Scotland's Bank-backed Land Grab

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There is an almost universal belief by farmers that high land prices are beneficial to farming. I contend that high land prices are a curse on farming. I do not deny that some landowning farmers become very rich from high prices, but only when they sell. Most of them make more money from selling their farms than they did throughout the time they were farming. There is a clear distinction between what is beneficial to a few farmers and what might be beneficial to farming in general and especially to those who want to farm but have no land.

In Scotland the average price of farmland is more than £4,000 per acre and has increased by 17% in the last year. The average price of arable land is £8,000 per acre. The market price of land is much more than can be justified by its productive capacity. Take as an example land for growing wheat which yields 3 tonnes per acre: the current price of wheat ex farm is about £125 per tonne which gives a gross income of £375 per acre, the current cost of growing wheat is about £115 per tonne or £345 per acre, leaving a surplus of £30 per acre.

With arable land at £8,000 per acre and the cost of borrowing at about 4%, the annual interest cost is £320 per acre. This is unaffordable at current wheat prices. The price of wheat would need consistently to be £250 per tonne to justify a purchase price for arable land of £8,000. The traditional method for estimating the price of a farm which would enable the purchaser to fund a mortgage and to make a living from the farm puts the price of a farm at 20 times its rent. This was the basis of the price we paid for our farm in 1992. The Royal Institute of Chartered Surveyors (RICS) Land Market Survey (2015) states that the average rent of arable land is £85 per acre which means its purchase price should be £1,700 per acre. The current acreage price of £8000 is 4.7 times more expensive than its productive capacity would justify and its rent would be £400 per acre.

Why is the market price of farmland so high?

1. The rising price of farmland is attractive to non-farmers who have money to invest. They are not concerned with the land's productive capacity, they are hoping for increases in its price.
2. Farmland is favourably treated for taxation; Inheritance tax and Capital Gains Tax are avoidable and "farmland is an efficient asset for the transfer of wealth".
3. Farmers buy about half of the land offered for sale. Those who own their farms free of debt can afford more land by averaging the cost of new borrowing over the whole of their enlarged farms.
4. Landowning farmers who receive non-means-tested income support in the form of subsidies which are surplus to requirements invest in more land and thereby increase their subsidy income.
5. Rent-seeking banks persuade owner-occupiers with no mortgage to buy more land.

What are the disadvantages of high farmland prices?

1. Young newcomers to farming are prevented from buying land unless they have access to money from elsewhere.
2. There is an effective monopoly in farmland purchasing when only those who already own land are able to buy, which results in large farms becoming larger, and smaller farms becoming fewer.
3. Landowners are unwilling to offer land for rent except on short leases because land which is subject to a long term tenancy has a market price which is about half that of freehold land.
4. Landowners are unwilling to sell farms to their long-lease tenants because the price differential means that the tenants could make a substantial financial gain by selling at the freehold price.

How will LVR reduce farmland prices?

The introduction of a land rental charge would end speculative investment in farmland. Farmers who currently try to maximise their riches by maximising the area of land they own would minimise the area they own to maximise profits and minimise the amount of rent they had to pay into the public purse. This would increase the area of land available to be farmed by newcomers to farming who currently cannot afford to acquire land.

Rural Employment

The number of occupiers of farm holdings has fallen by 1,952 in the last ten years, an indication of the reduction in the number of smaller farms which have been taken over by larger farm businesses.

There are several farms in our neighbourhood which were owner-occupied when we moved to Fife in 1992. They are now part of larger farm businesses. Some have been bought and the rest are farmed under contract. Conventional wisdom says that these smaller farms had to be taken over because their size was insufficient for them to be financially viable. The following description of one of the farms shows that this statement is untrue.

The farm has 185 acres with a good farmhouse. The farmer grew wheat and potatoes and kept cattle and sheep. He had inherited the farm from his father and I believe that he had no debt. It appeared that sufficient profit was made to afford a comfortable living. It was financially viable as an independent farm but ceased to be so when it was bought by a large farm business because its price was £1.2 million. Its price based on the 20 x rent formula would have been £314,500.

There are no official statistics on the number of farm holdings which are farmed by large farm businesses, but the number and size of holdings in Scotland is worthy of attention. There are 52,740 holdings with an average size of 261 acres; 8% have an average of 2,350 acres and account for 76% of the total farmland area; 40% have an average of 146 acres and account for 22.2% of the area and 52% have an average of 8.3 acres and occupy 1.6% of the farmland area. Many but not all of the smaller farms are farmed part-time, but there is scope for their number to increase when the land rent charge is introduced and land becomes available from existing larger farms.

Comparison with countries in the rest of Europe shows that the structure of farming in Scotland is exceptional. The average size of farms in the EU27 is 54 acres and farms between 86 and 135 acres are classified as Big. Medium sized farms have between 50 and 86 acres and Small farms between 17 and 50 acres. The average farm size in Scotland is almost five times that in the EU27. Within the UK it is more than twice the average in England and two and a half times that in Wales and Northern Ireland.

The number of people employed in farming continues to decline. Between 2004 and 2014 the regular workforce has fallen from 63,832 to 59,636, a drop of 4,196. The data from our farm indicate why this is happening. We employ two full-time staff and each has an annual gross income of about £31,000. Their take-home pay is £20,500 and we send £10,500 for each to HMRC every year. In other words, we employ two staff and send the take-home pay for another to the government!

Contrast this with what happens when we buy another tractor. The investment allowance is an attractive incentive to buy more farm machinery. It should not be surprising that the size of tractors is increasing and the number of employees is falling.

There is no shortage of work to be done on farms and the abolition of income taxes following the switch to a land-rent charge would allow more people to be employed. Not only would the cash costs be reduced but also the costs of stress associated with complying with the outdated and complicated employment tax laws. Think of the relief and the ability to concentrate on the job of farming!