

BPS | CARBON | WATER

# UK MARKETS 2021

BPS ENTITLEMENTS • WOODLAND, SOIL & PEATLAND CARBON  
WATER ABSTRACTION LICENCES • BIODIVERSITY NET GAIN  
NITRATE & PHOSPHATE OFFSETS  
CARBON EMISSIONS



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# 1. UK ENTITLEMENT TRADING – 2021

## 1.1 2021 ENGLISH BPS ENTITLEMENTS OVERVIEW

1.1.1 The 2021 market was one like no other. The passing of the Agriculture Act provided means for the Government to implement their vision for the future of farming, one that no longer involved the direct payment of the Basic Payment Scheme. In England, this year's entitlement unit value will receive the first in a series of yearly reductions until completely phased out, whilst for Scottish, Welsh and Northern Ireland for claimants there was much uncertainty around the long-term future of the scheme as the region's governing bodies decided on their stance. There were a variety of other factors influencing decisions to buy and sell, ranging from the 'exit-support' scheme in 2022 to de-linkage from 2024.

1.1.2 This uncertainty was always likely to affect both demand, supply, and the prices which purchasers were willing to pay. The question was whether these changes would cause a surge of demand as claimants sought to maximise the last few years of BPS claims and have a complete claim for their holding for the years after delinkage, or would the lowering payments see a drop in demand? In the case of English Non-SDA, which comprise the greatest number of transactions every year, it was the former. Opening sales started at a high value and held throughout the season. The average selling price was £150/unit compared to 2020's £119/unit and 2019's £111.65 all plus VAT.

1.1.3 A point of note was the sheer volume of purchasers and paucity of vendors, at various points in the season being over double. As well as keeping prices high, this disparity reflects amendments to the BPS as the 'greening rules' and two-year usage rule were dropped. Whereas previously we would have many smaller lots as vendors looked to sell entitlements they would otherwise lose or could no longer claim on, this year they were being kept as insurance for future claims. Whether this will continue in 2022 due to the diminishing claim values in future years as opposed to cashing in now and selling at a higher price, remains to be seen.

1.1.4 The 'evolution' in agricultural policy, as DEFRA put it, is not all about the loss of BPS income as it also comes with great opportunity. We now know a lot more about the replacement ELM schemes and how the prudent farmer can gain from the developing markets in carbon, biodiversity and other environmental credits. The Government is keen to grow these markets as a tool for meeting their net zero pledges and incentivising sustainable actions in the agricultural sector. We aim to help our clients make the most of these markets, which are discussed further in the Environmental Credit Trading section below.

### 1.1.5 How our graphs are prepared

As before, we are publishing raw data graphs illustrating in detail how the different regional Entitlement markets behaved during the 2021 trading period, which for England ended on the 17<sup>th</sup> May 2021. Because we use only raw data, there have been no adjustments such as averaging prices for a week or a day, rounding up or down, and any contributions towards the vendor's sale costs made by purchasers of small lots on top of the purchase price per entitlement are excluded. These graphs show the results of each individual transaction.

### 1.1.6 General market factors in 2021 trading period

1.1.6.1 In 2021 the online entitlement transfer screen went live at the end of January.

1.1.6.2 In 2021 the BPS online claim forms were available from the 13<sup>th</sup> March.

1.1.6.3 Although many agents/buyers contacted this firm in early 2021 wanting to buy entitlements, most were very happy to wait until the last couple of weeks before the deadline to actually buy. This may be simply due to many agents not being able to confirm their client's shortfalls until the last minute (no doubt due to farmers themselves leaving their BPS claims later and later), and also to the usual canny purchasers wanting to buy at the end of what had traditionally been the bottom of the market, when sellers are nervous that they won't secure a sale before the deadline. Those buyers expecting to get a bargain in the last few days however were sorely disappointed this in 2021, as in fact the price had almost doubled due to a shortage in supply.

## 1.2 ENGLISH NON-SDA (VAT registered)

1.2.1 The season started with a high number of purchasers seeking large lots. From the start vendors were able to pick their deals, knowing the demand was there. The first sales were agreed in early December 2020 starting at £150 plus VAT (higher than the average price of £119 for entitlements sold in 2020).

1.2.2 January saw the price hold firm at £150 plus VAT. These deals consisted of small to mid-sized lots. It was clear at this early stage how skewed the market was as we were seeing double the number of purchasers than vendors.

1.2.3 In February, there was the first dip in the market, more vendors entered the fray, and this caused prices to fall for the first time. Sales were completed at £141 plus VAT for small lots with larger ones completed at £127 plus VAT.

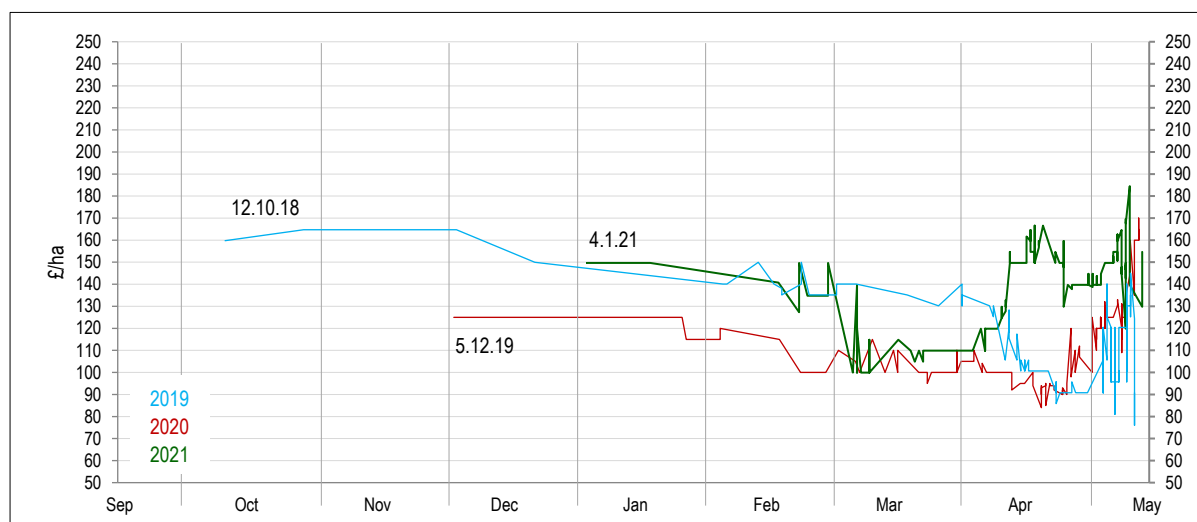
1.2.4 By late February, prices for all size lots fell to £135/unit plus VAT, a series of mid-size lots were completed in quick succession as vendors decided to sell before the price fell further.

1.2.5 At the start of March, the price held at £135/unit plus VAT, there was a brief surge to £150/unit then £140/unit which preceded a crash as prices hit £100/unit plus VAT. During the rest of the month prices flitted between £100-115/unit plus VAT for large lot sizes, deals for lots of up to 97 units were completed. This proved the lowest price point as an influx of purchasers shortly pushed prices up again. Micro lots in this period were still fetching between £160-200/unit plus VAT as we started to see high demand for the odd 1-3 units.

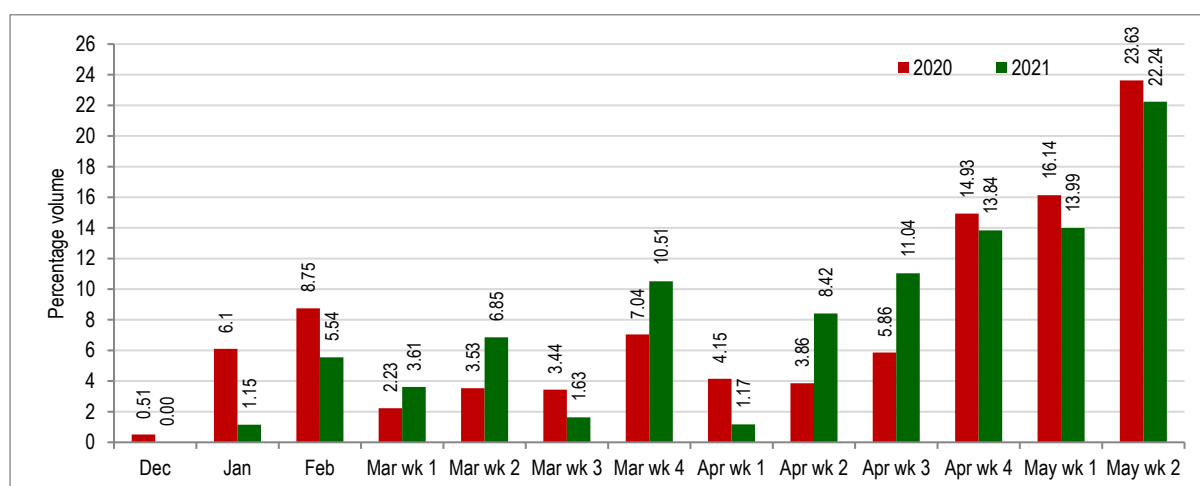
1.2.6 The end of the month concluded when sales reached around £105-110/unit plus VAT.

1.2.7 April started with high demand as prices quickly hit the £110-120 plus VAT bracket. By mid-April sales were concluded at £135/unit plus VAT with small lots fetching up to £200/unit plus VAT.

Graph A – Non-SDA VAT registered sales of >10 ha

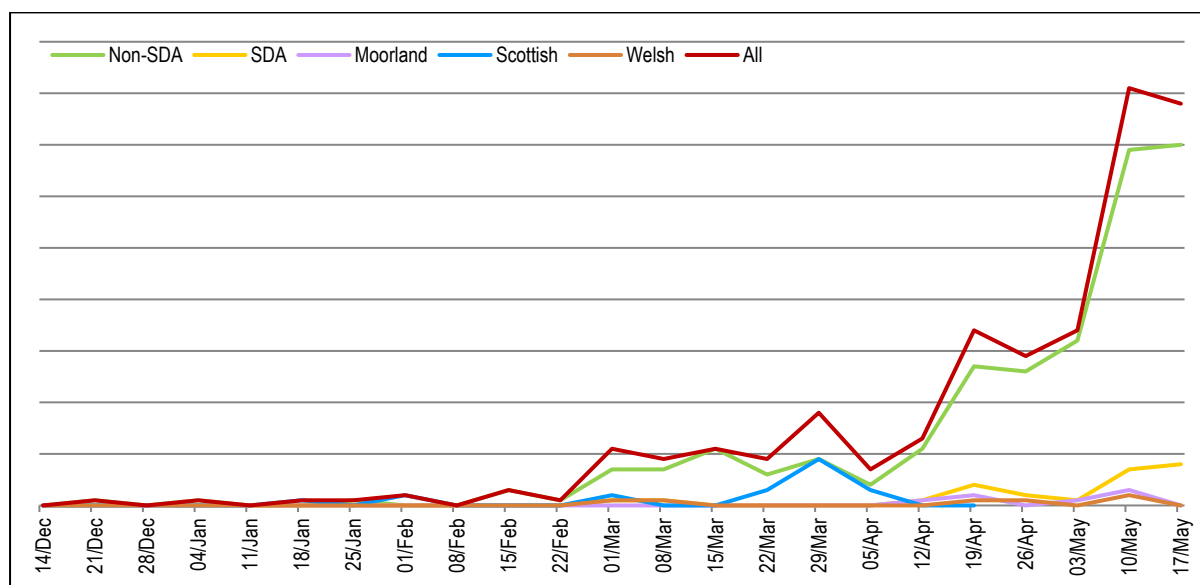


Graph B – Percentage volume of all Non-SDA sales in months and weeks



- 1.2.8 In the second half of April even the larger lot sizes were fetching £150/unit plus VAT. Mid-sized lots hit £170-180 plus VAT as supply dwindled and increasing numbers of purchasers entered the market. By this point the number of purchasers were again double that of vendors and competition was fierce. The last week of April saw prices of £160/unit plus VAT for lots of over 20 units.
- 1.2.9 As we entered May, more vendors came to the market with prices stabilising at £140/unit plus VAT. Small lots remained in high demand with prices of £220/unit plus VAT required to secure lots.
- 1.2.10 By the 6<sup>th</sup> May demand started to outstrip supply again with prices reaching £170 then £175/unit plus VAT.
- 1.2.11 The final week of trading saw consistently high prices with many purchasers seeking small and mid-sized lots. Whilst there was the odd £130/unit plus VAT, most sales were completed at £160 to £170 plus VAT. Small lots were required right up to the final day at over £200/unit plus VAT.

Graph C – 2020 Weekly flow of trade



1.2.12 On the 10<sup>th</sup> May the price rose to £163 plus VAT, and by the 11<sup>th</sup> it was £175 plus VAT. On the 13<sup>th</sup> prices fell to £150/unit plus VAT. The last few days were hectic as always with sales agreed between £140 and £205/unit plus VAT.

1.2.13 Overall, the average sale price for Non-SDA entitlements in 2021 was £150.66 per entitlement, an increase on the 2020 average of £119.

1.2.14 In 2021, as in previous years, late trading in the last three weeks saw the majority of the season's total trade for Non-SDA. See graph B and C above. However the spread was far more even between the beginning of March and May than ever before, each week in March and April except two being up year-on-year for number of d

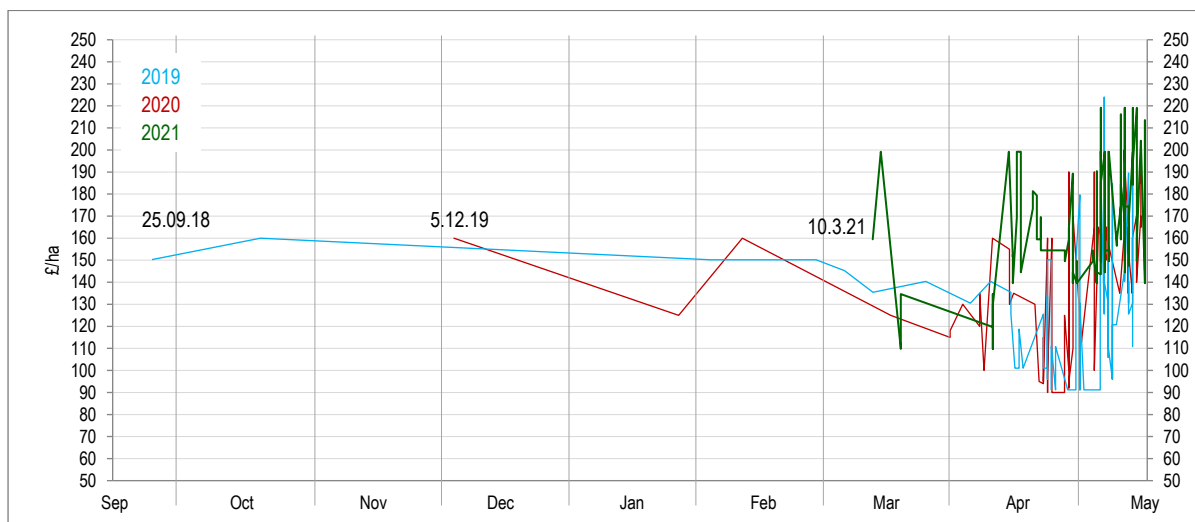
#### 1.2.15 Demand for small lots

1.2.15.1 As can be seen from Graph D below, the demand for smaller lots was initially low with a slower start compared to previous years. The first sale was concluded in early January for non-VAT lots with the first VAT registered deal on the 10<sup>th</sup> March.

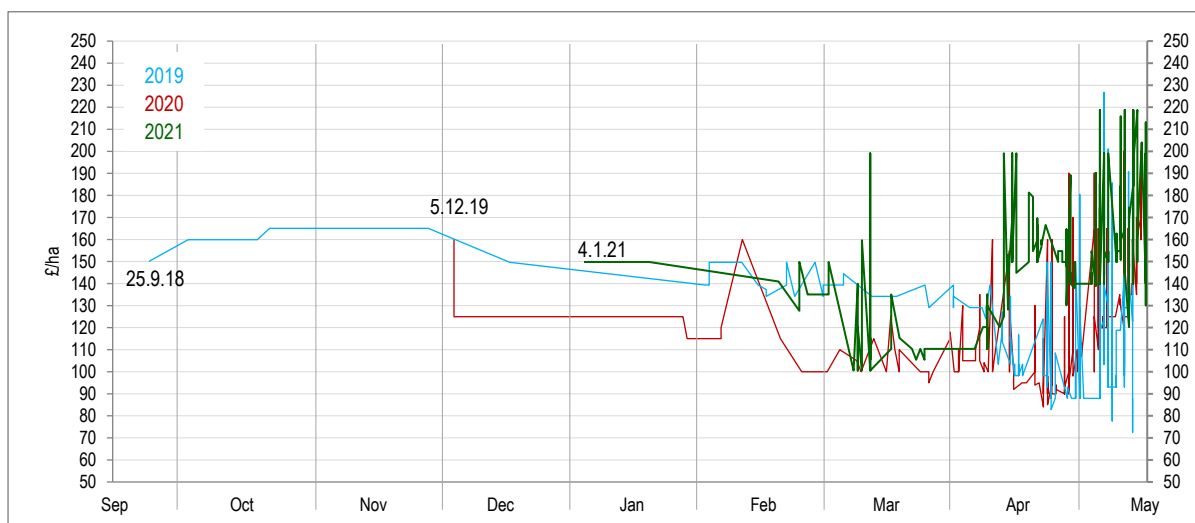
1.2.15.2 Sales were agreed at a steady rate throughout April before May saw a surge of demand for small lots with prices regularly over £200/unit.

1.2.15.3 Purchasers and vendors had been focussing on their BPS claims, realising they had smalls amounts spare or required. This influx of demand, plus the looming deadline pushed up prices to £220/unit.

Graph D – Non-SDA VAT registered sales of <10 ha



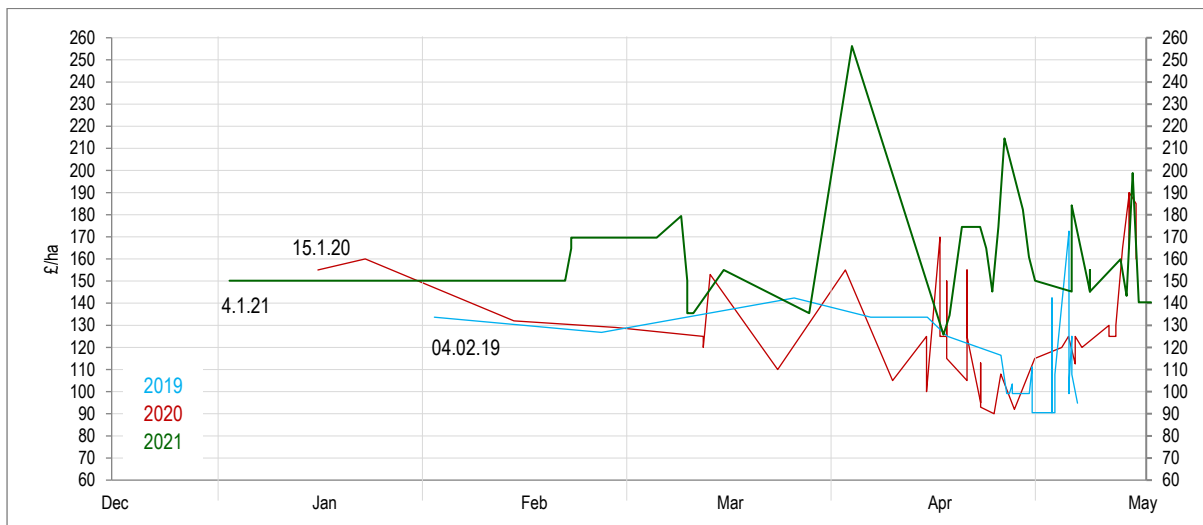
Graph E – Non-SDA VAT registered sales – all lot sizes



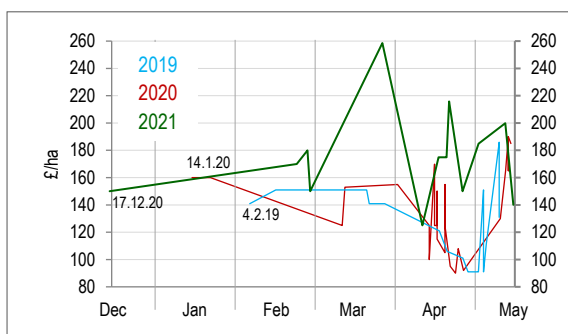
### 1.3 ENGLISH NON-SDA (Non-VAT Registered)

- 1.3.1 There was a higher demand for small lots of Non-VAT entitlements than for VAT registered ones. Early sales were completed at £165 and £170/unit. In February, larger numbers of buyers came to the market keeping prices at £165 to £170/unit. In March, supply dwindled, and lots were sold at £180/unit. The season high was at the end of the month at £258.83/unit for a very small lot.
- 1.3.2 April and May saw prices ranging from £134 to £175/unit. The variation in price emphasizing the impact supply and demand have on the market.

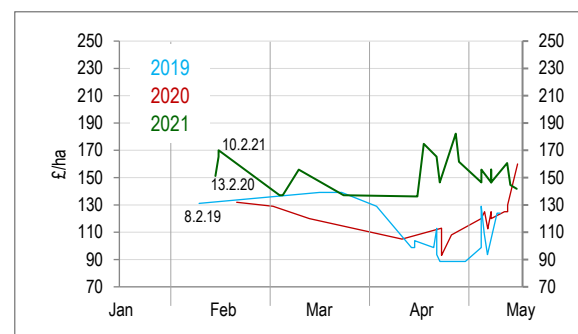
Graph F – Non-SDA Non-VAT sales – all lot sizes



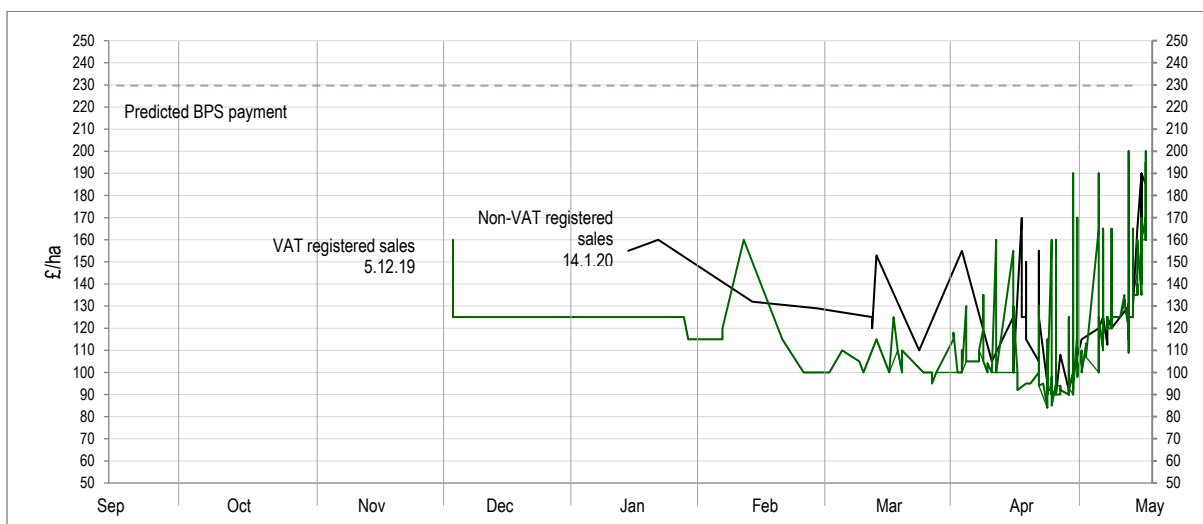
Graph G – Non-SDA Non-VAT registered sales <10 ha



Graph H – Non-SDA Non-VAT registered sales >10 ha



Graph I – Non-SDA – 2020 – All lot prices against predicted BPS 2019 payment



## 1.4 NON-SDA NAKED ACRE LETTING

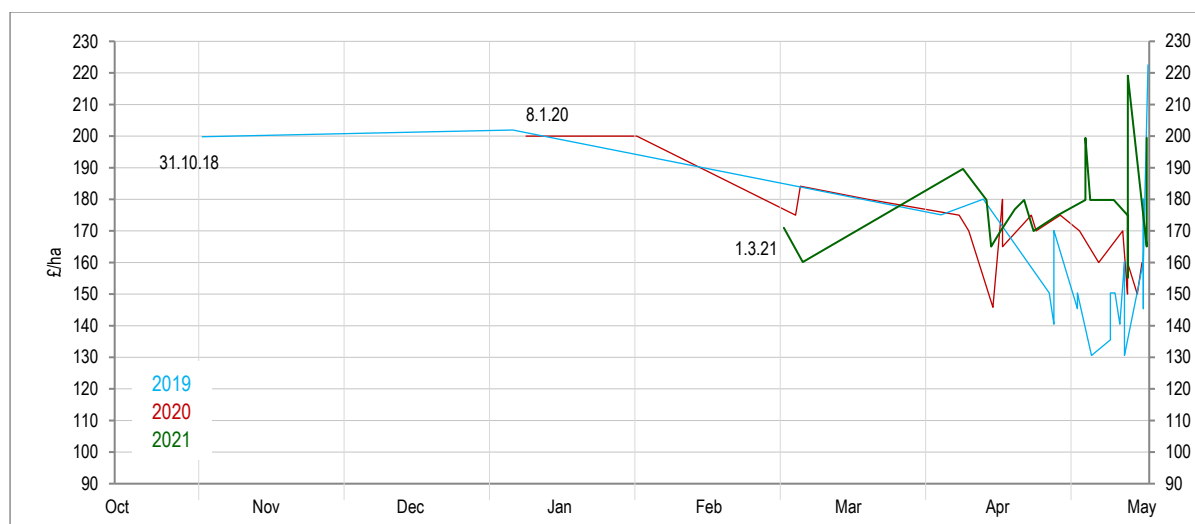
- 1.4.1 As last year there were a number of clients who had surplus entitlements they did not wish to sell as they wished to ensure they maximised their BPS claim in 2022. With the removal of the two-year usage rule there was no need to sell excess entitlements for fear of losing them so there was extra incentive to



keep hold of them until delinkage. This led to extremely high demand for naked acres and competition was fierce for available lots.

- 1.4.2 The first naked acre letting was agreed in January with the tenant paying £70 per acre (£172.97 per ha) for over 60 acres.
- 1.4.3 No lettings were agreed in February, however in March there were a series of leases with the competition driving prices to £80 per acre despite the diminishing returns at this price. During April and May arrangements for hundreds of acres were wrapped up with naked acres going above £80/acre.
- 1.5 SDA
  - 1.5.1 The SDA market was a slow burn compared to 2020, in contrast to Non-SDA there were fewer purchasers than vendors who also tended to be looking for smaller lot sizes. We started to see increasing numbers of purchasers at the start of March, still looking for small lots, a trend that continued up until the deadline. Throughout the season we continued to have vendors with large lots and the season ended with a surplus still available.
  - 1.5.2 The first sales of SDA entitlements were agreed in early March at £170 plus VAT per entitlement, this was quite a reduction on the £200/unit that the 2020 season opened at.
  - 1.5.3 Through March this value dropped to £165 then £160/unit plus VAT reflecting the low demand and high supply. The exception were non-VAT units which fetched a higher £180-190/unit with non-VAT purchasers saving by not having to pay the VAT added to standard rated units.
  - 1.5.4 By mid-April a few medium size purchasers sought lots and prices rose to between £170-180/unit plus VAT.
  - 1.5.5 From early May up until the deadline, the quantities required returned to a series of small to very small lots. Whilst lots of over 10 were going at £165/unit plus VAT, the odd single entitlement was available at up to £220 plus VAT.
  - 1.5.6 Compared to last year the average lot for 2021 SDA entitlements over the whole of the trading season was £181 plus VAT £10/unit more than last year's average of £171 plus VAT. They continued to fetch a higher average than Non-SDA, despite difficult selling conditions this season.

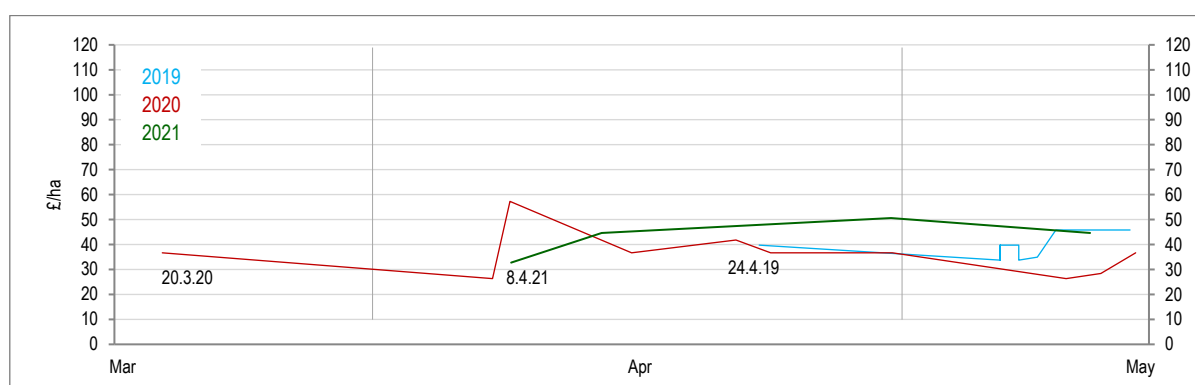
*Graph J – SDA – all lot sizes – VAT and Non-VAT registered sales*



## 1.6 SDA MOORLAND

- 1.6.1 There was a large supply of Moorland entitlements available for sale from early January. With lot sizes in the hundreds, prices were expected to be at £25/unit plus VAT. However larger purchasers never materialised with a series of small sales agreed at the higher prices.
- 1.6.2 In early April several sales were completed at £35/unit plus VAT. By mid-April this rose to £45/unit plus VAT for slightly larger lots. By the end of April prices reached a season high of £50/unit plus VAT, these were all for small sized lots.

Graph K – SDA-Moorland – all lot sizes – VAT and Non-VAT registered sales



- 1.6.3 During May prices stabilised at £45/unit which is where the season ended up. We had further large vendors looking to sell before the deadline, but the demand was not there.
- 1.6.4 The average price for the season was £44/unit plus VAT, up from £35/unit plus VAT in 2020. This represents a two year high over the last few seasons and reflects the lower volume sold.
- 1.7 LEASING

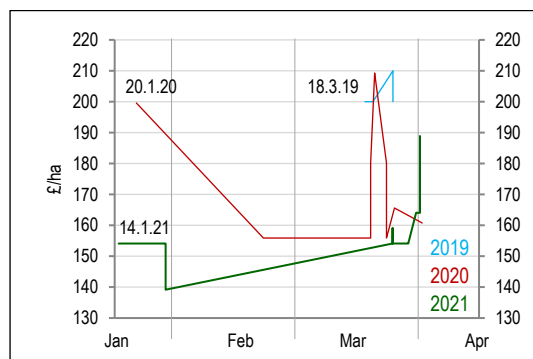
In 2021 we did not do any leasing, as in previous years the purchase price (certainly for English entitlements) was low enough that most farmers were happy to buy them outright. We have found that RPA leasing has not proved to be popular since it was introduced in 2015, other than as a tool for a landlord to pass on entitlements temporarily to a tenant. There are risks for the lessor, should the lessee not make their claim correctly, and the lower payments being offered did not tempt those of our clients with surplus entitlements. There was however high demand in the Naked Acre letting market in 2021, as discussed above.

Table of comparative average sale and leasing prices for England

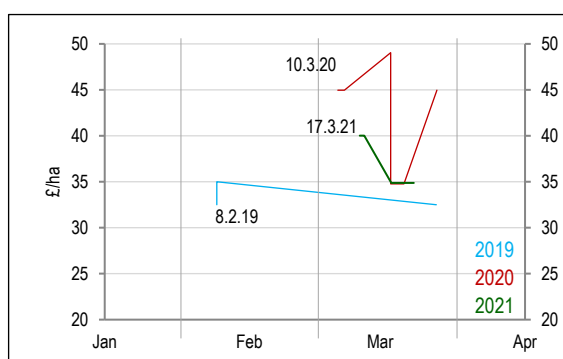
Type (/ha)	2012	2013	2014	2015 1 <sup>st</sup> window	2015 2 <sup>nd</sup> window	2016	2017	2018	2019	2020	2021	% change 2021:20
Non-SDA (VAT sales)	£230	£218	£230	£130	£98	£192	£144	£127	£111	£119	£151	+27%
Avg price in last week							£138.50	£121.03	£113.06	£144.60	£169.30	+17%
SDA (All sales)	£209	£193	£260	£153	£147	£213	£208	£192	£156	£171	£181	+6%
SDA-Moorland (All sales)	£34	£43	£53	£58	£64	£69	£61	£65	£39	£35	£44	+26%
Naked Acres	£50	£49.50	£53	-	-	-	-	-	-	£60	£73	+22%
Hosting (/ac)	-	-	£47	-	£53.50	-	-	-	-	-	-	
Leasing	N/A	N/A	N/A	-	-	-	-	£45.00 NonSDA	-	-	-	

## 1.8 SCOTLAND

*Graph L – Region 1 – all lot sizes – all VAT and Non-VAT registered sales*



*Graph M – Region 2 – all lot sizes – all VAT and Non-VAT registered sales*



1.8.1 In Scotland, as with England, there are three different regions for entitlements, being Region 1 (better agricultural land), Region 2 (rough grazing) and Region 3 (rough grazing with an LFA grazing category A). The payment in 2021 for Region 1 was expected to be £143.13 as the BPS element, plus greening if eligible (at approx. 33% total value), totalling around £216.86 per hectare; Region 2 will be paying £30.60 as the BPS element, plus greening, totalling around £46.36, and Region 3 will be around £9 plus greening equivalent to around £13.63.

1.8.2 There has been no siphon applied to the transfer of entitlements without land since 2019.

1.8.3 Applications to transfer Scottish entitlements are made using paper PF23 forms sent to the SGRPID. The deadline for 2021 was 6<sup>th</sup> April due to the falling of this year's bank holiday. Transfers are processed manually, which may result in a delay between submission of the application, and confirmation of transfer which usually comes in July, well after the claim deadline.

1.8.4 The second and final instalment of the 'convergence payment' applied to 2019 and 2020 entitlements was paid in January 2021. This payment consists of £160 million of CAP convergence payments, which were wrongly diverted from Scottish farmers in 2013. For 2019, £52 million of this fund was applied across BPS claims representing an additional £15.86 per unit for Region 1, £24.09 for Region 2 and £6.28 for Region 3.

1.8.5 The Agriculture (Retained EU Law and Data) (Scotland) Act 2020 provided powers to the Scottish Government to carry forward the current CAP rules and retain BPS as a subsidy system. As such, BPS is expected to remain in place in much the same format until at least 2024 when new Scottish Agricultural policy may be introduced.

### 1.8.6 Region 1

1.8.6.1 The season started with a good supply of Region 1 entitlements with several large lots of 100+ available. As the season progressed, there were more vendors than purchasers before switching in the final couple of weeks as a late flurry of sales concluded in the final week.

1.8.6.2 The first sales of Region 1 entitlements were agreed in January at £155 plus VAT for lots of between 40-50 units.

1.8.6.3 After the initial sales there were fewer purchasers than vendors. Throughout February the price dipped due to the lower demand. Sales were agreed at £140 plus VAT for small and medium lot sizes.

1.8.6.4 The final month saw a flurry of activity with large lots back at £155 to £165 plus VAT. Last minute sales were completed on deadline day with prices up to £190/unit plus VAT. The average lot size sold in 2021 was 24.8 entitlements. The average price for the season was £154/unit plus VAT, down on 2020's £172.50/unit plus VAT average.

## 1.8.7 Region 2

1.8.7.1 Similar to 2020 there was slow start for Region 2 entitlements, before a series of sales of medium and large sized lots in March at £40 plus VAT.

1.8.7.2 The last week of trading saw almost 200 ha of Region 2 entitlements sold at £35 plus VAT with the price dipping as supply outstripped demand.

1.8.7.3 The average lot size sold in 2021 was 48.9 ha compared to 2020's 56 ha per lot. The average price for the season was £36.50/unit plus VAT compared to £42/unit plus VAT in 2020.

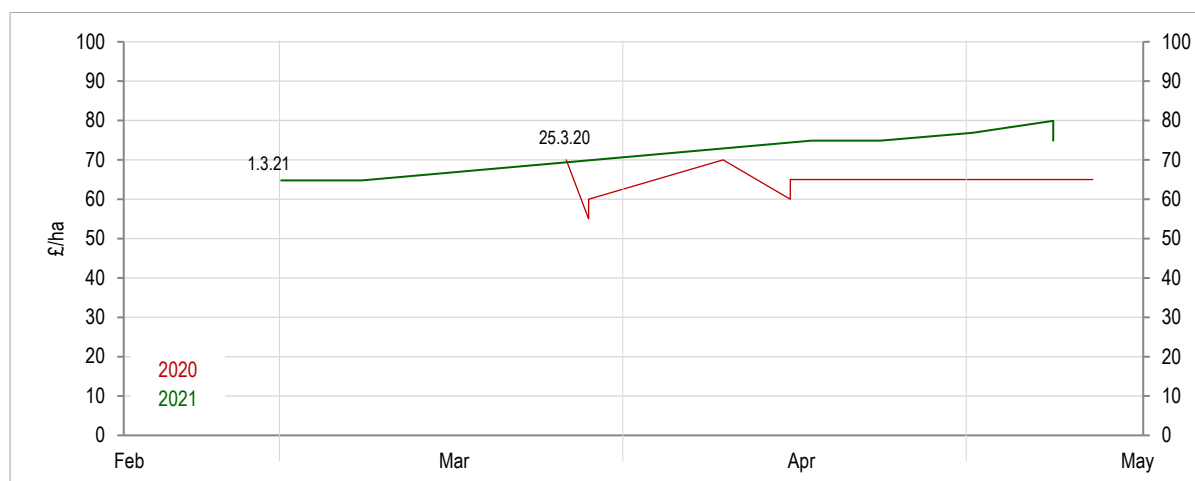
## 1.8.8 Region 3

1.8.8.1 Region 3 entitlements were in demand this year with around 3,000 units sought at various points. There was a lack of supply leading to a price of £15 per unit plus VAT. In early March 800 units were sold before the supply dried up.

1.8.8.2 The average lot size sold in 2021 was 400 units. The average price for the season was £15 plus VAT compared to £13.50 VAT in 2020.

## 1.9 WALES

Graph N – 2020 Welsh entitlement sales – all lot sizes – VAT and Non-VAT registered sales



1.9.1 In Wales all land is classified as one Region, all Welsh BPS entitlements having the same flat rate value since 2019. The BPS payment for 2020 was expected to be at a flat rate of around £67.21 plus a Greening payment of approximately 30% of the total flat rate value. There is also the Redistributive payment, unique to Wales, which is a mechanism whereby the first 54 ha of a claim attracts an additional approximate £92 per entitlement subject to confirmation. The Redistributive payment will be increasing as a proportion of the total value, with the flat rate for an entitlement being scaled back.

- 1.9.2 The deadline for submission of an online transfer application for Rural Payments Sales was officially extended in 2021 from 30<sup>th</sup> April to the 15<sup>th</sup> May, the same as last year when it was extended due to the Coronavirus.
- 1.9.3 The Welsh market took a while to gather momentum, we had vendors available from January but only with small lots sought by purchasers. During March there were more purchasers, still for relatively small lots. This kept the market price at a stable £65/unit plus VAT.
- 1.9.4 During April there was an influx of purchasers and prices started to rise, ranging from £65-75/unit plus VAT. From mid-April we saw prices move to a high of £80/unit plus VAT before falling again as the May deadline approached. There was some interest from both vendors and purchasers in leasing throughout the season.
- 1.9.5 The average lot size sold through the trading period was 16.04. The average sale price in 2021 was £73 plus VAT, an increase of £8/unit from 2020.
- 1.10 NORTHERN IRELAND
- 1.10.1 Northern Ireland entitlements are classed as a single Region, but still have different values depending on their historic element. Northern Ireland's entitlements were supposed to move to a Flat Rate by 2021/2022 but this is yet to be implemented.
- 1.10.2 For 2021 the Greening payment was discontinued, however the money paid out previously was incorporated into the flat rate value. Each entitlement's flat rate therefore increased in value by around 43.6%, ensuring the same value was received for each claim. DAERA state that the historic element will be reducing and the flat rate element increasing each year until all entitlements reach the same flat rate value.
- 1.10.3 The deadline for submission of online (and paper) transfer applications was the 4<sup>th</sup> May.
- 1.10.4 There was extremely high demand for Northern Ireland entitlements with purchasers from 2020 still requiring lots with over a hundred still sought on deadline day. For 2021 they traded at close to face value throughout the season, however higher value entitlements (which will be reducing in value) achieved closer to 0.8 x face value, and lower value (which will be increasing in value) achieved slightly higher multipliers. Lots were available at £250-305/unit plus VAT.
- 1.10.5 There was some interest in leasing at around 50% of their claim value.
- 1.10.6 As last year, the high demand seems to reflect confidence in direct payments continuing in Northern Ireland for the immediate future.
- 1.11 AVERAGE 2021 MULTIPLIERS OF MARKET VALUE V BPS PAYMENT RATES FOR ENTITLEMENTS SOLD ACROSS THE UK
- 1.11.1 Due to the historic payment element of BPS entitlements in Scotland, Wales and Northern Ireland as they move to a flat rate, these entitlements have in the past been sold using a multiplier, i.e. comparing the price of the entitlements to the payment they should attract in their first year of claim (and could also be viewed as a percentage of the actual payment). We call this the Regional Method. From 2019, however, England, Scotland and Wales all have flat rate payments, and only Northern Ireland retains an historic element which was intended to be phased to a flat rate by 2021/2022 but is still in effect at the time of writing.

- 1.11.2 We have found it interesting to create a multiplier of the face value to market value for each type of entitlement for each region. This allows us to compare the relative worth of each type of entitlement across the UK on the same basis. In previous years, for English entitlements the value could be estimated based on the prior year's value. Since the phasing out of entitlements was announced we knew the value of an entitlement in 2021 as a reduction is applied based on total claim value. The multiplier in Northern Ireland was often further adjusted based on what type of value the BPS entitlements have, i.e. entitlements with a low value historic element have been increasing in value as they move towards the flat rate, and high value entitlements have been decreasing in value as they move to the flat rate.
- 1.11.3 For example English Non-SDA entitlements received a Basic Payment of £221.55 if the total claim was under £30,000. If an entitlement was sold at £151/ha, this would mean it had been sold at a multiplier of 0.68 x face value (of the total payment).
- 1.11.4 The multipliers below are therefore calculated based on the Basic Payment including Greening and the Redistributive Payment (Wales only). The English values are based on a total claim under £30,000, over this amount the payment value of an entitlement would be reduced again.

Entitlement Type	Average Multiplier of the 2021 Basic Payment (Average Price/lot)
English Non-SDA	0.68 (£151/ha)
English SDA	0.82 (£181/ha)
English SDA-Moorland	0.72 (£44/ha)
Scottish Region 1	0.71 (£154/ha)
Scottish Region 2	0.79 (£36.50/ha)
Scottish Region 3	1.1 (£15/ha)
Welsh	0.38 (£73/ha on first 54 ha due to RP. 0.72 if over 54 ha)
Northern Ireland	1.0-1.1 (av. £230*/ha)

\* As the payment rates in the Northern Ireland vary due to the inclusion of a historic element we set out the "average payment" per ha over all of Northern Ireland, as advised by DAERA.

- 1.11.5 For 2021, as in previous years, the multipliers show Welsh entitlements were the best value for money, costing less than half the annual payment. Northern Ireland and Scottish Region 3 entitlements are again the worst value for money costing the same or more on average than their payment value. As expected, the cost to payment ratio for all English entitlements rose as the payment value received its first stage of cuts. This was exacerbated by an unusually high average sale price. The Welsh ratio rose due to higher average prices whilst Scottish Region 1 and 2 were better value year on year as their average price dropped.

## 2. BPS AND COUNTRYSIDE STEWARDSHIP CLAIMS – 2021

### 2.1 BPS CLAIMS

- 2.1.1 This has once again been a record-breaking year for BPS claims at Townsend Chartered Surveyors both in number of clients served and total area covered, with a selection of new clients both large and small making use of our services in addition to our regular customers.
- 2.1.2 In some ways the BPS was simpler this year. In particular, the loss of greening was notable, meaning that our mixed and arable clients were freer to choose their cropping and did not need to leave any land fallow to meet EFA rules.

2.1.3 However, some complexities remain. In particular the RPA continue with a somewhat cavalier approach to mapping changes, especially the mapping of new land. Several of our new clients whose holdings we mapped last year saw incomprehensible changes from the areas we requested, requiring detailed corrections as exact RPA errors were investigated and addressed. Likewise, the internal land transfer system remains unwieldy, with many parcels being flagged as “tenanted”, so unable to be transferred digitally, for no obvious reason. This meant we needed to use other methods, such as RLE1 forms, to get some parcels confirmed. While these are not overly time-consuming in themselves, they require time from the RPA to be processed and have been known to get lost in the RPA email system.

2.1.4 That the RLE1 forms have been accepted by email since last year has been a significant improvement over the old paper-based system. However, the RPA continues only to accept continuation booklets (used to claim on a new parcel that has not yet been mapped) handwritten and by post. If you must submit one of these, we highly recommend recorded delivery, as they too have a habit of getting lost by the RPA.

2.1.5 This was also the final year for free National Reserve entitlements for New and Young Farmers. We understand this change was driven by the Retirement Lump Sum scheme, to prevent an arrangement where one family member retires and takes payment for surrendering their entitlements, passing the farm to another member of the family who immediately claims a set of new ones. This is a significant disadvantage to new entrants from next year onwards, and it will be interesting to see its effect on the entitlement market.

## 2.2 COUNTRYSIDE STEWARDSHIP CLAIMS

2.2.1 Countryside Stewardship was also popular this year, as it was across the country. Clients sought alternatives to fulfil the shortfall from BPS reductions, and were also somewhat enticed by more streamlined administration and a less draconian penal system. Last year’s payment window had given some cause for confidence, with payments largely having been received before the end of 2020, in sharp contrast with previous years.

2.2.2 Revenue options have remained much the same as always, with low input grassland and high value arable options such as wild bird seed mixes remaining popular. However, there were a few key changes to capital options. Among these, positively, there is now an option for new flooring for cattle buildings. This year this option was only available to farms in areas at high priority for water quality. For 2022 applicants, however, coverage will extend, along with the popular yard concreting, to moderate priority water quality areas, opening these options to a wider variety of claimants. On the other hand, Mid-Tier agreements no longer allow an unlimited amount of capital items; instead the maximum is £150,000 of items in total per agreement, with a maximum of £100,000 of this in some circumstances for boundary improvement items such as hedging and fencing. Moreover, many items for boundary improvement now require claimants to control both sides of the boundary in question, limiting the scope for grant-funded improvements to perimeter hedging.

## 2.3 SUMMARY

All in all it has been a successful 2021 with relatively few complications given the many changes facing farming subsidies in general. We will continue to follow developments about all current schemes, including the emerging Sustainable Farming Incentive, in whose pilot we are heavily involved. You can read Alasdair Squires’ blog about this at [SFI 2021 pilot – Alasdair Squires’ blog - Townsend Chartered Surveyors](#)



### 3. UK ENVIRONMENTAL CREDIT TRADING – 2021

#### 3.1 WOODLAND/PEATLAND/SOIL CARBON TRADING OVERVIEW

- 3.1.1 Since opening our carbon trading desk there has been a lot of interest from parties looking to both buy and produce carbon credits. Our trading registers have expanded and now specialise as Woodland, Peatland or Soil carbon credits.
- 3.1.2 In the UK, we have the Woodland Carbon Code and the Peatland Code with a Soil Carbon Code expected by 2023. These set Government approved standards for UK woodland creation and peatland restoration projects, which the landowner can use to verify and then trade the carbon they sequester in the woodland or peatland. This creates security for the purchaser who knows the carbon credit has been professionally validated with sequestered carbon having ‘permanence’ and providing ‘additionality’ to what would have been sequestered anyway.
- 3.1.3 The Woodland Carbon Guarantee is a scheme that uses the Woodland Carbon Code. This provides the landowner with a confidence that their captured carbon can be sold at a guaranteed minimum price via a contract with the Government or sold in the open market, whichever provides the best value.
- 3.1.4 Also one of the most attractive elements of creating new woodland is that BPS payments can continue in these areas when using the various grants available (including Countryside Stewardship Woodland Creation and Woodland Carbon Fund capital grant), provided the land was claimed on for Single Farm Payment in 2008.
- 3.1.5 If you are interested in woodland creation and the selling of carbon credits or wish to purchase some to offset your business’s carbon footprint then contact our carbon trading team.
- 3.1.6 The Peatland Code involves improving peatland in poor condition. This peatland will release carbon stored into the atmosphere until it is improved. It is this improvement that generates credits. The Code measures peatland carbon based on how much would have been released without the improvement. The improvement would involve actions such as rewetting dry areas and re-establishing permanent green cover over bare patches. Activities can range from simply blocking drains and changing grazing regimes to full scale “rewilding” projects.
- 3.1.7 We have clients looking to acquire peatland for restoration projects, contact us if you have suitable land.
- 3.1.8 We currently have a register of Soil Carbon Units to sell from individual farms. These types of unit are not currently part of a verified scheme but can still be used for voluntary offsets. They are a product of intensive soil management and crop rotations. Farmers can capture carbon through soil management and changing of farming practices. A Government Soil Carbon Code is under development, register with us now to make the most of the opportunities it will present once complete.

#### 3.2 BIODIVERSITY NET GAIN

- 3.2.1 The Environment Bill will introduce a requirement for planning applications to meet a “biodiversity gain objective”. That is, they must somehow lead to a net improvement in biodiversity preferably at the site of the works, but elsewhere if this is not possible. This must contribute a 10% biodiversity net gain on their developments.



- 3.2.2 Biodiversity value may include off-site options such as purchasing 'biodiversity credits' or contributing to a habitat registered on the Government's proposed 'biodiversity gain register'. A farmer or landowner will perform works to improve biodiversity on their holding in exchange for a payment. The 'net gain' will be calculated by estimating the pre-development biodiversity value (at time of planning application submission) and deducting it from the post-development biodiversity value.
- 3.2.3 These works might include Stewardship-style options such as wildflower meadows, hedgerow improvement or buffer strips around arable fields. More lucrative payments could come from larger-scale habitat creation such as rewilding, as these will enable larger and more expensive developments. Biodiversity value must be calculated using the DEFRA biodiversity metrics. DEFRA have proposed an outline tariff of £9,000 to £15,000 per biodiversity unit but each agreement will have its own unique value.
- 3.2.4 The Environment Act, which will bring this new market to the fore, was enacted on 9<sup>th</sup> November 2021. Farmers who will have Biodiversity Offset to sell, i.e. who have parts of their holding they can alter to improve biodiversity, should contact us now to best make use of this opportunity
- 3.3 NITRATE OFFSET
  - 3.3.1 Nitrate offsets involve developers buying 'nitrogen credits' – to offset the nutrient footprint of new homes. This could include the creation of habitat such as wetlands, meadows and woodland. The Government announced a pilot scheme on the 11<sup>th</sup> September 2020 to enable development on the Solent in Hampshire. Development had previously been prevented because of nitrate pollution to the River Solent.
  - 3.3.2 Developers will bid to use these improvements to offset nitrate contamination from their developments. Landowners listing improvements will receive a payment from the highest bidding developer to put them into place. The developer can then use them to help attain planning permission.
  - 3.3.3 Although this is currently a pilot scheme to be limited to one particular area, the Government has suggested it may be expanded into other areas facing similar issues.
  - 3.3.4 Although neither Nitrate nor Biodiversity net gain is a legal requirement yet some authorities are already insisting on it for new developments. Register your interest with us now to take advantage of this new market.
- 3.4 SUSTAINABLE FARMING INCENTIVE/ENVIRONMENTAL LAND MANAGEMENT
  - 3.4.1 The Government have confirmed that carbon sequestered, and other eco-system services produced under an ELM scheme may be traded in the open market. In effect you can be paid to produce these benefits then receive money through the sale of them.
- 3.5 TRADING VALUE
  - 3.5.1 In previous years the UK carbon market consisted of businesses self-regulating their offsetting, purchasing credits as part of their individual corporate 'green' strategy. As such the market was unstable with inconsistent prices. Carbon credits sold under the Woodland Carbon Code previously fetched values of between £7-12/Tco<sub>2</sub> for PIUs and over £20/Tco<sub>2</sub> for WCUs. Generally, the cheapest prices were paid to landowners who quickly offloaded their credits to international trading firms speculating on the future market with an aim to "buy cheap and sell dear". The highest were for carbon on particularly marketable sites by buyers keen to use their carbon for public relations. Note that these prices are for

Pending Issuance Units, which represent carbon which is not yet sequestered but likely will be in the future.

- 3.5.2 With the Government's Woodland Carbon Guarantee, auctions have established a price for sequestered carbon over the last year. The most recent completed auction at the time of writing, closed on 1<sup>st</sup> August 2021 and averaged £20.32 per unit among winning bids. Auction results so far have ranged from £17.31 to £24.11 per unit. The next auction will be in 2022.

### 3.5.3 *Market potential*

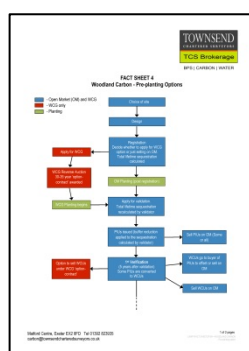
Whilst the sponsoring of woodland creation and trading of carbon has existed in some form for many years, this market is set to flourish as Government policy and public opinion increasingly turn 'green'. An increasing demand for credits means there is a need for innovative landowners and farmers with the ability to produce carbon credits and a desire to diversify and add an additional income stream to their business.

### 3.5.4 *TCS Brokerage*

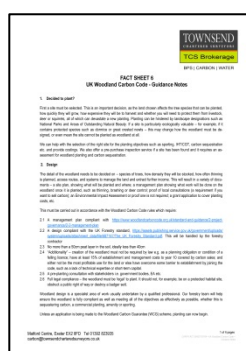
3.5.4.1 As the UK's leading broker for BPS entitlements we are now forging ahead in the Carbon trading market to create a more open and transparent trading platform where farmers and landowners will be able to ensure the best price for their Carbon. This will avoid City financial brokers being able to dominate the market as they did with solar and wind, reducing the returns to those owning what are increasingly now becoming recognised as the most valuable assets on our islands; the land, water and air.

3.5.4.2 Contact us well beforehand if you are thinking of planting trees for the latest Carbon market prices and advice on how to get about getting them from the planning of a wood/forest through to a sale. Our team can help you with the planting grants available, how, what and where to plant, the registrations and costs involved, and how and when to sell the Carbon.

## 3.6 WOODLAND CARBON FACT SHEETS



**Fact sheet 4 – Pre-planting options**



**Fact sheet 6 –Guidance notes**

## 4. UK WATER ABSTRACTION LICENCE TRADING - 2021

### 4.1 OVERVIEW

The trading and transfer of water abstraction licences is a specialist practice, and our team has years of experience in this area with ex-Environmental Agency employee experience. This combines with our valuation, expert witness and litigation expertise and the UK-wide market exposure only TCS Brokerage can offer with over 34 years' experience of trading farm quotas/entitlements across the UK.

### 4.2 REGULATORY CONSIDERATIONS

4.2.1 Water abstraction (extraction) for industry, agriculture and drinking water, is regulated by the Environment Agency (EA) through the abstraction licensing system. Abstraction licence trading allows water users to buy or sell their water rights. This is beneficial because, with the exception of high-flow river water, no new licences are available throughout most of England and Wales. The only means of securing a new, year-round water supply is to purchase it from a water company, construct a storage reservoir, or to buy an abstraction licence.

4.2.2 Abstraction licence trades fall broadly into three types:

- 'Water transfers' where the abstraction licence is included within the sale of land.
- 'Non-regulated trades' where there is no requirement to change the terms or conditions of the licence, for example, supplying water by pipe to a neighbour to use for the same purpose.
- 'Regulated trades' where the point of abstraction or its purpose changes.

4.2.3 The EA has minimal involvement in licence 'transfers' or 'non-regulated trades' but will get involved in 'regulated trades'.

4.2.4 In principle, the EA encourages licence trading because it allows them to allocate water resources to meet demand without issuing licences for additional water. They must however, meet the requirements of the Water Framework Directive which demands that abstraction is reduced in areas where water resources are under stress. Most of the rivers and groundwater supplies (aquifers) in the east and southeast of England are calculated to be under water stress with large parts of Wales, the southwest and north of England also affected. In an effort to return abstraction to sustainable levels the EA has recently started to use water trading as an opportunity to reduce licence quantities. This approach has suppressed licence trading activity in recent years.

### 4.3 RESTRICTIONS ON ABSTRACTION LICENCE TRADES

4.3.1 The EA divides England and Wales into 97 separate 'water management catchments'. Each of these has a bespoke abstraction licensing strategy which sets out how water resources will be managed by the EA. Their approach to abstraction licence trading varies for each catchment according to local conditions but the same basic rules apply across the board:

- Trades must occur within the same waterbody and/or aquifer
- Surface water licence trades can generally only be made downstream
- Most trades are subject to a 'sustainability reduction' which removes any spare or previously unused water from the system.
- Changes in consumptive losses must be accounted for. (An irrigation licence returns less water to the environment than an equivalent vegetable washing licence. The increase in consumptive loss is deducted from the available quantity).

4.3.2 EA trading rules are becoming increasingly restrictive in the more water stressed eastern and southern parts of the country. For example, their Anglian Area trading policy issued in December 2020, applies a substantial 'sustainability reduction' to licence trades, requiring that the quantity available to the 'donor licence' is reduced to the average annual licence uptake between the years 2007 and 2012, before a trade can be considered.

4.3.3 The combined effect of sustainability reductions and the consumptive loss rule mean that there can be a significant difference between the amount of water stated on the licence and the amount available to trade.

4.3.4 Although the EA is taking steps to make licence trading easier with the introduction of temporary (rapid turnaround) trades, the limits on the spatial extent of potential trades and the risk of losing a large part of the licence has placed a strong chilling effect on regulated trading activity. Informal (unregulated) trades are, however, very common, particularly within the agricultural sector. Because of this informal nature, it is not possible to place a figure on the number of unregulated trades taking place, but industry experts estimate that up to 25% of agricultural abstraction relies on traded water.

#### 4.4 ABSTRACTION LICENSING 2021

4.4.1 The wet winter across the UK in 2020/21 replenished aquifer groundwater levels which were getting dangerously low after several dry winters. The dry spring however caused many farmers to draw on their abstraction licences earlier than usual, promoting an increased interest in short-term trades as a means of making up anticipated water deficits. Heavy rainfall from May onwards alleviated the risk of potential shortages which cooled early interest in temporary water trades.

#### 4.5 ABSTRACTION LICENCE ESTIMATED VALUE

4.5.1 The value of an abstraction licence can be broken down into its 'asset value' (the uplift in land or property value attributable to a licence) and its 'use value' (the amount a buyer will pay to use the water). It is difficult to get a 'fix' on market values due to the informal nature of most trades and the variations in local water demand and scarcity. 'Asset value' also varies according to the terms of the abstraction licence (including its expiry date and any constraining conditions) but as a rule of thumb, the increase in property value attributed to a licence is in the region of £10/m<sup>3</sup>.

4.5.2 Licence 'use value' depends largely on how the water is supplied. For agricultural irrigation in 2021, the 'use value' is approximately £0.50/m<sup>3</sup> broken down as follows:

- Water right: £0.16/m<sup>3</sup>
- Supplied to field (pumps and pipeline) £0.17/m<sup>3</sup>
- Application as irrigation (including labour and machinery) £0.17/m<sup>3</sup>

#### 4.6 LONG TERM PROSPECTS FOR ABSTRACTION LICENCE HOLDERS

4.6.1 The EA will continue to 'claw back' licences in over-licensed, water-stressed catchments in an effort to meet its 2027 Water Framework Directive sustainability obligations. Holders of existing 'time limited licences' are likely to take the brunt of these reductions although 'non-time-limited' and 'grandfather rights' type licences may also be affected in some water critical/high conservation areas such as the Norfolk Broads.

- 4.6.2 The UK Government is currently working on bringing the abstraction licensing regime into line with the Environmental Permitting Regulations (EPR). Although the effects of this are unlikely be felt on the ground before 2030, the EPR is likely to give the EA increased scope to address historic over-abstraction, particularly in the south and southeast. This will affect all sectors, reducing the quantity of water available to: public water supply, industry and agriculture. These regulatory factors combined with the reduction in summer rainfall expected with climate change will continue to put pressure on the UK's water resources, driving up both the 'asset value' and 'use value' of sustainable abstraction licences into the foreseeable future.
- 4.6.3 Both the EA and Defra recognise the need to make better use of high flow and flood water and a new round of RPA grants for farm reservoirs and water management schemes has recently been announced. Support has also been provided by Government to help develop innovative, multi-beneficiary flood reduction and water supply schemes under the 'flood and coastal resilience innovation programme'. It is likely that we will continue to see funding streams of this nature being rolled out over the next few years.

For previous year's trading graphs/results and market reports please [click here](#) and scroll to the bottom of the page, then click on the item you would like to see.

The information in this report, whilst mostly applying at the time of the 2021 trading, is published in good faith as a broad comment only as at 7.1.22 and should not be relied on without further professional advice and/or checking with the appropriate authority. Townsend Chartered Surveyors cannot be held responsible for any errors or omissions.



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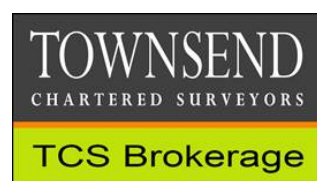
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