

AGRICULTURE, ENVIRONMENT AND MARINE

Results from the 2017 Survey of Bank Advances to Scottish Agriculture

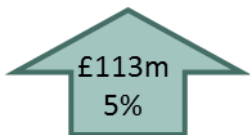
11th September 2017

1. Main findings

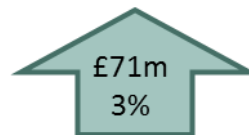
Total outstanding bank loans to agriculture were £2.32 billion, up from £2.20 billion last year.

£2.32 billion

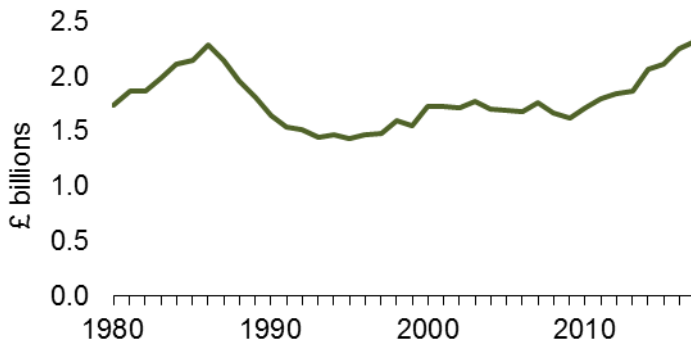
Change since last year



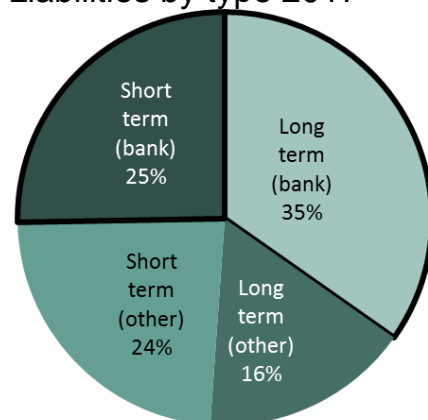
Real terms¹ change since last year



Long term trend in outstanding bank debt¹
1980-2017



Liabilities by type 2017



¹ Accounting for inflation. See explanation on page 3

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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)².

² The GDP deflator can be found at the following internet address,
www.gov.uk/government/collections/gdp-deflators-at-market-prices-and-money-gdp

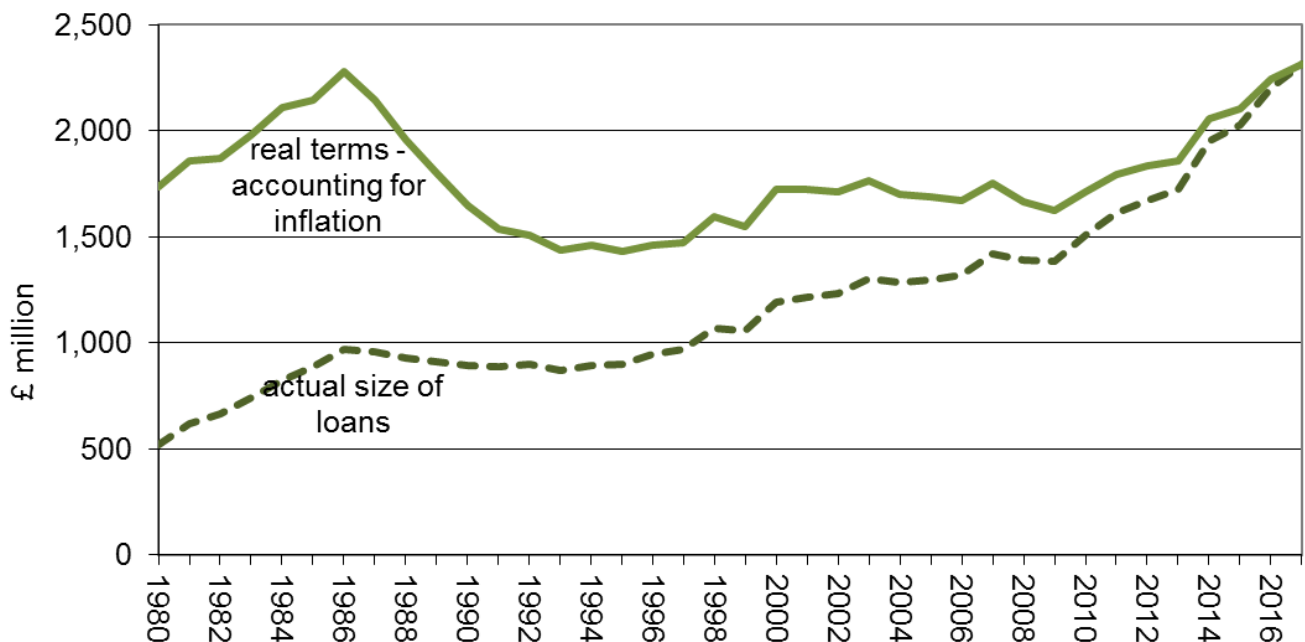
2. Commentary

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 31st May 2017, the total outstanding loans from banks to Scottish agriculture was £2.32 billion. This was £113 million (five per cent) higher than the previous May. The figure excludes an estimated £1.1 billion of liabilities from hire purchase, leasing, family members and other sources (see section 3.1).

The change in outstanding bank debt over time is also shown in real terms. Taking into account inflation in this way gives an increase in farm borrowing in 2017 of £71 million or three per cent.

Chart 1: Trend in outstanding bank debt since 1980, both in current and real terms.



see table 1 for data

In real terms (after removing the effect of inflation), outstanding debt had remained relatively constant over the period from 1990 to 2010. So although actual debt had increased, prices had also gone up at a fairly similar rate, and hence the value of the debt had remained broadly constant. However, this is now the eighth consecutive year that outstanding debt has risen above inflation, and the figure now tops the peak of the 1980s.

Information from the Farm Business Survey suggests that just over half of liabilities are long term loans, a proportion that has been slowly increasing over time. In 2003 about 39 per cent of debt was long term, compared to 51 per cent now. Liabilities equated to about eight per cent of assets, compared to 16 per cent in 2003.

Chart 2: Proportion of outstanding debt by type, 2003 to 2016

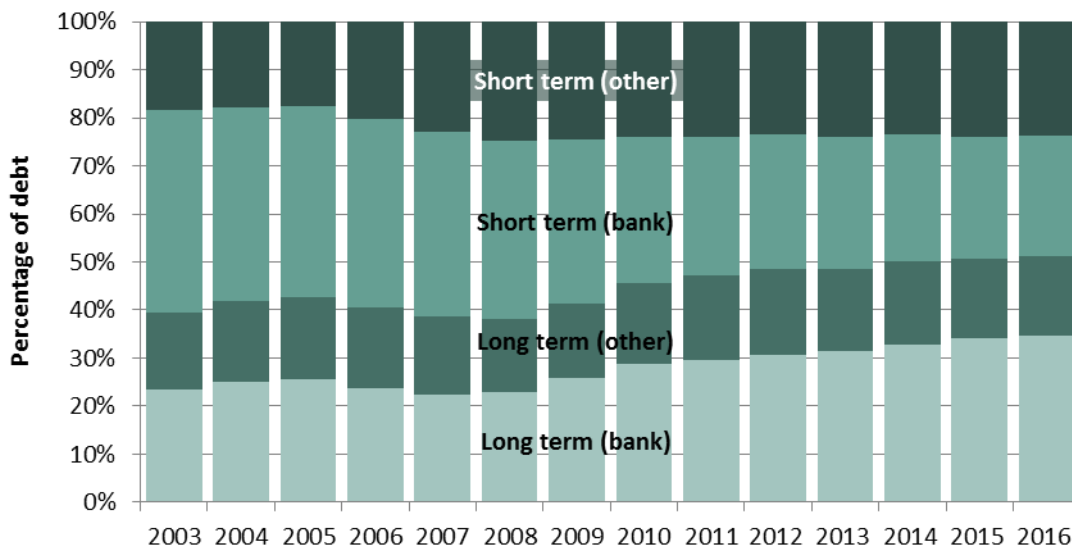
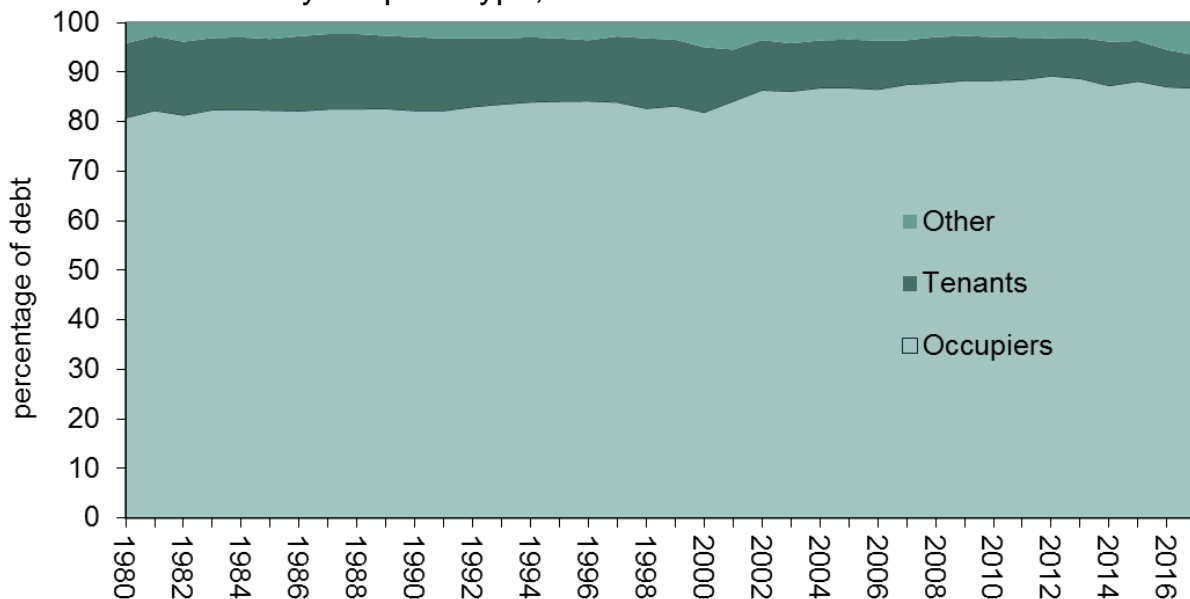


Chart 3 shows the breakdown of loans by recipient. Most of the outstanding loans to agriculture are to owner-occupier farmers (87 per cent). Tenant farmers accounted for seven per cent, with others, such as agricultural contractors and livestock salesmen, receiving seven per cent.

Chart 3: Bank loans by recipient type, 1980 to 2017



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, based on Farm Business Survey data, were published in table A13 of the 2017 Economic Report on Scottish Agriculture (ERSA) spreadsheets, available at the link below:

www.gov.scot/Topics/Statistics/Browse/Agriculture-Fisheries/PubEconomicReport/2017docs

In 2016, total liabilities stood at an estimated £2.7 billion, of which £1.6 billion (60 per cent) was from bank borrowing (split in favour of long-term). The remaining £1.1 billion came from hire purchase, leasing, family members and other sources. Total liabilities represented eight 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 2016, the total net cost of borrowing to the agriculture industry was estimated at £97 million.

3.3 Bank Borrowing by Farm Type and Tenure

The Farm Business Survey (FBS) provides a more detailed insight into the pattern of bank borrowing across different farm types and tenures. The FBS is representative of larger farms above 0.5 standard labour requirements, excluding pig, poultry and horticultural farms. The latest available results from 2015-16, published in detail in the 2017 ERSA spreadsheets, show that the average farm had external liabilities of £146,000 of which bank loans and overdrafts accounted for £85,000. Bank borrowing ranged from £17,000 for Specialist Sheep LFA farms to £186,000 for Dairy farms. Table B11(d) of the accompanying dataset, which contains results across all farm tenures, is available at:

www.gov.scot/Resource/0051/00517305.xlsx

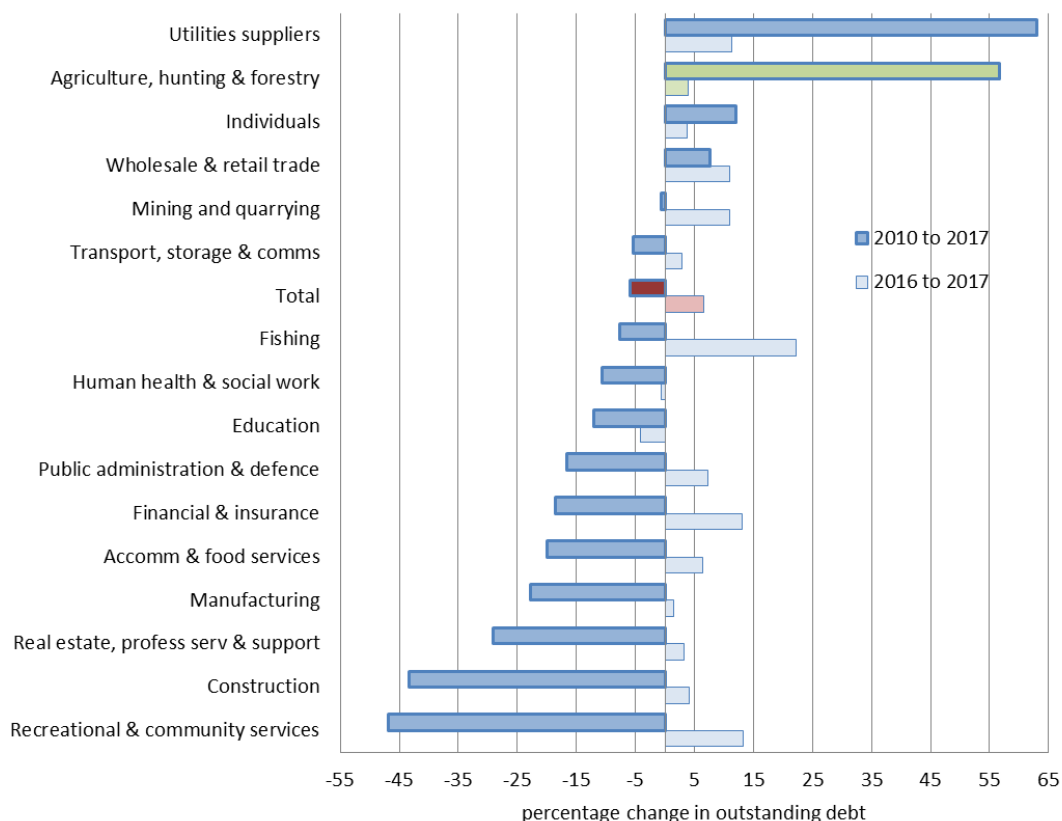
3.4 Bank Of England figures for the UK

In the UK as a whole, agriculture is one of only two sectors that have seen consistent growth in outstanding debt in recent years, at 57 per cent over the period 2010 to 2017.

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 four per cent between May 2016 and May 2017, to £18.5 billion. This followed increases of nine and six per cent the previous two years, making it the only sector to see growth in each of the last seven years. Utilities and individuals are the only other sectors that have seen increases in each of the last five years, with utilities being the only sector with growth comparable to agriculture.

Nearly all sectors saw increases between 2016 and 2017. Fishing saw by far the largest increases, with a 22 per cent increase. The overall total debt was up seven per cent since 2016, but down six per cent since 2010. These data are not adjusted for inflation.

Chart 4: Change in outstanding lending to UK businesses; comparison of May 2017 with May 2010 and with May 2016.



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.gov.scot/stats/bulletins/01261

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 2017 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 Business Survey (FBS), we cannot rely solely on the FBS 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 FBS 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

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 2018.

The 2016 Total Income from Farming statistics are presented here:

www.gov.scot/stats/bulletins/01261

The results of the 2015-16 Farm Business Survey are presented here:

www.gov.scot/stats/bulletins/01273

The 2017 edition of the Economic Report on Scottish Agriculture spreadsheets, containing other financial information, can be accessed here;

www.gov.scot/Topics/Statistics/Browse/Agriculture-Fisheries/PubEconomicReport/2017docs

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

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 2017

May	£ millions		% change		Index 2017=100	
	Current	Real	Current	Real	Current	Real
1980	518	1,737	37.3	15.0	22	75
1981	616	1,856	19.0	6.9	27	80
1982	665	1,866	7.8	0.5	29	81
1983	741	1,977	11.5	6.0	32	85
1984	824	2,107	11.1	6.6	36	91
1985	886	2,146	7.5	1.9	38	93
1986	970	2,278	9.5	6.2	42	98
1987	958	2,145	-1.2	-5.9	41	93
1988	927	1,959	-3.3	-8.7	40	85
1989	911	1,797	-1.7	-8.3	39	78
1990	890	1,645	-2.3	-8.5	38	71
1991	886	1,534	-0.5	-6.7	38	66
1992	896	1,507	1.1	-1.7	39	65
1993	870	1,436	-2.9	-4.7	38	62
1994	894	1,460	2.8	1.6	39	63
1995	896	1,428	0.2	-2.2	39	62
1996	942	1,461	5.2	2.3	41	63
1997	968	1,474	2.7	0.9	42	64
1998	1,066	1,593	10.1	8.0	46	69
1999	1,058	1,548	-0.7	-2.8	46	67
2000	1,189	1,725	12.4	11.5	51	75
2001	1,213	1,722	2.1	-0.2	52	74
2002	1,234	1,708	1.7	-0.8	53	74
2003	1,300	1,762	5.4	3.1	56	76
2004	1,283	1,698	-1.3	-3.6	55	73
2005	1,298	1,686	1.2	-0.7	56	73
2006	1,322	1,669	1.8	-1.0	57	72
2007	1,419	1,751	7.4	4.9	61	76
2008	1,390	1,663	-2.0	-5.1	60	72
2009	1,385	1,620	-0.4	-2.5	60	70
2010	1,506	1,709	8.7	5.5	65	74
2011	1,614	1,790	7.2	4.7	70	77
2012	1,670	1,832	3.5	2.3	72	79
2013	1,724	1,858	3.2	1.4	74	80
2014	1,952	2,057	13.3	10.7	84	89
2015	2,025	2,101	3.8	2.1	87	91
2016	2,202	2,244	8.7	6.8	95	97
2017	2,316	2,316	5.1	3.2	100	100

Table 2: Percentage of Bank Advances By Recipient Type as at 31st May, 1980 to 2017
£ millions

May	Farmers			Others
	Occupiers	Tenants	Total	
1980	80.8	15.1	95.8	4.2
1981	82.3	15.0	97.3	2.7
1982	81.3	14.9	96.2	3.8
1983	82.4	14.5	96.9	3.1
1984	82.5	14.6	97.0	3.0
1985	82.3	14.4	96.7	3.3
1986	82.2	15.1	97.3	2.7
1987	82.5	15.2	97.7	2.3
1988	82.6	15.1	97.7	2.3
1989	82.6	14.7	97.3	2.7
1990	82.2	14.9	97.1	2.9
1991	82.2	14.6	96.8	3.2
1992	83.0	13.9	96.9	3.1
1993	83.5	13.3	96.8	3.2
1994	84.0	13.1	97.0	3.0
1995	84.1	12.7	96.8	3.2
1996	84.2	12.3	96.4	3.6
1997	83.9	13.3	97.2	2.8
1998	82.7	14.2	96.8	3.2
1999	83.2	13.4	96.6	3.4
2000	81.9	13.1	95.0	5.0
2001	84.1	10.5	94.6	5.4
2002	86.4	10.1	96.5	3.5
2003	86.1	9.7	95.8	4.2
2004	86.8	9.6	96.4	3.6
2005	86.8	9.7	96.6	3.4
2006	86.5	9.9	96.4	3.6
2007	87.5	8.9	96.5	3.5
2008	87.8	9.3	97.1	2.9
2009	88.3	9.0	97.3	2.7
2010	88.3	8.8	97.1	2.9
2011	88.5	8.4	96.9	3.1
2012	89.2	7.7	96.9	3.1
2013	88.7	8.3	97.0	3.0
2014	87.3	8.9	96.1	3.9
2015	88.2	8.1	96.3	3.7
2016	87.0	7.5	94.5	5.5
2017	86.7	6.7	93.4	6.6

Table 3: Bank of England data on monetary financial institutions lending to UK residents – by sector, 2013 to 2017

	£ millions				
	2013 May	2014 May	2015 May	2016 May	2017 May
Accommodation & food services	24,585	23,796	23,114	23,509	25,016
Agriculture, hunting & forestry	14,087	15,386	16,723	17,761	18,452
Construction	50,412	51,322	37,045	33,643	35,004
Education	11,548	10,890	11,063	10,662	10,227
Financial & insurance	885,174	710,768	664,828	683,248	772,039
Fishing	246	248	239	248	303
Human health & social work	21,223	20,273	20,255	20,314	20,174
Manufacturing	33,712	32,552	35,306	37,676	38,224
Mining and quarrying	5,121	5,366	7,064	6,469	7,182
Public administration & defence	9,398	11,035	10,692	9,938	10,657
Real estate, prof. services & support	201,640	179,286	180,410	180,862	186,848
Recreational & community services	10,491	9,640	8,947	8,866	10,048
Transport, storage & communications	29,977	27,951	28,486	27,632	28,412
Utilities supplies	10,193	13,383	13,742	15,132	16,835
Wholesale & retail trade	40,801	41,803	41,522	46,022	51,105
Individuals	1,135,627	1,163,057	1,193,338	1,251,406	1,297,539
Total	2,484,234	2,316,209	2,292,774	2,373,388	2,528,065

A National Statistics publication for Scotland

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