

# AGRICULTURE, ENVIRONMENT AND MARINE

## Results from the 2015 Survey of Bank Advances to Scottish Agriculture

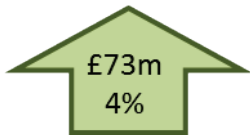
8<sup>th</sup> September 2015

### 1. Main findings

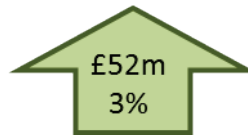
Total outstanding loans to agriculture up from £1.95 billion last year.

£2.03 billion

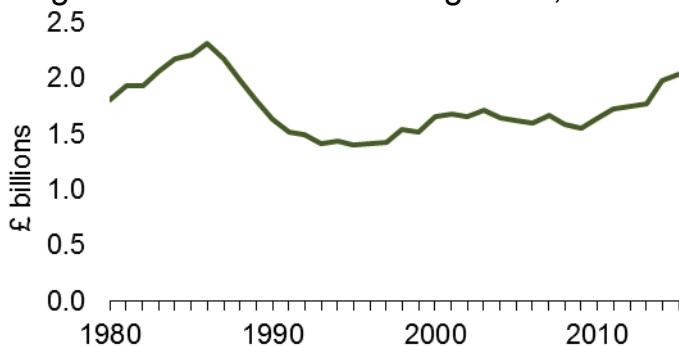
Change since last year



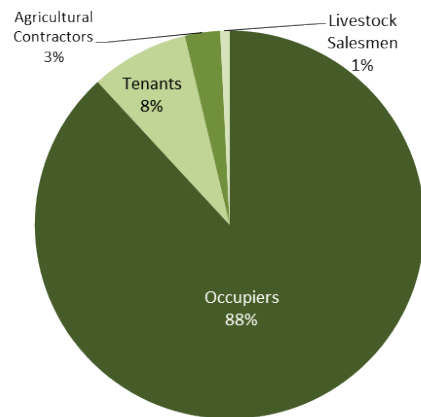
Real terms<sup>1</sup> change since last year



Long term trend in outstanding debt<sup>1</sup>, 1980-2015



Loans by recipient type 2015



<sup>1</sup> Accounting for inflation. See explanation on page 3

## Contents

<b>1. Main findings</b>	<b>1</b>
<b>2. Commentary</b>	<b>3</b>
<b>3. Other information relating to farm finances</b>	<b>5</b>
3.1 Total Liabilities	5
3.2 Interest payments	5
3.3 Bank Borrowing by farm type	5
3.4 Bank of England	6
<b>4. Notes</b>	<b>7</b>
4.1 Background	7
4.2 Uses of the information	7
4.3 Methodology – data collection	7
4.4 Methodology – alternative sources	7
4.5 Data quality	8
4.6 Revisions	8
4.7 Other publications	8
<b>5. Tables</b>	<b>10</b>
Table 1: Bank advances to Scottish agriculture at 31 <sup>st</sup> May, 1980 to 2015	10
Table 2: Bank advances to Scottish agriculture by recipient type, 1980 to 2015	11
Table 3: Bank of England data on monetary financial institutions lending to UK residents – by sector, 2010 to 2015	12

## 2. Commentary

The survey of bank advances collects statistics on outstanding debt from all of the banks and mortgage companies that lend to Scottish agriculture.

At the 31<sup>st</sup> of May 2015, the total outstanding loans from banks and mortgage companies to Scottish agriculture was £2.03 billion. This was £73 million (four per cent) higher than the previous May.

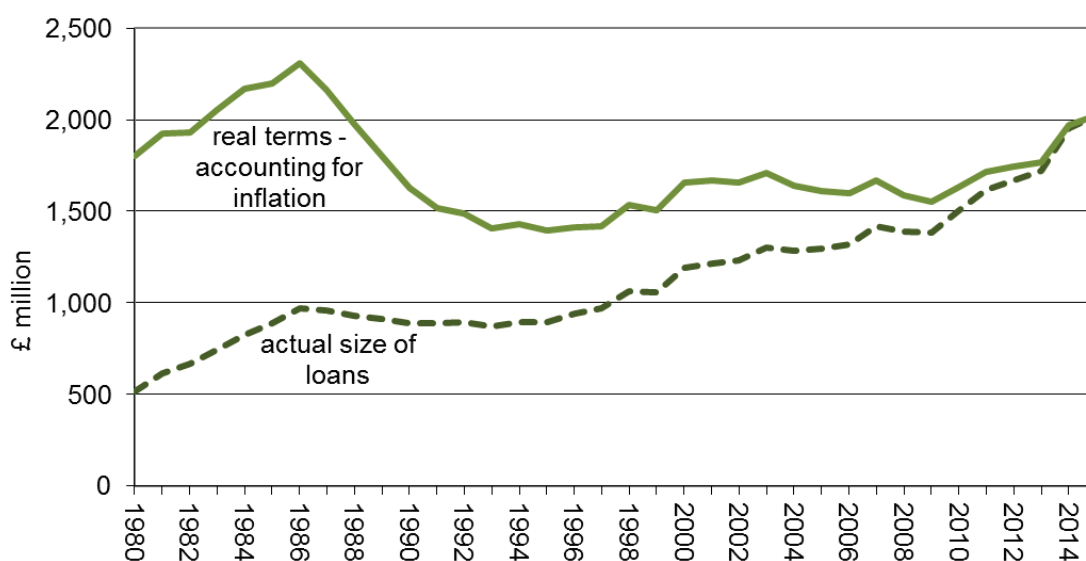
The change in outstanding debt over time is also shown in real terms. Taking into account inflation in this way gives an increase in farm borrowing in 2015 of £52 million or three per cent.

What does “in real terms” mean?

It shows, for previous years, the value of the debt expressed in today’s prices. This is because, for example, a loan of £10,000 in 1990 could have paid for something that nowadays would need a loan of £20,000, so we say the 1990 loan was worth £20,000 in today’s prices.

To do this we simply multiply our data on previous years’ debts by the amount prices have gone up since then. In our example prices have doubled, so we multiply the 1990 debt by two to see what it would be worth in today’s prices. For these multipliers we use the GDP deflator, from the Office for National Statistics (ONS)<sup>2</sup>.

Chart 1 shows the trend in outstanding debt since 1980, both in current and real terms.



see table 1 for data

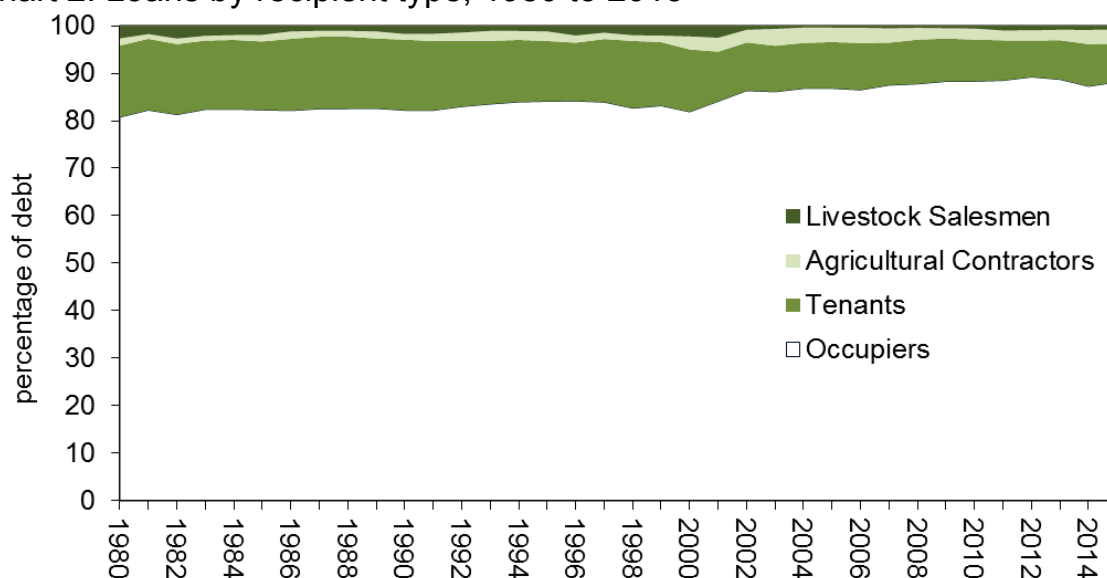
<sup>2</sup> The GDP deflator can be found at the following internet address, [www.gov.uk/government/collections/gdp-deflators-at-market-prices-and-money-gdp](http://www.gov.uk/government/collections/gdp-deflators-at-market-prices-and-money-gdp)

In real terms (after removing the effect of inflation), outstanding debt has remained relatively constant over the last 25 years. So although actual debt has increased, prices have also gone up at a fairly similar rate, and hence the value of the debt has remained broadly constant.

Real terms debt peaked in the mid-1980s at around £2,100 million, prior to a period of high inflation which rapidly eroded the value of the sector's outstanding debt. Since about 2000 outstanding debt had been keeping roughly in line with inflation. This is however the sixth consecutive year that the outstanding debt has risen slightly.

Chart 2 shows the breakdown of loans by recipient. Most of the outstanding loans to agriculture are to owner-occupier farmers (88 per cent). The remainder went to tenant farmers (eight per cent), agricultural contractors (three per cent) and livestock salesmen (one per cent).

Chart 2: Loans by recipient type, 1980 to 2015



see table 2 for data

The change in the trend of chart 2, with the relative increase of loans to occupier rather than to tenants, reflects changes in the structure of agriculture.

### **3. Other information relating to farm finances**

The following financial data is also available from different sources, for Scotland or the UK, and may be of interest;

#### **3.1 Total Liabilities**

Estimates of the total liabilities of Scottish agriculture were published in table A13 of the 2015 Economic Report on Scottish Agriculture (ERSA), available at the link below:

[www.gov.scot/Publications/2015/06/8844/81](http://www.gov.scot/Publications/2015/06/8844/81)

In 2014, total liabilities stood at an estimated £2,630 million, of which £1,625 million (62 per cent) was from bank borrowing (split fairly equally between long-term and short-term). The remaining £1,005 million came from mortgage companies, hire purchase, leasing, family members and other sources. Total liabilities represented seven per cent of total assets.

#### **3.2 Interest Payments**

We receive quarterly returns of lending to Agriculture, Forestry and Fisheries from the main banks and mortgage companies operating in Scotland. The results of this, along with the annual Bank Advances survey are used to estimate the cost of borrowing to feed into estimates of Total Income From Farming (TIFF). In 2014, the total net cost of borrowing to the agriculture industry was estimated at £82.2 million. A commentary on trends in interest payments over the past ten years was included in the ERSA, available at the end of section 3, at the following link:

[www.gov.scot/Publications/2015/06/8844/42](http://www.gov.scot/Publications/2015/06/8844/42)

#### **3.3 Bank Borrowing by Farm Type and Tenure**

The Farm Accounts Survey (FAS) provides a more detailed insight into the pattern of bank borrowing across different farm types and tenures. The Farm Accounts Survey is representative of larger farms above 0.5 standard labour requirements, excluding pig, poultry and horticultural farms. The latest available results from 2013-14, published in detail in the 2015 ERSA, show that the average farm had external liabilities of £139,000 of which bank loans and overdrafts accounted for £84,000. Bank borrowing ranged from £13,000 for Specialist Sheep LFA farms to £183,000 for Dairy farms. Table B11(1d) of the accompanying dataset, which contains results across all farm tenures, is available at:

[www.gov.scot/Resource/0048/00484368.xlsx](http://www.gov.scot/Resource/0048/00484368.xlsx)

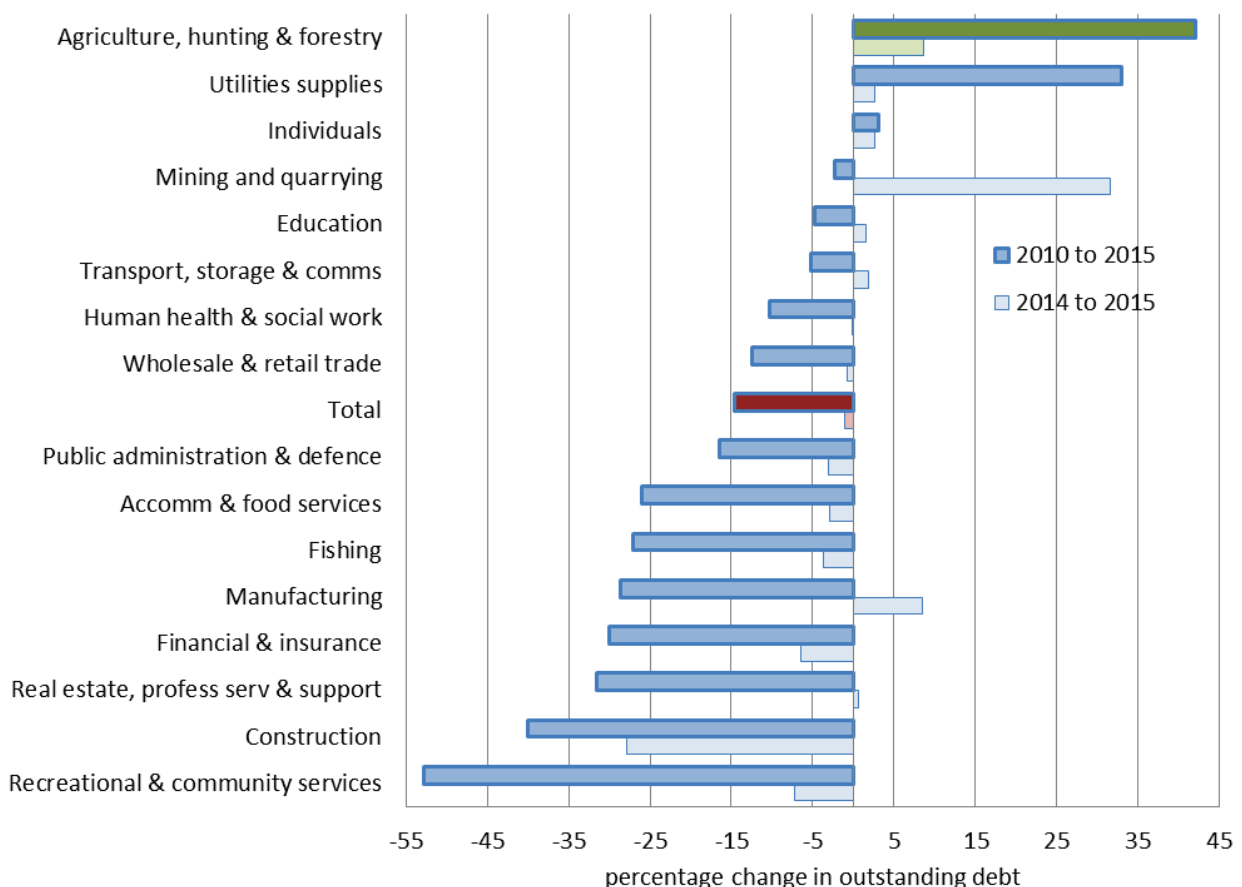
### 3.4 Bank Of England figures for the UK

In the UK as a whole, agriculture has seen the largest growth in outstanding debt of any sector, at 42 per cent over the period 2010 to 2015.

Data from the Bank of England show that the outstanding Sterling and foreign currency loans by monetary financial institutions to UK ‘Agriculture, Hunting and Forestry’ (treated as one sector) rose nine per cent between May 2014 and May 2015, to £16.7 billion. This followed increases of one, seven, eleven and nine per cent the previous four years, making it the only sector to see growth in each of the last five years. Utilities and individuals are the only other sectors that have seen increases in each of the last three years.

Mining and quarrying saw the largest increase in 2015, with a 32 per cent increase, but not quite bringing it back to 2010 levels. Utilities is the only sector that has fared comparably with agriculture, hunting and forestry, seeing a 33 per cent increase since 2010. The overall total debt was down one per cent since 2014, or down 15 per cent since 2010. These data are not adjusted for inflation.

Chart 3: Change in outstanding lending to UK businesses; comparison of May 2015 with May 2010 and with May 2014.



See table 3 for data

Source: Table C1.2, “Total lending amounts out”

<http://www.bankofengland.co.uk/statistics/pages/bankstats/current/default.aspx>

## 4. Notes

### 4.1 Background

The annual Survey of Bank Advances to Scottish Agriculture is effectively an annual snapshot of the outstanding debt of Scottish agriculture at the end of May. Please note that this is not an estimate of new lending as we do not have access to the underlying debt profile of Scottish agriculture, i.e. we do not know what are new loans, and neither do we know the repayment timescale associated with these loans.

### 4.2 Uses of the information

These statistics are used by government and stakeholders to monitor the outstanding debt of Scottish farmers and to inform related debate and policies.

The survey is conducted to help construct an estimate of the total interest payable on borrowing by Scottish agriculture. This allows us to adequately represent this cost as part of the annual compilation of the Scottish Agricultural Account, i.e., the Total Income From Farming (TIFF) estimate. The annual TIFF estimate is required in order to meet the requirements of Statistical Regulations of the European Commission.

[www.scotland.gov.uk/stats/bulletins/01138](http://www.scotland.gov.uk/stats/bulletins/01138)

The statistics also help the government to form, monitor and evaluate policy, and help in assessing the economic well-being of the agricultural sector.

### 4.3 Methodology - data collection

The Survey of Bank Advances to Scottish Agriculture is conducted annually by the Scottish Government's Rural and Environment Science and Analytical Services Division (RESAS).

Data for the survey is collected directly from all banks and mortgage companies who are involved with lending to Scottish agriculture. The outstanding debt for each bank is aggregated to provide a total for Scottish agriculture.

GDP deflator data from the Office for National Statistics (ONS) is used to present the series in real terms, which effectively shows how much older debt would be "worth" in 2015 prices.

### 4.4 Methodology – alternative sources

There are no other appropriate sources for this data, which means that a specific survey has to be carried out to collect the information required.

Given the need to estimate the interest bill for all of Scottish agriculture and the small-scale nature of the bank advances survey it is deemed to be the most appropriate mechanism to collect the data that is needed. The survey is not particularly onerous to complete and has a low overall respondent burden.

Whilst there are other sources of similar data available, it should be noted that these other sources do not provide us with precisely what is needed to model the interest bill of Scottish agriculture;

- we collect quarterly data on lending from the British Bankers Association (BBA) although this only provides an aggregate lending figure for ‘agriculture, hunting, fishing and forestry’. This is collected to allow us to compile an accurate picture of the outstanding balance across the year, in order to apply appropriate interest rates.
- Although we do collect data on bank lending through the Farm Accounts Survey (FAS), we cannot rely solely on the FAS as (i) it is only representative of larger farms above 0.5 standard labour requirements and (ii) is not representative of wider Scottish agriculture (for example, horticulture, pigs and poultry units are excluded from the FAS sample).
- We also obtain data from the Bank of England on lending at a UK level for ‘Agriculture, Hunting and Forestry’ (treated as one sector), which are published in section 3.4.

#### **4.5 Data Quality**

Data undergo several validation processes as follows; (i) checking for any obvious errors on the survey returns upon receipt, (ii) auto-checking and identifying any internal inconsistencies once loaded onto the calculations workbook, (iii) auto-checking for any sudden changes in comparison with previous annual returns, (iv) assessing trends and volumes from the other data sources listed above at 4.4.

If necessary the banks are re-contacted to ensure their data is correct.

This is effectively a census of all banks and mortgage companies lending to Scottish agriculture, and returns were received this year from ten of the twelve organisations, but covering the vast majority of loans. A few banks were also unable to give the exact breakdown requested (e.g. between agriculture and fishery) and this split is therefore estimated using the ratios for other banks.

#### **4.6 Revisions**

The bank advances statistics tend not to be revised as a matter of routine. This is because the banks can usually supply robust data on the closing position of outstanding debt by the time the survey is conducted.

The Scottish Government’s policy on revisions is available at the following link [www.scotland.gov.uk/Topics/Statistics/About/CPSONRevisionsCorrections](http://www.scotland.gov.uk/Topics/Statistics/About/CPSONRevisionsCorrections)



#### **4.7 Other publications**

The next release of the Total Income From Farming (TIFF) statistics (which use the bank advances survey data) will be towards the end of January 2016.

The 2014 Total Income from Farming statistics are presented here:

[www.gov.scot/stats/bulletins/01138](http://www.gov.scot/stats/bulletins/01138)

The results of the 2013-14 Farm Accounts Survey are presented here:

[www.gov.scot/Publications/2015/03/9632](http://www.gov.scot/Publications/2015/03/9632)

The 2015 edition of the Economic Report on Scottish Agriculture, containing other financial information, can be accessed here;

[www.gov.scot/stats/bulletins/01156](http://www.gov.scot/stats/bulletins/01156)

Results from all Scottish Government agricultural surveys can be accessed here:

[www.scotland.gov.uk/Topics/Statistics/Browse/Agriculture-Fisheries/Publications](http://www.scotland.gov.uk/Topics/Statistics/Browse/Agriculture-Fisheries/Publications)

## 5. Tables

Table 1: Bank Advances to Scottish Agriculture as at 31st May, 1980 to 2015

May	Current	Real	Current	Real	Current	Real
1980	518	1,804	37.3	14.5	26	89
1981	616	1,924	19.0	6.7	30	95
1982	665	1,933	7.8	0.4	33	95
1983	741	2,051	11.5	6.1	37	101
1984	824	2,169	11.1	5.8	41	107
1985	886	2,198	7.5	1.3	44	109
1986	970	2,306	9.5	4.9	48	114
1987	958	2,166	-1.2	-6.1	47	107
1988	927	1,978	-3.3	-8.7	46	98
1989	911	1,800	-1.7	-9.0	45	89
1990	890	1,626	-2.3	-9.6	44	80
1991	886	1,519	-0.5	-6.6	44	75
1992	896	1,487	1.1	-2.1	44	73
1993	870	1,408	-2.9	-5.3	43	70
1994	894	1,430	2.8	1.5	44	71
1995	896	1,398	0.2	-2.3	44	69
1996	942	1,413	5.2	1.1	47	70
1997	968	1,416	2.7	0.2	48	70
1998	1,066	1,536	10.1	8.5	53	76
1999	1,058	1,508	-0.7	-1.8	52	74
2000	1,189	1,655	12.4	9.7	59	82
2001	1,213	1,671	2.1	1.0	60	82
2002	1,234	1,655	1.7	-0.9	61	82
2003	1,300	1,707	5.4	3.1	64	84
2004	1,283	1,637	-1.3	-4.1	63	81
2005	1,298	1,611	1.2	-1.5	64	80
2006	1,322	1,597	1.8	-0.9	65	79
2007	1,419	1,667	7.4	4.4	70	82
2008	1,390	1,587	-2.0	-4.8	69	78
2009	1,385	1,551	-0.4	-2.3	68	77
2010	1,506	1,634	8.7	5.4	74	81
2011	1,614	1,715	7.2	4.9	80	85
2012	1,670	1,746	3.5	1.8	82	86
2013	1,724	1,770	3.2	1.4	85	87
2014 <sup>3</sup>	1,952	1,974	13.3	11.5	96	97
2015	2,025	2,025	3.8	2.6	100	100

<sup>3</sup> Figures revised since published in 2014

Table 2: Percentage of Bank Advances By Recipient Type as at 31st May, 1980 to 2015

May	Farmers			Agricultural contractors	Livestock salesmen
	Occupiers	Tenants	Total		
1980	80.8	15.1	95.8	1.5	2.7
1981	82.3	15.0	97.3	1.0	1.7
1982	81.3	14.9	96.2	1.2	2.7
1983	82.4	14.5	96.9	1.0	2.1
1984	82.5	14.6	97.0	1.0	2.0
1985	82.3	14.4	96.7	1.4	1.9
1986	82.2	15.1	97.3	1.5	1.2
1987	82.5	15.2	97.7	1.3	1.0
1988	82.6	15.1	97.7	1.2	1.0
1989	82.6	14.7	97.3	1.5	1.2
1990	82.2	14.9	97.1	1.2	1.7
1991	82.2	14.6	96.8	1.5	1.7
1992	83.0	13.9	96.9	1.7	1.4
1993	83.5	13.3	96.8	2.1	1.1
1994	84.0	13.1	97.0	1.9	1.1
1995	84.1	12.7	96.8	2.0	1.2
1996	84.2	12.3	96.4	1.5	2.0
1997	83.9	13.3	97.2	1.3	1.4
1998	82.7	14.2	96.8	1.2	2.0
1999	83.2	13.4	96.6	1.4	2.0
2000	81.9	13.1	95.0	2.7	2.2
2001	84.1	10.5	94.6	2.9	2.5
2002	86.4	10.1	96.5	2.7	0.8
2003	86.1	9.7	95.8	3.6	0.6
2004	86.8	9.6	96.4	3.2	0.4
2005	86.8	9.7	96.6	3.0	0.4
2006	86.5	9.9	96.4	3.2	0.4
2007	87.5	8.9	96.5	3.0	0.5
2008	87.8	9.3	97.1	2.5	0.4
2009	88.3	9.0	97.3	2.2	0.5
2010	88.3	8.8	97.1	2.3	0.6
2011	88.5	8.4	96.9	2.1	1.0
2012	89.2	7.7	96.9	2.2	0.9
2013	88.7	8.3	97.0	2.2	0.8
2014	87.3	8.9	96.1	3.0	0.9
2015	88.2	8.1	96.3	2.9	0.8

Table 3: Bank of England data on monetary financial institutions lending to UK residents – by sector, 2011 to 2015

	2011 May	2012 May	2013 May	2014 May	2015 May
Accommodation & food services	28,796	28,790	24,585	23,796	23,114
Agriculture, hunting & forestry	11,905	12,719	14,087	15,386	16,723
Construction	55,211	54,733	50,412	51,322	37,045
Education	11,123	11,459	11,548	10,890	11,063
Financial & insurance	883,249	824,146	885,174	710,768	664,828
Fishing	279	268	246	248	239
Human health & social work	21,350	21,639	21,223	20,273	20,255
Manufacturing	39,129	34,185	33,712	32,552	35,306
Mining and quarrying	6,243	6,112	5,121	5,366	7,064
Public administration & defence	8,644	10,437	9,398	11,035	10,692
Real estate, prof. services & support	235,423	214,703	201,640	179,286	180,410
Recreational & community services	13,418	11,303	10,491	9,640	8,947
Transport, storage & communications	33,007	33,327	29,977	27,951	28,486
Utilities supplies	10,238	9,705	10,193	13,383	13,742
Wholesale & retail trade	43,368	41,951	40,801	41,803	41,522
Individuals	1,127,143	1,131,265	1,135,627	1,163,057	1,193,338
Total	2,528,528	2,446,741	2,484,234	2,316,209	2,292,774

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The United Kingdom Statistics Authority has designated these statistics as National Statistics, in accordance with the Statistics and Registration Service Act 2007 and signifying compliance with the Code of Practice for Official Statistics.

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