms supplied by SEERAD enclosing a movement card, or on-line. There is no limit to the number of claims made in a year. SEERAD hope to make **payments in early spring 2006**. The rate of payment will depend on the number of claims made nationally but SEERAD are currently estimating rates of **£70** per head for the **first 10** calves claimed and **£35** for subsequent claims.

Growers of eligible **protein crops** (peas, field beans and lupins harvested dry) will receive an additional payment of €55.57/ha approximately £39/ha. An **energy crop** supplement of €45/ha (£31.50/ha) has also been introduced for energy crops not grown on set-aside.



The National Reserve (NR)

The **National Reserve** is intended to help producers who have been disadvantaged by the switch from coupled subsidies to the SFPS. Successful applicants will be allocated entitlements to use with 'bare' land or have the payment rate of their existing entitlements enhanced. There are **eight categories** for which farmers and crofters may be eligible. Applications can be made to **more than one category** but with the exception of category 8 (Consolidation), awards can only be made under one. In the situation where a producer is eligible for an award from more than one category SEERAD will make the award which gives maximum advantage.

The eight categories are:

1. **Investments** – farmers who invested in production capacity for supported sectors, prior to 15 May 2004.
2. **New Entrants** – farmers who commenced their agricultural activity after 31 Dec 2002 (or earlier in 2002 provided they did not receive payments for that year) and before **02 November 2004**.
3. **Re-conversion of Production** – producers whose claims were reduced during the reference period as a result of:
 - a. **Switching from milk** production to supported sectors by 15 May 2004.
 - b. Participating in an **SNH management agreement**.
4. **Leased Land** – farmers who leased land for more than 6 years starting between 31 Dec 2002 & 15 May 2004 where the lease conditions cannot be adjusted.
5. **Purchase of Leased Land** – farmers who bought land (with the intention to commence or expand agricultural activity) from 1 Jan 2000 to 15 May 2004 which was leased out during the reference period.
6. **Transfer of Leased Land** – farmers who take legal control of land from a farmer who retires or dies before 15 May 2005, which was leased out to third party during the reference period.

7. **Dairy Farmers and Hardship** – dairy farmers who leased out their quota for the year ended 31 March 2005 specifically because of exceptional circumstances or force majeure.
8. **Consolidation (Stacking)** – concentration of historical reference amount into a lower number of entitlements to compensate for reductions in the area of land farmed. Only land lost under the following circumstances is eligible for consolidation:
 - Non-renewal of seasonal lets.
 - Expiry or change to tenancy agreement by 15 May 2005.
 - Woodland creation through an official SEERAD afforestation scheme including woodland created during the 2004/2005 and 2005/2006 planting seasons.

The application period for all categories of the National Reserve closes on 16 May 2005.

The level of award granted will depend on the category applied for. New entrants, for example, will receive entitlements to cover their 2005 claim based on the average payment for the parish in which they farm. Investors, on the other hand, will receive awards based on the uplift in their subsidy payments between 2002 and 2004. The exact details of how awards will be calculated are not yet known.

Entitlement granted from the Reserve will be covered by the following restrictions:

1. **Use it or lose it** – NR entitlement which is unused in any of the five years after allocation will be withdrawn.
2. NR entitlement **cannot be traded or leased for five years** following allocation.
3. In categories 1-7, allocations representing **more than 20%** of a producer's initial allocation, either in financial or area terms, will result in **all their entitlement being classed as NR** and will be covered by restrictions 1 and 2.

Producers considering making an appeal should read the detailed notes for guidance issued by SEERAD before proceeding. Applicants for categories 1-7



have little to lose by appealing but speculative applications will only waste time and may result in delayed payments.

Applications to **Category 8 (Consolidation)** will be made on the IACS declaration. Potential applicants should note that:

- **All the applicant's entitlement will be classed as NR** and be covered by restrictions 1 and 2 above.
- The area declared on **2005's IACS** will be the **base area** for the re-allocation of entitlements and that **all land** farmed as at 15 May should be declared on the IACS.
- Where producers want to continue to use land but **not have it contributing to their consolidation base area**, they cannot take occupation of that land until **after the IACS deadline** (16 May 2005).
- This means that **land dropped** from the consolidation calculation **cannot qualify** for payment under the Less Favoured Area Support Scheme (LFASS).

Cross Compliance

Cross Compliance applies to **all land** within an agricultural business **irrespective** of whether it is used to **activate SFP entitlements or not**. For permanently held land, Cross Compliance applies for **12 months** not just the minimum 10 consecutive month period.

There are two elements in Cross Compliance:

1. **Statutory Management Requirements** – 18 existing regulations covering: environment, animal identification, animal welfare, and public, animal and plant health. Only 7 of these will be incorporated into Cross Compliance for 2005 but all will be by 2007. The regulations are detailed in SEERAD SFPS Information Note 7.
2. **Good Agricultural and Environmental Condition (GAEC)** – 18 new measures to address the following issues:
 - **Soil erosion** – protection of soil
 - **Soil organic matter** – maintenance of soil organic matter levels
 - **Soil structure** – maintenance of soil structure
 - **Minimum level of maintenance** – ensure a minimum level of maintenance and avoid habitat deterioration

For land to meet the Cross Compliance rules it must be available for agricultural use or capable of being returned to agricultural use at the latest, by the next growing season.

The detailed GAEC measures are laid out in SEERAD SFPS Information Note 7. All SFPS claimants should familiarise themselves with these measures and guidance to ensure they are not penalised.

SFPS claimants will probably be required to declare numbers and classes of livestock on their holding, at 1 March 2005, on their IACS form, to enable SEERAD to implement Cross Compliance.

Penalties

Late claim penalties will apply. The 2005 IACS forms will act as the notification of establishment of entitlement and the claim for 2005 SFPS. IACS forms will be accepted up to 10 days late. For every day they are late there will be a 3% deduction in SFP but after the 10 days grace has expired no SFP can be paid for 2005 and crucially the entitlement cannot be established jeopardising subsidy payments until 2013.

The penalty system for breaches in Cross Compliance has yet to be finalised. However it seems likely that a sliding scale will be introduced with the actual penalty being dependent on the severity of the breach and whether it was negligent or deliberate.



Ayr

SAC Farm Business Services,
Donald Hendrie Building, Auchincruive, Ayr KA6 5HW
Tel: 01292 525252, Fax: 01292 525146,
AOAyr@sac.co.uk

Balivanich

SAC Farm Business Services, Balivanich,
Isle of Benbecula HS7 5LA
Tel: 01870 602336, Fax: 01870 602086,
AOBalivanich@sac.co.uk

Campbeltown

SAC Farm Business Services, 12 Burnside Street,
Campbeltown PA28 6JE
Tel: 01586 552502, Fax: 01586 553371,
AOCampbeltown@sac.co.uk

Cupar

SAC Farm Business Services, Parkhouse, 33 Castlefield,
Cupar, Fife KY15 4DB
Tel: 01334 654055, Fax: 01334 652327,
AOCupar@sac.co.uk

Dumfries

SAC Farm Business Services, Mid Park, Bankend Road,
Dumfries DG1 4SZ
Tel: 01387 261172, Fax: 01387 251789,
AODumfries@sac.co.uk

Edinburgh

SAC Farm Business Services, Bush Estate, Penicuik,
Midlothian EH26 0PH
Tel: 0131 535 3430, Fax: 0131 535 3431,
AOEdinburgh@sac.co.uk

Elgin

SAC Farm Business Services, 15 Hay Street, Elgin,
Morayshire IV30 1NQ
Tel: 01343 548787, Fax: 01343 548789,
AOElgin@sac.co.uk

Forfar

SAC Farm Business Services, 77 North Street, Forfar,
Angus DD8 3BL
Tel: 01307 464033, Fax: 01307 465254,
AOForfar@sac.co.uk

Inverness

SAC Farm Business Services, Drummondhill, Stratherrick
Road, Inverness IV2 4JZ
Tel: 01463 233266, Fax: 01463 236579,
AOInverness@sac.co.uk

Kirkwall

SAC Farm Business Services, Martside, Grainshore Road,
Hatston, Kirkwall, Orkney KW15 1FL
Tel: 01856 872698, Fax: 01856 871163,
AOKirkwall@sac.co.uk

Lanark

SAC Farm Business Services, 57 High Street,
Lanark ML11 7LF
Tel: 01555 662562, Fax: 01555 663166,
AOLanark@sac.co.uk

Lerwick

SAC Farm Business Services, Agricultural Marketing
Centre, Staneyhill, Lerwick, Shetland ZE1 0NA
Tel: 01595 693520, Fax: 01595 693550,
AOLerwick@sac.co.uk

Oban

SAC Farm Business Services, Glencruitten Road, Oban,
Argyll PA34 4DW
Tel: 01631 563093, Fax: 01631 565074,
AOOban@sac.co.uk

Perth

SAC Farm Business Services, Suite H Riverview House,
Riverview Business Park, Perth PH2 8DF
Tel: 01738 636611, Fax: 01738 627860,
AOPerth@sac.co.uk

Portree

SAC Farm Business Services, Somerled Square, Portree,
Isle of Skye IV51 9BT
Tel: 01478 612993, Fax: 01478 613395,
AOPortree@sac.co.uk

St Boswells

SAC Farm Business Services, Greycrook, St Boswells,
Roxburghshire TD6 0EU
Tel: 01835 823322, Fax: 01835 823525,
AOSTboswells@sac.co.uk

Stirling

SAC Farm Business Services, Unit 16, Beta Centre,
Stirling University Innovation Park, Stirling FK9 4NF
Tel: 01786 450964, Fax: 01786 447588
AOSTirling@sac.co.uk

Stonehaven

SAC Farm Business Services, Arduthie Business Centre,
Kirkton Road, Stonehaven, Kincardineshire AB39 2NQ
Tel: 01569 762305, Fax: 01569 766789,
AOSTonehaven@sac.co.uk

Stornoway

SAC Farm Business Services, 17 Francis Street, Stornoway,
Isle of Lewis HS1 2NB
Tel: 01851 703103, Fax: 01851 701025,
AOSTornoway@sac.co.uk

Stranraer

SAC Farm Business Services, 99 George Street,
Stranraer, Wigtownshire DG9 7JP
Tel: 01776 702649, Fax: 01776 707497,
AOSTranraer@sac.co.uk

Thainstone

SAC Farm Business Services, Thainstone Agricultural
Centre, Inverurie, Aberdeenshire AB51 9WU
Tel: 01467 625385, Fax: 01467 620607,
AOThainstone@sac.co.uk

Thurso

SAC Farm Business Services, c/o Strathbeg House,
Clarence Street, Thurso, Caithness KW14 7JS
Tel: 01847 892719, Fax: 01847 895432,
AOThurso@sac.co.uk

Turriff

SAC Farm Business Services, Clifton Road, Turriff,
Aberdeenshire AB53 4DY
Tel: 01888 563333, Fax: 01888 563757,
AOTurriff@sac.co.uk

Dr Stuart Somerville, Group Manager

SAC Farm Business Services, 57 High Street,
Lanark ML11 7LF
Tel: 01555 662562, Fax: 01555 663166,
Stuart.Somerville@sac.co.uk