



Nuffield Farming Scholarships Trust
A Young Nuffield Award

**Sustainable policy for sustainable new entrants:
a Scottish context**

Harvey Thomas

July 2011

Contents

Disclaimer

Acronyms

1.0 Foreword	1
2.0 Executive Summary	3
2.1 Aim	3
2.2 Background	3
2.3 Method	5
3.0 Literature Review of Research into the New Entrant Issue	7
3.1 Introduction	7
3.2 Historical context of land ownership in Scotland	8
3.3 History of land policy in Scotland	18
4.0 Barriers to New Entrants	22
4.1 High “start up costs” and access to land	22
4.2 Access to land - land tenancy	24
4.3 Taxation	27
4.4 Low rates of exit	27
4.5 Succession and inheritance	29
4.6 Funding/subsidies	30
5.0 A global view point	33
5.1 USA	33
5.2 France	34
5.2.1 YF criteria	35
5.2.2 Stipulations	35
5.2.3 Other Assistance	35
5.2.4 The advisory bodies	35
5.2.5 The French tenure system	37
5.2.6 Early retirement scheme	37
5.3 New Zealand	38
5.3.1 Farm ownership and retirement	39
5.3.2 Example of a New Zealand dairy career pathway	39
5.4 The EU member states	

6.0 Case Study: An Estates perspective	43
6.1 Lease Succession	43
6.2 Farm reorganisation	44
6.3 Land sales	45
7.0 Recommendations to overcome the barriers	46
7.1 High “Start up costs” and access to land	46
7.1.1 Partnerships/ Equity share with existing owner occupiers with no successor	46
7.1.2 Share farming	47
7.1.3 Contract farming arrangement	47
7.2 Access to land – land tenancy	49
9.2.1 Freedom to contract	49
9.2.2 Removal of the right to register an interest to acquire land	49
9.2.3 Removal of succession in perpetuity	49
9.2.4 Treatment of grant aid as tenant’s improvement	50
9.2.5 Adjustment of section 16 of the AHA 2003	50
9.2.6 Right to assign a lease to a new entrant/ “New entrant assignation grant”	51
7.3 Taxation	51
9.3.1 Alteration to the taxation of let land	51
9.3.2 New entrant start up tax band	52
9.3.3 New entrant letting tax breaks	52
7.4 Low rates of exit	52
9.4.1 Planning restrictions	52
9.4.2 Policy and statue	52
7.5 Succession and inheritance	52
7.6 Funding/subsidies	53
9.6.1 CAP post 2013	53
9.6.2 Government new entrant scheme	53
9.6.3 Government rent scheme	53
9.6.4 Landlord reward scheme	53
8.0 Conclusions	54
9.0 References	56

Disclaimer

All rights reserved.

This publication has been prepared in good faith on the basis of information available at the date of publication without any independent verification. The Nuffield Trust does not guarantee or warrant the accuracy, reliability, completeness or currency of the information in this publication nor its usefulness in achieving any purpose.

Readers are responsible for assessing the relevance and accuracy of the content of this publication. The Nuffield Trust will not be liable for any loss, damage, cost or expense incurred or arising by reason of any person using or relying on the information in this publication.

Acronyms

NFUS –	National Farmers Union Scotland
TFF –	Tenant Farming Forum
STFA –	Scottish Tenant Farmers Association
AHA 2003 –	Agricultural Holdings (Scotland) Act 2003
SFP –	Single Farm Payment
SFPE –	Single Farm Payment Entitlement
AHA 1991 -	Agricultural Holdings (Scotland) Act 1991
AHA 1983 -	Agricultural Holdings (Amendment) (Scotland) Act 1983
AHA 1949 -	Agricultural Holdings (Scotland) Act 1949
AHA 1883 -	Agricultural Holdings (Scotland) Act 1883
AHA 1947 -	Agricultural Holdings (Scotland) Act 1947
CAP –	Common Agricultural Policy
EEC –	European Economic Commission
MTR –	Mid Term Review
SPS –	Single Payment Scheme
EU –	European Union
WTO –	World Trade Organisation
LDT –	Limited Duration Tenancy
SLDT –	Short Limited Duration Tenancy
GAEC –	Good Agricultural and Environmental Condition
SMR –	Statutory Management Requirement
FTE –	Full time equivalent
SRDP –	Scottish Rural Development Programme
SE –	Scottish Enterprise
USDA –	United States Department for Agriculture
CFA –	Contract Farming Arrangement
RDR –	Rural Development Regulation
RDP –	Rural Development Programme

1.0 Foreword

A passion and hunger for agriculture was harboured, cultured and honed while spending my formative years exploring, working and enjoying my father's farms on the Lands End Peninsula. The ability to provide an income and lifestyle from the land gripped me and, as my mind developed, the opportunity to make an individual piece of land a multi-faceted asset intrigued me.

Time in Cirencester at the Royal Agricultural College afforded me the finishing school I required and the blue print skillset in estate management I needed to move forward in my chosen profession.

A strong prevailing wind of luck sailed me to Scotland where I arrived to form part of the land agent team challenged with the management of the Duke of Buccleuch's 120,000 acre Queensberry Estate at Drumlanrig. Gradually my role evolved to being charged with the day to day management of the estate and the sole responsibility of the residential, commercial and agricultural portfolios.

It was becoming increasingly apparent that the traditional estate model was spluttering. The historic structure of providing new entrants into agriculture the opportunity to build capital firstly through the acquisition of rented land and then the



building of working capital in the form of stock/machinery purchases and the retention of farm profits was not taking place. This in theory would provide a tenant the ability to climb the farming ladder to either a bigger tenanted unit or the potential to purchase a farm of their own but such a transition was not happening.

Looking at Queensberry Estate in isolation it was interesting to see that the majority of tenants fell between 50 and 65 years of age. The number of farms being offered under a secure tenancy had virtually dried up and the number of farms put on the market was non-existent from 2009 going back for nearly a decade.

The opportunity to let land was there but why had it not happened? What were the

driving factors behind this? How could this be addressed? It was obvious that the Queensberry Estate was not a hot spot but rather a reflection and mirror of the industry.

My own personal thoughts are that the starting point of this issue stems from political instability on senior land reform issues. Evidence shows a declining supply of traditional tenancies following the latest Scottish Land act the Agricultural Holdings (Scotland) Act 2003 (AHA 2003). The land reform policies introduced by this act exacerbated the new entrant problem as, at the time the legislation was passed, there were discussions about giving secure tenants the right to buy their holdings. The prospect of such a policy shift has led to many landowners to take land back in hand rather than let it, for fear that they may lose ownership of the resource because of the policy change.

In 2009 the Nuffield Trust afforded me a platform to explore this issue further as beyond political instability numerous other factors are affecting the new entrant issue in Scotland. I have identified these issues and provided my own personal recommendations for policy solutions in this report.

Between being awarded my Nuffield Scholarship and my departure from the Queensberry Estate to work as Estate Manager for Sir George Meyrick in Dorset, just shy of 5000 acres of land had been let to new entrants on the Queensberry Estate. These tenants, I believe, will grasp their opportunity and form part of the fabric and heartbeat of the area and community and contribute to supplying essential new blood to Scotland's agricultural industry. After all, the need for such is vital to the future of Scottish agriculture.

2.0 Executive Summary

2.1 Aim

This study aims to review the current situation in Scotland and discuss the main barriers facing new entrants into agriculture. Recommendations are made as to how current conditions for new entrants could be amended or policy solutions provided to improve the supply of new entrants into the industry. The report looks into barriers for a new entrant assuming the new entrant is adequately trained, skilled and proficient to move forward into a farming business.

2.2 Background

Scotland's farmers are the custodians of four fifths of Scotland's land. Around 65,000 people work on these farms and produce output worth around £2.3 billion each year. It is estimated that for every worker employed in agriculture another three workers are employed elsewhere in associated industry. These jobs are largely in agricultural supply and food and drink processing. The agri-food sector, worth £11 billion in Scotland, is Scotland's largest onshore manufacturing sector as well as the UK's largest manufacturing sector. (NFUS, 2011)

Agriculture in Scotland however, is an ageing industry. The percentage of young farmers in Scotland is one of the lowest among the member states of the European Union. New entrant support in

Scotland has seen little in the way of intervention or targeted practical assistance, to date.

It is generally accepted that not enough young people are entering farming. The statistics suggest that the workforce is ageing, with 51% of working occupiers aged over 55 years (of which 25% are over 65 years) (STFA, 2011). As a result, there is a fear that Scotland's farming skills are in danger of becoming lost.

As a reflection of the difficulties of becoming established in farming and the higher wages that young people can earn in the non farm economy, people with high potential may be abandoning the industry. However although 51% of working occupiers are over 55 years of age, this does not necessarily mean that the industry is actually ageing and that there is a shortage of young people entering agriculture. In many cases it is a case of the head of the business ignoring the fact that there may be a son/daughter working on the farm or off the farm who will become the successor and who may already be making many of the key business decisions.

There are three main entry routes to farming: through the family farm business, new entrants from other sectors; or via the 'agricultural ladder' i.e. from a farm worker to tenant to an owner operator.

Entry and exit are inextricably linked. For entry to occur there has to be an exit from farming. Exit rates have slowed. Reasons for this are both financial and psychological. Partly this is because potential retiring farmers cannot afford to buy a retirement house, especially in the countryside, which would be a location of preference for most. Farmers' pension provision is often poor which means they still rely on the farm to generate an income, even if farming activity is scaled back. This is coupled with restrictive planning laws often preventing a retirement home being built on the farm or for the next generation to build a home on the farm if the older generation cannot afford to move on.

There are cases, however, that the decision to keep on farming after retirement has nothing to do with a lack of capital to buy a house or a lack of a pension. The reality is that some sitting secure tenants operating from a 1991 Act tenancy have a very cheap place to stay. With the innovations of modern machinery rings, contract agreements and the option of collecting the Single Farm Payment (SFP) even if doing minimal farming, it is possible for older retirement candidates to continue operating for far longer in the location they enjoy and are familiar with. This does not necessarily stop the next generation taking over – it simply delays the process.

High start up costs and availability of farmland are the two main barriers facing new entrants. Agriculture is a capital-intensive industry that incurs high costs for

land, machinery, stock and other inputs. Combined with the prospect of poor returns on the capital and labour invested, the business of entry is not viable and the majority of commercial lenders would not loan to a new entrant on the back of a business plan and with little collateral to secure the loan against.

Land prices remain buoyant, the result of tight supply and strong demand. There has been significant increase of non agricultural investors with land seen as a relatively stable investment in an otherwise volatile investment market.

New entrants are forced to compete with established farmers and landowners as well as non-farmers for both land and property. Thus new entrants without financial backing and a capital base against which to borrow, have little means or opportunity to purchase farmland.

Tenancy is another means of land acquisition and the relatively recent Agricultural Holdings (Scotland) Act (AHA 2003) aimed to free up the market for let land and therefore encourage new entrants to the industry. The land reform policies introduced by this same act exasperated the new entrant problem as at the time the legislation was passed there were discussions about giving secure tenants the right to buy their holdings. A number of other factors, including the inflexibility afforded by the legislation in terms of the duration of tenancies, have effectively slowed the tenanted farm market and denied would-

be new entrants of an opportunity to access land.

The mechanics of the SFP scheme in Scotland are based solely on historic activity. There is no reserve of Single Farm Payment Entitlement (SFPE) for new entrants and the only route for a new entrant to obtain SFPE is through the purchase or lease of entitlement. It is essential that post 2013 the distribution of Pillar 1 funding reflects actual farming activity rather than providing some who have stopped actively farming almost a decade ago with capital that could be better placed elsewhere. It was estimated last year in Scotland that £40 million of SFP was made to individuals who no longer actively farm.

The introduction of succession in perpetuity came into effect from 1983 when this right was inserted into the Agricultural Holdings (Scotland) Act 1949 (AHA 1949) by the Agricultural Holdings (Amendment) (Scotland) Act 1983 (AHA 1983). These terms were repeated in the Agricultural Holdings (Scotland) Act 1991 (AHA 1991) and relate to all existing occupiers of secure tenancies governed by the AHA 1991. In effect the landlord of a 1991 Act tenancy will not be able to retrieve possession of a holding (unless there is a tenant breach) if the tenant can continue to find an eligible successor.

Although the family farm business remains the most traditional route by which to enter the industry, many would-be new entrants may find themselves in a 'holding' situation, whereby they do not wish to

relinquish their option to farm but it becomes financially necessary to undertake alternative arrangements in the interim period. The longer the would-be farmer is away elsewhere, it becomes increasingly difficult socially and economically for the individual to return to the home farm.

The problems of an ageing farming population and the barriers facing new entrants have received attention in Europe. Measures of support have been included under the previous Rural Development Regulation (RDR) and the current RDR, with a view to encouraging the exit of existing, aged farmers and assisting entry for young farmers.

To date, Scotland has not used such measures as part of their Rural Development Programme (RDP). With only limited provision for new entrants in place through the Scottish Rural Development Programme (SRDP), with only a ratio of one new entrant per 433 farms and intentions for future new entrant policy unclear it is essential for the structure, responsiveness and competitiveness of the agricultural sector, and the wellbeing of rural communities, that the new entrant situation is afforded further attention.

2.3 Method

This report has used an extensive literacy review to engage as many past and present opinions among the landowning and farming communities in Scotland as possible regarding the issue of new

entrants into farming. A number of countries were visited (France, Belgium, New Zealand, Portugal and Ireland) giving an international perspective on what would seem to be an international issue.

Views on the barriers, opportunities and desired policy solutions to form recommendations were taken from this literature review and the countries visited.

3. Literature review of research into the new entrant issue

3.1 Introduction

For at least four hundred years there have been recurrent themes in farming literature relative to the nature of rural land markets; in particular the desire for people to get started in farming and the challenges that they face in doing so.

The interest has always been most evident at times of rapid socio-economic change in rural areas, such as the 16th and early 17th centuries in England, the turn of the 18th and 19th centuries and again in the late 20th century in both England and Scotland. Interest has been most intense when structural changes have put pressure on certain types of owner or certain areas.

It is essential to start with a common understanding as to what comprises a new entrant. From within the traditional farm community the prevailing conception of the 'new entrant problem' is that those with the skills and aspiration to farm are, for a variety of reasons, unable to break into farming. The conventional conception of new entrant is of an aspirant farmer coming normally from within the industry or with close connections to it. However, a more literal interpretation of the term would be a person acquiring access to land for the first time, whether or not they are from within the farming community.

For the purposes of this study, a new entrant is defined as: a person or

organisation acquiring ownership or occupancy of land for the first time in their own right whether through succession, purchase or contractual arrangement of whatever form. As such, the new entrant could be a private purchaser of land, a corporate body entering the land market or a farmer's or farm worker's son or daughter succeeding to a farm. This definition excludes those existing farmers who are expanding the physical area of their farm by any means such as purchase, rent or short-term lease.

The predominant model of family farming in the UK is one in which succession to a holding is the usual course of entry into the industry. Farming, according to Potter and Lobley (1996: 286), is 'the most hereditary of professions.'

Scottish, UK and European agriculture is experiencing a significant and continuous process of restructuring (Ross Gordon Consultants, 2000). The predominant trend has been for reduction in the number of farms and an increase in farm size, but in the UK a 'hollowing out of the middle' has occurred, with increasing numbers of large farms and increasing numbers of very small farms. As the number of farms has declined, so the average age of farmers has increased and 'the number of young farmers as a proportion of total farmer numbers is declining across the EU.' (Ross Gordon Consultants 2000).

The ownership and tenanted structure of rural land in UK farming is somewhat different to the predominant pattern of owner-occupied farm businesses in most other parts of Europe. In the 19th century, tenant farming was the prevailing model, but in the early 20th century taxation changes and other factors have resulted in a shift to a predominantly owner occupied farm structure, although there remains a significant residue of large land holdings and significant numbers of tenanted farms. Even by UK standards, Scotland has a concentrated pattern of landownership in terms of size of holdings (*Wightman 1996*) although many of the largest holdings comprise largely poor quality land.

The tenurial patterns in Scottish agriculture are in large part a legacy of the agrarian political, economic and legal histories of Scotland over the last 200 years.

A distinctively Scottish feature is crofting tenure. The crofting system of tenure was hived off from the mainstream forms of land in the 1880s (*Hunter 1976*). Most of the farmed component of Scottish rural land was tenanted in the 19th century, but over the first 50 years of the 20th century an increasingly owner occupied tenurial structure emerged.

Many farm businesses have expanded and become mixed tenure holdings. Other farms may be formally tenancies but the tenant may be a tenant to a family trust. Over and above these relatively durable forms of tenure farmers have also been able to let land on cropping licences or

grazing lets of less than a year's duration. Further hybridity has emerged through new arrangements between landowners and various types of 'farmers' in partnership arrangements. Further, the post-2003 short duration tenancies offer an intermediate form of tenure

3.2 Historical context of land ownership in Scotland

For centuries the landed classes had been the unchallenged leaders of Scottish society. However, by the 1830s this historic hegemony seemed finally to be starting to crumble. The Great Reform Act of 1832 for the first time extended the parliamentary voting franchise well beyond landed property. The new fortunes made from trade and industry undermined the virtual monopoly of the landowners over the wealth of the country and, in 1846, the Repeal of the Corn Laws suggested that the interests of an urban society were now of much greater political importance than those of agriculture and the land.

All these were serious potential threats to landed power, but throughout the middle decades they had little direct or decisive impact on the material position of the landed classes. Indeed, down to the 1880s most landowners in Lowland Scotland experienced several decades of prosperity and rising rent rolls. Only in the western Highlands and Islands was there a real crisis of traditional landownership as many hereditary estates disappeared in the economic collapse in that region following the end of the Napoleonic Wars.

Huge losses of land were suffered by the Mackenzies of Seaforth, Campbells of Islay, McNeils of Barra and MacDonalds of Clanranald among others. By the last quarter of the 19th century, around 70 percent of the mainland and insular parishes of western Argyll, Inverness and Ross were under new ownership as a result of the greatest transfer of land recorded in modern Highland history. Ironically, however, this unprecedented sale of hereditary estates merely underscored the continuing appeal of landownership since the majority of the buyers were wealthy merchants, industrial tycoons and rich lawyers from outside the Highland region.

In the Lowlands, on the other hand, the stability of landed property and its enduring economic importance were demonstrated by the continuity of ownership of great estates and the overall consolidation of the landed structure inherited from the period before 1870.

The first official survey of landownership, conducted by the government in 1872-3, confirmed that the historic Scottish structure remained intact. Some 659 individuals owned 80 percent of Scotland, while 118 held 50 percent of the land. Among the most extraordinary agglomerations were those of the Duke of Sutherland who possessed over 1 million acres, the Duke of Buccleuch with 433,000 acres, the Duke of Richmond and Gordon 280,000 acres and the Duke of Fife 249,000 acres. (*Devine, 2000*)

As in the Highlands, the wealthy of the towns were acquiring Lowland estates throughout this period. Yet this process had not reversed the 18th century pattern whereby the properties of greater landowners grew while those of the small lairds declined further. Studies of the land market in Aberdeenshire suggest that only a relatively small proportion of territory (less than 15 percent of the total acreage) was bought by new families in the 19th century and most of these sales were of property belonging to previous incomers rather than traditional owners. (*Devine, 2000*)

Throughout most of the Lowlands, therefore, the territorial ascendancy of the most powerful families, who possessed huge estates running into many thousands of acres, remained inviolate. Buccleuch, Seafield, Atholl, Roxburgh, Hamilton and Dalhousie, to name but a few of the greatest aristocratic dynasties, still controlled massive empires.

The country had the most concentrated pattern of private landownership in Europe, even more so than in England, where the territorial power of the landed aristocracy was also unusually great by comparison with other nations. A full century after the Industrial Revolution no economic or social group had yet emerged to challenge this mighty elite. Great industrial dynasties such as the Coats, Tennant and Baird families did buy into the land, but their total possessions were miniscule compared to those of the hereditary landowners, while their deep interest in acquiring landed property was

itself a confirmation of its continuing attraction and significance.

Landed estates were not simply durable, they were also exceedingly prosperous and secure from the 1830s to the 1870s. Partly this was because of the Scots law of property and related financial arrangements which helped to give guaranteed protection to most landed families.

From 1685, entailment laws safeguarded landed estates against the claims of creditors in the event of bankruptcy. A second strategy was the formation of trusts to supervise entailed estates if an owner became insolvent or was under age or for other reasons could not continue in direct possession of the lands.

By the 19th century the administration of estates through trusts was common at some stage of family ownership and the associated legal arrangements became ever more secure, sophisticated and intricate. Underpinning this legal structure was the prosperity of Scottish agriculture in the middle decades of the 19th century. The basic context of this was the burgeoning demand for food, drink and other products of the land from the vast expansion of towns, cities and industrial communities which could not yet be satisfied on any significant scale from overseas suppliers. But both landlord and tenant farmers made a major contribution to this period of success by further investment and innovation which reduced costs of production and allowed more land

than ever before to be used intensively for cropping and stock fattening.

By 1830 the basic organisational structure of Lowland farming was in place. The consolidation of farms was complete, sub-tenancies had been removed in most areas and improved rotations were the norm everywhere. But the Agricultural Revolution now entered a new phase. The 18th century Improvers had never solved the problem of drainage and as a result, the rigs of the old system still remained common. This changed with the invention of the cylindrical clay pipe to act as an underground drainage channel and the provision of government loans at low rates of interest from 1846. Slowly but surely the "cold" acres that predominated throughout many parts of the Lowlands were transformed and the frontier of turnip and potato cultivation significantly extended as a result.

The combined transportation revolution of steamship and railways was equally decisive. The great potential of Scotland as a great cattle-fattening and breeding country was finally realised. Cattle intended for the English market had in earlier times to be sold lean to the drovers who took them south on the hoof. Then, in the 1820s, came the steamships, followed in the 1850s by the railways, which opened up the huge London market to Scottish fat cattle.

The most spectacular gains were achieved in the north-east which rapidly became a specialist centre of excellence for the production of quality meat. By 1870 beef

from the region carried the highest premium in London markets. The Aberdeen Angus, developed by William McCombie of Tillyfour farm, evolved into a breed of worldwide reputation. The railways also enabled the perishable products of milk and buttermilk to be brought into the expanding cities from further afield while affording farmers the enhanced opportunity to import feeding-stuffs and fertilisers like guano and industrial phosphates in huge quantity. The result was even higher yields. Steam power was now used more for threshing, and by the 1870s the greater part of the grain and hay crop was being harvested mechanically in most areas of the Lowlands.

The physical face of agriculture also changed as larger, more elaborate and better-designed farm steadings spread across the countryside. Many of these impressive buildings remain to this day as lasting memorials to the prosperous days of 'High Farming' in Victorian Scotland.

Landowners in this period did not simply gain from the swelling rent rolls as grain and cattle prices rose steadily and investment in land bore profitable fruit. Industrialisation also contributed handsomely to the fortunes of several magnates by affording them the opportunity to exploit mineral royalties. Among the most fortunate Scottish grandees in this respect was the Duke of Hamilton, whose lands included some of the richest coal measures in Lanarkshire, the Duke of Fife, the Earl of Eglinton and the Duke of Portland.

That great symbol of the new industrial age, the railway, was warmly welcomed by the landed classes as a whole. This was hardly surprising, since one inquiry by J. Bailey-Denton in 1868 had concluded that the letting value of farm land could increase by 5 to 20 percent according to its proximity to a railway station. (Devine, 2000)

Landowners were heavily involved in railway financing and, indeed, before 1860 were second only to urban merchants as investors in the new projects. Some patrician families also benefited from considerable injections of capital from the empire to which the landed classes often had privileged access through their background and the associated network of personal relationships and connections. In the north-east, for instance, one conspicuous example of the lucrative marriage between imperial profits and traditional landownership was the Forbes family of Newe. They had owned the estate since the 16th century but its economic position was mightily strengthened and its territory increased from the middle decades of the 18th century when the kindred of the family began merchanting in India. By the early 19th century the House of Forbes in Bombay was producing a flow of funds for a new country seat, enormous land improvements and the purchase of neighbouring properties in Aberdeenshire.

Examples of the connection between imperial profit and landownership of the kind illustrated by the Forbes family could be found in every county of Scotland.

Historians have also argued that for much of the 19th century it was the country house rather than the counting house that had most political influence. The House of Commons remained predominantly a landowner's club, the House of Lords was virtually a monopoly of the hereditary landed class, while in Scotland the owners of the great estates continued to wield great influence at the local level as Lord-Lieutenants, Justices of the Peace and through a range of more informal mechanisms.

Perhaps, however, the position of the Scottish lairds was not quite as overwhelmingly dominant as that of the magnates in rural England. Even before the late 19th century, the land question attracted more passionate controversy north of the border. The Disruption of 1843 had unleashed great hostility to several major landowners who, like the Duke of Buccleuch, refused to make land available for Free Church buildings and the campaign for disestablishment of the Church of Scotland from the mid-1870s kept these animosities alive. This crusade attracted the support of well over half of all Presbyterians in Scotland, while ranged against them were several prominent members of the peerage such as Lord Balfour of Burleigh, a robust and energetic defender of the cause of the Established Church of Scotland.

There were also emerging tensions in the countryside. Conflict over the game laws intensified as lairds sought to maximise the sporting potential of their estates. By the 1870s game was being developed

systematically and sporting rents were booming. But this new enterprise meant that the crops of tenant farmers increasingly suffered from the depredations of both ground game (rabbits and hares) and game birds. Farmers who killed game in retaliation could be prosecuted. The other and more serious source of tension was the law of hypothec, which gave a landlord the position of a preferred creditor for the payment of his rent by giving him a general security over a tenant's movable property. Some argued that this legal privilege allowed landlords to impose high rentals, secure in the knowledge that arrears could be recovered from a tenant's assets.

Tensions on these and other issues led to the creation of the Scottish Farmers' Alliance to press for land reform and resulted in a succession of defeats at the polls for landlord candidates in the general elections of 1865 and 1868. In the event, concessions were made both on the game laws and on hypothec which helped to defuse discontent and the conflict did not develop into a full-scale revolt of the tenantry.

The 1883 Agricultural Holdings Act (Scotland) also gave tenants the right to compensation for agricultural improvements. What the experience of the 1860s and 1870s did show, however, was that even at the height of their awesome power the landed classes in rural Scotland were far from omnipotent. (*Anthony, 1993*)

From the following decade, however, it seemed that the economic base of

landlordism was finally starting to weaken. The immediate cause was a series of poor harvests in the later 1870s, though there had been harvest difficulties before and no crisis. What was new was that the reduced quantity of grain brought to the market was not compensated for by higher prices due to a huge increase in cheap imports from the American prairies where a vast food-growing potential had finally been unlocked by the railroads and the steamships. Then, a few years later, the livestock sector, which had escaped relatively unscathed, was hit by the arrival of chilled and frozen beef and mutton from Australasia.

Free trade had finally come home to roost for British farmers and landowners and prices for their products tumbled through the 1880s and into the 1890s. It is true that Scottish agriculture suffered less than in other areas of the United Kingdom as the greatest decline in prices was in wheat, which was a major crop only in the south-east Lowlands. The tradition of mixed farming in Scotland gave the agrarian system considerable flexibility and the capacity to adjust to changes in the market. Even in the Highlands, where hill sheep-farming was badly affected, there was often rapid diversification into deer forests.

The Scottish livestock farmers operated at the quality end of the trade which gave a degree of protection against cheap overseas imports. Nevertheless, while Scottish agriculture was spared the worst effects of the Great Depression, the prosperity and confidence of the mid-

Victorian era was still undermined. The average price of oats in the 1890s was a quarter less than the 1870s. Even returns from the sale of quality fat cattle from the north-eastern counties show a big slide from the mid-1880s. The net result was a parallel decline in landlord rents. Even livestock areas were not spared as the countryside adjusted to the new reality that the halcyon days of high prices and low imports were over for good. In Morayshire, a prime stock-rearing county, rents of larger farms fell by a quarter between 1878 and 1894 and the pattern was even worse in the less favoured grain-producing areas, where rents of between one-half and one-third were recorded. The misery was not spread equally, however, among estate owners. The smaller proprietors often found themselves in acute difficulty, having to meet fixed obligations such as interest charges and family annuities from a reduced income stream. The larger estates fared better as their owners tended to have outside sources of income. (*Callender, 1987*)

The economic gloom for landlords was paralleled by adverse political developments in the 1880s. The crofting agitation had been confined to parts of the Highlands and the provisions of the Crofters Holding Act of 1886 were limited to the seven 'crofting counties'. But Lowland landowners could not escape the political fallout as the 'evils of landlordism', which had led to the social problems in the Highlands, were repeatedly denounced in the press.

Groups such as urban Liberals, working-class socialists and Irish nationalists could and did all unite on the single issue of the excesses of landlordism. It is significant that Lloyd George's People's Budget of 1909 with its series of land reforms was warmly welcomed by a wide spectrum of opinion in Scotland.

Indeed, the later 19th century seems to stand as a watershed in the fortunes of the landed classes in Scotland as one misfortune piled on top of another. Death duties were imposed for the first time in 1894. Though not significant at first, tax rates were eventually increased to more punitive levels in the new century.

New taxes on land were also passed. In 1907, for instance, an unearned income surcharge payable on rents was levied. Confidence in the historic stability of land as a secure asset was further eroded by the continuing collapse of land-derived income, which fell in the UK by around 25 percent between the mid-1870s to 1910.

Not surprisingly, estate sales started to increase even among the great landlords. Lord Kinnoul realised £127,000 from the sale of his lands, while magnates such as the Duke of Fife and the Marquess of Queensberry were also selling up part of their great properties. The pressures became even more acute during and after the First World War. Aristocratic families suffered huge personal loss in the bloody carnage of 1914-18. Altogether, 42 of the 225 relatives of Scottish peers who served in the war were killed in action. C.F.G. Masterman concluded that "In the retreat

from Mons and the first battle of Ypres, perished the flower of the British aristocracy." During the war, he reflected, "the Feudal system vanished" in blood and fire and the landed classes were consumed. (*quoted in Cannadine 1992*).

While the majority of the sons of landowners survived the conflict, the relentlessly contracting vice of higher taxes tightened further during the Great War and its immediate aftermath. Death duties were now higher and were likely to compel sales, especially if an owner's death was followed by that of his heir killed in action. Income tax and local rates also rose steeply. The Marquess of Aberdeen, for instance, paid £800 in annual estate taxes in 1870. By 1920 his bill had swollen to £19,000.

The income from agriculture, which had increased artificially during the Great War, fell back once again in 1921. The scene was set for an unprecedented escalation in land sales and the break-up of several estates. The Duke of Marlborough pronounced, "The old order is doomed" as a direct result of the 'conspiracy' taxation of the 1919 budget, which had raised death duties to the punitive level of 40 percent on estates of £2million and over. (*Wightman, 1996*)

The Duke's prognosis seemed well founded in Scotland. The cream of the Scottish aristocracy, including the Dukes of Sutherland and Portland, the Earl of Airlie, the Earl of Strathmore and the Duke of Hamilton, were all selling off many thousands of acres in the early 1920s. It

was claimed that one-fifth of Scotland changed hands between 1918 and 1921. A veritable social revolution was under way as former tenant farmers bought up land from the great proprietors on a remarkable scale. In 1914 only 11 percent of Scottish farmland was owner-occupied but by 1930 the figure had climbed to over 30 percent.

The very basis of landlord power seemed to be crumbling. That the crisis was biting deeply is shown by the selling of town houses, artistic treasures and country seats. The London homes of Lord Balfour and Lord Rosebery were sold in 1929 and 1939 respectively. Lord Lothian divested himself of three of his four grand houses in the 1930s. The Duke of Hamilton closed Scotland's most impressive private home, Hamilton Palace, in 1922 and sold off more than £240,000 worth of paintings, furniture and carpets. These had hitherto been one of the public symbols of aristocratic status. Their disposal suggested a class in decline. (*Wightman, 1996*)

It seemed that the process was indeed inevitable. The passage of the Parliament Act of 1911 abolished the veto powers of the House of Lords and effectively ended its real authority. The political influence of the landlords in the country had also been massively reduced by the Third Reform Act of 1884-5 which doubled the voting population in Great Britain. By the time of the Great War (1914–18) the age of mass democracy had truly begun. Aristocratic candidates were rejected in Scotland in the first general election held after the war,

with only the two brothers of Lord Elibank achieving electoral success.

The aristocracy had also to cope with more mundane direct threats to their material position. Mineral royalties declined in the 1920s due to the depression in coal mining and they were finally nationalised with compensation in 1938 and 1942. The government, through the Corn Production (Repeal) Act of 1921, had also abandoned its financial support for oat and wheat prices in the post-war era. The cycle of misery seemed complete.

However, any notion that these powerful forces would eventually destroy the traditional landed classes or the old estate structure as a whole is profoundly mistaken.

Obviously it is the case that landowners in the 20th century have shed their historic role as the governing class of the nation in an age of mass democracy. But landownership itself has proved to be remarkably resilient in Scotland and England, compared to other European countries and to Ireland, where large estates have virtually disappeared altogether.

In Ireland there has indeed been a complete revolution in landed structure over the last 100 years. In the 1880s, half the country was owned by the aristocracy and larger gentry with estates of 3,000 acres and above: by the 1980s, virtually none. Those who have examined the Scottish case in close detail, such as

Robin Callander and Roger Millman, have painted a radically different picture. Four conclusions emerge from the research of these scholars and others.

- FIRST, from the later 1930s, the selling of land on a significant scale by the great estates declined, a pattern that continued after the Second World War and lasted through to the 1970s. The tide of owner-occupation which had threatened to engulf the traditional estate structure had ebbed considerably.
- SECOND, there has been a remarkable continuity in Scottish landownership which the malaise of the decades from the 1880s to the 1930s has obscured. The nation still has the most concentrated pattern of landownership in Europe with 75 percent of all privately owned land in the 1970s held in estates of 1,000 acres or more and over one-third in estates of 20,000 acres or more. By the 1990s this remarkable level of concentration had, if anything increased further. The extent of land possessed by these mammoth estates has fallen since the 1870s, but the traditional structure of concentration has survived and has done so to a greater extent than in any other European country.
- THIRD, the continuities are deeply significant, as a core of fewer than 1,500 private estates have owned most of the land in Scotland during the last nine centuries. Among the owners

of great estates are several families who have been in hereditary occupation for more than 30 generations. Several landed families may have lost their estates in whole or part, but the great houses of Buccleuch, Seafield, Roxburghe, Stair, Airlie, Lothian, Home, Montrose and Hamilton and others still own extensive acreages.

- FOURTH, the historic infiltration of newcomers into Scottish landownership has persisted in the 20th century. Merchant bankers, stockbrokers, captains of industry, pop stars, oil-rich Arabs and wealthy purchasers from Holland and Denmark are among the groups that have acquired Scottish estates in the past few decades. Nevertheless, this has not generally resulted in the break-up of the larger traditional properties, as most buying and selling has been of land that has usually had a higher turnover of ownership in the past.

It is patently clear, then, that the Scottish system of landownership and large estates in the event was not pulverised and destroyed as the alarmists and pessimists of the 1920s had predicted. Instead, the old structure has survived into the late 20th century with remarkably few alterations.

Why was this? One factor was that many of the land sales of the inter-war period were not designed to liquidate landownership but to preserve it through maintaining the core estates and diversifying into other and more profitable

assets. Thus, by the 1920s, the Earl of Elgin derived half his income from land and the remainder from directorates in banking and building societies. There was nothing new in this. In the 1880s such grandees as Portland and Sutherland were investing in British and overseas stocks and bonds.

It is likely, nevertheless, that more landowners than ever before after c.1920 were making the rational choice of divesting themselves of surplus territory and putting money into stocks and shares. It was crucial, too, that the land reform movement which had been at the heart of radical politics for the best part of a century virtually vanished off the British political agenda after the Great War. The vital importance of the political factor in the disintegration of private landownership was conclusively demonstrated in Ireland, where what F.M.L. Thompson describes as “the mincing machine of land reform” effectively destroyed the system of great estates in the space of a few years. (*Thompson 1990*)

In Scotland, however, the depopulation of the countryside, the dominance of urban issues in a highly urbanised society and the crisis in Scottish industry marginalised the land issue for over a generation. It may well also be that the publicity given to the avalanche of land sales in the inter-war period convinced reformers that the job was already done. Certainly there is a striking contrast between the centrality of the land question in radical politics in the 1880s and 1890s and its virtual disappearance from the public discussion

soon after the Great War (1914 - 18) until more recent times. Partly because of this, the larger landowners in the United Kingdom have been spared a draconian system of land value taxation which might well have hastened their demise.

Instead, in the post-1945 period and until the 1970s, the overall tax burden on landowners continued to decline, while state subsidies to agriculture and forestry increased significantly. At the same time, average land prices in the UK rose dramatically from £60 an acre in 1945 to £2,000 an acre in the early 1980s. Despite high taxation of income, there remained considerable tax advantages in owning land, particularly if it was both owned and farmed. This has been further enhanced in some areas by the application of the Common Agricultural Policy within the European Community, with its range of farming subsidies.

Ironically, the Scottish landowners in the late 20th century now benefit from more public financial assistance than their ancestors ever did, even in the days of the Corn Laws. In addition, a free market in land persists in Scotland, although regulation and control have become the norm in virtually all other European countries.

In this as in so many other ways, there was a significant continuity of the inherited system of landownership from earlier centuries to the modern age. This connection has in recent times become even more secure, as the opening of the great houses to the public, mass tourism

and the popular addiction to nostalgia have enabled several aristocratic families to act as guardians of the nation's heritage and personified symbols of an enduring link with the glories of the Scottish past.

3.3 History of land policy in Scotland

In policy terms, the consideration of new entrants is not of recent origin. In the UK, the Smallholdings Act of 1892 created scope for county smallholdings. Farm forest holdings were established as a policy measure in the uplands in the 1930s and many were established in Scotland.

Before this, in a Scottish context, crofting tenure was enshrined in legislation in the 1880s (*Hunter 1976*) which conferred considerable protection and made it almost impossible to increase the size of croft holdings. The legislation which created crofting has also provided something of a barrier to new entrants to crofts and in recent years schemes have been devised to assist such a process.

Crofting was not initially conceived as a way of creating a new entry point so much as conferring protection to a severely disadvantaged group.

The Land Settlement Association was established in 1934 in England and Wales to create smallholdings to address the problems of unemployment. Two Acts were passed in Scotland to enable the creation of new smallholdings in 1906 and in 1916 which allowed the creation of new

crofts on land owned by the government department of agriculture (*Mackenzie 1998*).

Although tenancy has been seen as the classic route of new entrants, it also afforded scope for successful tenants to develop their enterprise and expand into ownership. The first Agricultural Holdings (Scotland) Act 1883 (AHA 1883) was to secure for the tenant the value of his improvements at his waygoing (the end of tenancy) and to encourage him to maintain the fertility of his land towards the end of the lease.

Changing law relating to farm tenure has influenced the opportunities for those entering the industry through the tenancy route. There was limited security of tenure in the UK before 1948, when a six month notice to quit was all that was required to remove a tenant in England. From 1976 stronger protection was offered to tenancies with scope for three generation tenancies. However, as a response to the declining number of tenancies the system was radically overhauled in 1995 which introduced a fixed term 'farm business tenancy'.

In Scotland, the AHA 2003 amends and extends the provisions of the AHA 1991. (*Cook,2007*)

The AHA 2003 offered scope for two types of new style limited duration tenancy of up to 5 years and up to 15 years duration respectively. These offer a presumption in favour of diversification for tenants. The Act also moves disputes resolution directly

to the Land Court (in place of statutory arbitration) and provides for a pre-emptive right to buy for AHA 1991 secure tenants who have registered an interest in the Register of Community Interests in Land. The resulting factor of this for landlords, should they wish to sell the unit where an interest to acquire has been registered, is a farm sold at a discounted value – open market value less vacant possession premium. The vacant possession premium can range from 20–40 % of market value.

The pre-emptive right to buy for AHA 1991 secure tenants who have registered an interest in the Register of Community Interests in Land looked, at the time the AHA 2003 came into force – that it may move toward an absolute right to buy for AHA 1991 secure tenants.

In the post Second World War period, the UK developed a farm policy in the 1947 Agriculture Act (AHA 1947) primarily to deliver food security, prompted by the recent memory of food scarcity in the war years. The set of policy instruments was based on a deficiency payments system, to ensure a cheap food policy and to retain low cost imports from the Commonwealth countries. This morphed into a more protectionist policy prior to entry into the (then) European Economic Community (EEC) in 1973 in order to comply with the Common Agricultural Policy (CAP).

In the 1970s, largely on the back of a protectionist policy regime, the farm sector was relatively prosperous and for a number of years financial institutions became significant purchasers of

farmland. Many of them were new entrants to the industry.

The turbulence caused in the land market was sufficient for government to sponsor a parliamentary inquiry by Lord Northfield, which reported in 1979. With hindsight, the active engagement of financial institutions can be seen as a brief ‘blip’ of commercial institutional interest caused by rapidly rising land prices and shortages in commodity markets.

Since the late 1970s, the UK government has argued consistently against a protectionist CAP and has been a prominent neo-liberal voice in the policy debate about the future of the CAP.

The UK became an initially reluctant and later committed advocate of stronger agri-environmental policies (*Whitby 1994*) and this has evolved into recognition of a need to support the development of a multifunctional agriculture where there is market failure.

In the UK, the Policy Commission on the Future of Farming and Food (2002) asserted a need for a policy for new entrants and reviewed various policy options. Its chair, Sir Donald Curry, has been an active promulgator of new entrant schemes.

In all the component countries of the UK, schemes to encourage new entrants have been advocated widely by farming pressure groups and considered by government.

The merits of new and young blood in the farm industry have been widely asserted. The Curry Commission argued that new blood brings in new energy and ideas.

There are two main thrusts to the argument for young entrants. First, young blood brings a more open-minded approach which may be desirable at a time of policy change and market uncertainties. Second, it is argued that new entrants may be better able to deliver more effectively to the agricultural multi-functionality agenda.

The ability of new blood to enter the industry is compromised by many policy-related factors. Some reasons are related to tax law and some to farm policy. Farmland can act as a useful tax shelter, and during periods of substantial urban expansion the development of greenfield sites can lead to rollover relief bidding up the price of land

The latest reforms of the CAP following the Mid Term Review (MTR) of 2003 created scope for farmers to retain policy support entitlement whilst be largely or fully inactive. Support is decoupled from production and subject to cross compliance.

Agricultural support to farmers and the rural economy is delivered under the CAP through two main budgets (or Pillars). Pillar 1 includes the SPS (direct aid to farm businesses) and Market Support for agricultural produce (now much diminished in importance).

Pillar 2 is support through Rural Development Programmes. Pillar 1 delivered 80% of the £3.3 billion direct support to farmers in the UK in 2008 with 20% from Pillar 2. In future a greater percentage is expected to come from Pillar 2 and the size of the total CAP budget may well reduce.

The SPS is an EU wide scheme which channels all the old coupled support into one SP. The SP started in the UK in 2005 and is based on entitlements, issued in 2005 as one entitlement per hectare of agricultural land with a value based on historic levels of support received by that business.

Entitlement values per hectare therefore vary from farm to farm and there are different systems in England, Scotland and Wales.

To cash entitlements in 2011, farmers must have one hectare for each entitlement which meets certain payment conditions.

The other part of Pillar 1 funding is the so-called market support measures, made up of tariff barriers, intervention buying, export subsidies and quotas. Most of these mechanisms are being phased out and are of little direct relevance to farmer's budgeting. The main exception is tariff barriers which are under negotiation in the World Trade Organisation (WTO) talks, but no immediate conclusion is expected.

Tariffs and import quotas exist for cereals, dairy, beef and sheep. Milk quotas still

remain, but will be removed after 31st March 2015. Individual UK producers have seen their quota increase by a total of 4.5% over the last four years, and more is proposed.

Rural Development or Pillar 2 of the CAP supports environmental protection and improvement of the countryside, and encourages sustainable enterprises and thriving rural communities. A range of support measures are allowed under four 'axes', with a minimum percentage of each Member State's budget in each:

Axis 1 Competitiveness (min 10%): includes training young farmers, advice, food quality, production groups etc.

Axis 2 Land Management (min 25%): includes agri-environmental schemes, hill

farming (Less Favoured Area support), forestry and animal welfare.

Axis 3 Diversification (min 10%): includes grant aid for non-farming business, tourism, rural services etc.

Axis 4 LEADER schemes (min 5%): funds local partnership programmes to address specific problems in certain areas.

Each country has a 7 year Rural Development programme running from 2007-13.

The current budgetary framework of the CAP ends in 2013. Although numerous commentators have put forward a vision as to how CAP should move forward there is still yet to be a mechanism for reform put into place.

4.0 Barriers to New Entrants

4.1 High “start up costs” and access to land

Farmland prices in the UK are expected to rise by 50% in the next 5 years after they hit A record with 100% rise for the past four years.

Prices in the UK rose by 2.7% to £5,700 an acre in the first quarter of 2011. This is the largest first-quarter growth in arable land prices since 2008.

The forecast is for 10% increase in average arable land values this year – and as much as 50% over the next five years. (*Agriland sales, 2011*)

Although of late commodity prices have strengthened, with particular relevance to beef, lamb and grains, the relative return on capital employed to purchase land versus return is poor. Market forces would suggest that as a reflection of this land prices should drop but in reality this is not the case with land prices remaining high.

Land values may be less in some areas (e.g. Caithness) relative to others (e.g. Deeside, Mid-Lothian) where land values are more prone to the influence of the amenity market. Areas of a lower amenity value may provide greater opportunities to aspirant entrants to acquire land. In a recent TFF survey, more recent entrants (who entered during the last 10 years) were more likely to be in Dumfries and Galloway and Caithness and Sutherland,

than elsewhere. This may be indicative of relatively lower farmland values in these areas.

Competition from established farmers for land is evident in all regions. Thus the new entrant still competes, albeit for relatively less expensive land, against established farmers looking to increase the size of their holding.

In the cases where areas of land do come onto the market, the disparity between the agricultural value and the amenity value of land is likely be played out in terms of competition from existing farmers and amenity buyers. Whilst the latter maybe considered a new entrant, the motives for acquiring land often differ to that of the established farmer, hence the common label of hobby and lifestyle farmers, given to this group. Effectively, new entrants not only compete among existing farmers, the various types (according to pathway) compete amongst themselves.

Ross Gordon Consultants (2000) pointed out several reasons for high start-up costs. First, there is the problem of acquiring land to farm. For potential owner occupiers, it is generally accepted that land prices are high in relation to the potential return.

A major reason is the long-term effect of agricultural market support over the last sixty years: the purchase price of farm land has implicitly included the cost of acquiring the right to benefit from farm

subsidies. The gains from subsidy are effectively capitalised into land prices and this was experienced most directly with instruments such as the arable area payment. *“As was clear from the 1992 CAP reforms, compensating farmers for commodity-price falls results in record land prices.”*

Restructuring of farm size by neighbouring established farmers adds marriage value to a sale. Selling agents are well aware of this, and often propose the splitting of farms into units that will appeal to neighbours, as well as satisfying the increasingly important residential market.

Many farms have been split by owner occupiers/landlords for sale releasing capital through the sale of the farmhouse or the farm buildings. Many farms as previously discussed are sold to non farming bidders. The effect on new entry is ambiguous. Some residential purchases by non-farmers leads to increased availability of bare land for short-term tenancy or separate purchase. On the other hand, a new entrant buying a farm with a house may be obliged to contemplate a price which reflects the residential element which would be valued extremely highly by other potential purchasers.

Once the potential new entrant has overcome the problems of land acquisition (if that was the route taken or once a new entrant has found a farm to tenant) there are still further issues relating to high start up costs.

The following example illustrates the economic challenge facing new entrants in terms of capital requirement to start farming and the business’s subsequent ability to service the capital if it was all borrowed.

Based on: lowground farm extending to 190ha. The farm would be utilised in a simple system being all cropped with cereals and oilseed rape with no livestock.

Working capital requirement:

Item	£ per ha	Total (£)
Machinery	515	97,850
Crop and stores	136	25,840
		£123,690

Farm purchase capital requirement:

190ha @ £10,500/ha = £1,995,000

Total capital requirement is £123,690 +
£1,995,000 = £2,118,690

Financial performance of farm:

Net profit (before interest) £ 291/ha

For 190ha farm £55,290

Bank interest on £2,118,690 @ 7% =
£148,308.30.

Net profit (after interest) = (£93,018.30)

Net Profit has to cover:

- Personal drawings
- Capital repayments
- Tax

The business therefore has made a loss and has no surplus to cover personal drawings or repay the borrowed capital.

Source of data: *SAC Handbook 09/10 for Scottish Cereal Farms*

4.2 Access to land - land tenancy

Prior to the 2003 and the AHA 2003 coming into force, the only types of tenancy of agricultural land normally granted were "traditional tenancies" and grazing and mowing lets. Traditional tenancies offered substantial and potentially indefinite security of tenure for tenants beyond any stated expiry date.

In practice, this security of tenure was often limited by the use of limited partnerships as tenants. The land was let to a limited partnership whose limited partner was the landlord and the general partner was the actual farmer. The practice enabled security of tenure to be restricted to the stated duration of the partnership, as on dissolution of the partnership the tenancy would fall.

The introduction of succession in perpetuity with effect from 1983 when this right was inserted into the AHA 1949 by the AHA 1983. These terms were repeated in the AHA 1991 and relate to all existing occupiers of secure tenancies governed by the AHA 1991. In effect the landlord of a 1991 Act tenancy will not be able to retrieve possession of a holding (unless there is a tenant breach) if the tenant can continue to fulfil the requirements of the assignation of a lease on unlimited occasions.

The 2003 Act introduced two new types of tenancy – Limited Duration Tenancies (LDTs) and Short Limited Duration Tenancy (Short Limited Duration Tenancy (SLDT). These tenancies offer security of

tenure but only for specified durations. The AHA 2003 sought to provide through fixed term tenancies a balance between tenants' desire for long term security of tenure and a landlord's concern that a limit should be placed on this.

The LDT was intended to provide landlords with an ability to let land into the long term with considerably greater confidence than 1991 Act tenancies allowed. For tenants, the LDT offered a degree of security of tenure that the aforementioned limited partnership tenancies could not provide.

It had been hoped that both landlord and tenant would be encouraged to invest in land let under a LDT. The landlord would have the assurance of a tenant they knew on the land for a long period and the ability to reclaim the land at the end of the term if they wished. The tenants would have a term of at least 15 years to plan, invest, manage their business and reap the benefits of that investment.

However, in practice, there is evidence to suggest that the introduction of the LDT has not had the desired effect, as landlords have been reluctant to enter into leases with a fixed minimum duration of 15 years. The lease options for those seeking to enter an agricultural tenancy therefore still present a barrier to those wishing an entry point into the industry.

There is a strong perception within the tenant farming industry that the gap between the 5 year SLDT and the minimum 15 year LDT is too great and that

it would be desirable for parties intending to enter into agricultural leases to have the option of a leasehold period somewhere between the two. It is telling that the "limited partnership tenancies" referred to above, tended to be of a duration which lay between the maximum permitted for an SLDT and the minimum permitted for an LDT.

It is considered that if landlords are to be persuaded to release more of their farm land on to the agricultural tenancy letting market, for the benefit of the industry as a whole, then they will be encouraged to do so if the legislation does not lock them into long term leasing arrangements that have the potential to deprive them of control over their land for 15 years or more.

Landlords desire leasing arrangements with tenant farmers that provide them with the flexibility that protects their property and their overall interests. Tenants seek security of tenure and the ability to invest in the holding to improve their business. Reducing the length of an LDT will provide sufficient time for a tenant to invest in the business of farming the land and gives the landlord additional control over his property, as he can be certain of resuming possession after 10 years.

The Public Services Reform (Agricultural Holdings) (Scotland) Order 2011 has recently been approved by the Scottish Parliament to make the above amendments. The success of this legislation is yet to be tested at the time of writing.

Agriculture is an important sector of the Scottish economy. The vast majority of land in Scotland is under agricultural production and the sector is responsible for much of Scotland's food exports. In rural areas the industry creates many economic, environmental and social benefits, with a large number of people directly employed in agricultural activities. It is therefore in the public interest to have a good agricultural tenancy sector which is working well and producing food and income into local economies and contributing to a strong vibrant rural community and to the Scottish economy as a whole.

A number of industry commentators have expressed concern over the low take up of new tenancies LDT's and SLDT's (particularly the former) under recent legislation. Aiming to improve the relationship between landlord and tenant, the Act intended to free up the market for let land and encourage new entrants into the industry.

One mode of thought is that the inflexibility afforded by the legislation, hinders the take up of new style tenancies. The obligation on landlords to equip the holding to an adequate standard is also regarded as a disincentive to let i.e all fixed equipment is to be in a "thorough state of repair" i.e like new at the commencement of the lease for example. The cost of equipping a 1500ac farm taking into consideration all fences, dykes, hedges, drainage systems, modern and traditional farm steadings, could easily be significant and for a landlord to fulfil this

with the return on this being an agricultural rent, it is little wonder land is either taken back in hand or let on a number of short term arrangements.

Section 44 of the AHA2003 provides that the assessment of value of an improvement which is attributable to a public grant will depend on the extent to which the landlord and tenant respectively contributed to the cost of the improvement. Where any grant has been or will be paid to the tenant then, in calculating the compensation payable to the tenant at waygoing (exit of the tenancy), the grant is only to be taken into account where both landlord and tenant have contributed towards the cost of the improvement. In such cases, only that proportion of the grant equal to the tenant's contribution to the cost of the improvement expressed as a proportion of the total of the tenant's contribution and the landlord's contribution combined shall be taken account of.

For example, where an improvement costing £12,000 is financed by a contribution of £6,000 from the tenant, £3,000 from the landlord and £3,000 by way of grant then the portion of the grant to be taken account of in assessing the compensation payable to the tenant is £2,000 (i.e. the £3,000 public grant award is apportioned between tenant and landlord in the same ratio as their own contributions to the improvement: in this case a ratio of 2: 1).

The effect of this legislation is that it can diminish the readiness of a landlord to commit to treating works carried out by a

tenant as a tenant's improvement and therefore due for compensation at waygoing. This can be detrimental for a new entrant especially if operating from a relatively short term i.e. 5–15 years. The new entrant couldn't afford to invest a significant amount into the holding if it would in effect be written off at the end of the term if the landlord will not accept it as a tenant's improvement but rather a tenant's fixture (and not due compensation at waygoing).

Take the example of a new entrant dairy farmer operating in a Nitrate Vulnerable Zone who doesn't have enough slurry handling to comply with the NVZ regulations. The new entrant applies for SRDP funding toward a say £100,000 slurry handling facility. The grant aid totals 60% or £60,000. The landlord is not in a position to contribute but the tenant can gain access to the net £40,000. As the tenant has contributed the 100% net of grant element the tenant (if the landlord treated the proposal as a tenant's improvement) would be due the total value of the project (valued at the value to an ingoing tenant) at the end of the tenancy. If this was a tenancy for say a 5 year SLDT the landlord would have a considerable sum to outlay in a relatively short space of time. A landlord in this instance may refuse the proposal, treat the proposal as a tenant's fixture (which would be difficult if the proposal was required by the unit) or more than likely not let the farm in the first instance as exercising a degree of foresight a landlord would have spotted this situation arising.

The AHA 2003 intended to free up the market for let land and encourage new entrants into the industry through the implementation of new letting types but the Act also gave the occupier of a 1991 Act secure tenancy the right to register an interest to acquire land. Shortly after the implementation of the 2003 Act many commentators and stakeholders within the industry were calling for this to be taken forward as an absolute right to buy. On one hand the Act was trying to push landlords to offer more land on new secure tenancies whilst on the other hand it rings the alarm bell of extreme forced estate rationalisation. The result of this was uncertainty in the market place from landlords with little confidence to let land under the new secure terms. Many landlords felt by offering land to let on new LDTs for a period of 15 years or more that the right to register an interest to acquire land or even worse the absolute right to buy could come into effect over this new piece of statute and this LDT tenancy type.

The shortcomings of the act and the political and social backdrop have choked the farmland coming forward on offer from landlords. The end result of this is that when a farm comes on to the market the demand within the given locality is great. This results in high levels of “marriage” value or “key” money from bidders generally outbidding the offering from the new entrant.

4.3 Taxation

Income from let land is currently treated differently from trading income from farming. It is positive disincentive for an elderly owner–occupier to retire when he may be taxed more heavily by letting the farm to a tenant than if he continues to work the land himself.

Taking a helicopter approach to the tax issue surrounding new entrants and looking at all areas relating to the new entrant, recommendations have been made in 6.3 later in the report. These recommendations are with a view to incentivise the letting of land to a new entrant.

4.4 Low rates of exit

Many older farmers choose to remain in agriculture because they like the lifestyle and have an attachment to a home which may have been in the family for many generations. This is often coupled with a lack of affordable and suitable housing for retiring tenants. (ADAS, 2004)

Retirement in agriculture is often a progressive and long-term transition and not the dramatic change in lifestyle and economic rewards experienced, for example, by a blue-collar employee. This leads to a confused picture of both succession and control with some successors having autonomy in major issues such as the strategic direction of the business but still without access to the

cheque book. Such a scenario can provide underlying frustration for the succeeding generation.

Inadequate pension provision has long been identified as a problem in agriculture, making it more difficult to retire from farming without liquidating business assets to supplement pension income. Retention of property assets, appreciating in value and capable of generating cash income, may be viewed as the optimal strategy for later life but not a sustainable strategy.

The current distribution of CAP funding through Pillar 1 allows a farmer to claim a SFP based on a physical enterprise that may have not been active for almost ten years. Unlike in England the SFPE is not a hybrid model of a historical entitlement transcending into an area payment but a 100% historical payment (less modulation).

A SFPE claimant is required to “cross comply” with a number of statutory provisions which are relatively non demanding. This has allowed many farmers approaching the age of retirement to rationalise their farming activity to a minimum whilst still maintaining the total of their SFPE. The need to leave the farm at the age of retirement is therefore minimal as a significant income can be drawn through the SFPE without a demanding day to day level of input required on the holding.

In the tenanted sector this is coupled with a high proportion of farmers at the age of retirement operating from a 1991 Act

secure tenancy. This type of tenancy provides succession in perpetuity. It also affords the occupier the right to register an interest to acquire the farm. As discussed above there have been and are thoughts politically that this should move to an absolute right to buy for the tenant. This would however be at a discounted rate due to tenancy. Therefore in theory a secure tenant (if an absolute right to buy were to come into play) could purchase his unit at a market value less the vacant possession premium of say 20-40% and then remarket the property, at a market value, to capture the vacant possession premium as a windfall.

Historically agricultural rents for a secure tenancy in Scotland have been low. During the rent review process the farmhouse and farm cottages required by the holding for the operation of the farming activity cannot have a separate rental allocation placed upon them. Therefore whilst the residential letting market has accelerated there has been no reflection of this in an agricultural secure tenancy rent. This therefore creates the situation where a retiree candidate is living in a house with a significant residential rental value but is paying little more than the residential value for the total farming unit. This again is not conducive for an individual to offer to vacate the holding at the age of retirement.

4.5 Succession and inheritance

The traditional definition of succession in a family business is to pass the assets on to the next generation based on either primogeniture or split equally amongst siblings. Very little thought is given either to the 'business' aspect or to the emotional complexities which are inherent in a family business and are possibly the most significant factors to be considered in terms of success or failure of a succession.

A lack of transparency and poor/ineffective communication between individual family members are cited amongst the main causes of conflict and failed management transfers.

From the perspective of the potential successor, the combination of a number of trends in UK agriculture: a period of exceptionally low profitability, a tendency for capital to replace labour, the high value of agricultural land and property, (related) high costs of entry to the industry, and the competition presented by more lucrative career opportunities in other sectors – deter young entrants. Some industry figures suggest that nearly half of farm businesses do not have a successor in place. With entry rates (of younger farmers) far lower than exit rates (of older farmers), there is a net decline in the number of farms and an increase in the age structure of farmers.

In the current political and economic environment, the ability of farmers to

adjust and plan for the longer term becomes more pressing, yet succession planning is an issue often underrated by farmers and one that has received little or no attention in many farm businesses.

Failure to plan for succession can prove costly to the farm business and the farming family. Specific examples include: a breakdown in family relations, increased tax liability, the sale of assets to settle the estate, the break-up of the farm, and a successor ill-equipped in terms of knowledge and experience to run the farm.

Inter-generational transfer of the family farm is a multifaceted process that encompasses succession, inheritance and retirement, decisions relating to which are inseparable. Given the complexity of the process and the vast array of factors that affect succession decisions, patterns of succession vary considerably; there is no single approach.

Influential factors can be considered from the perspective of the existing farmer, the would-be successor and the farm business. The objective needs of the farm business can easily become entangled with the more emotive interests of family members, thus the need for effective communication and planning is heightened.

4.6 Funding/subsidies

Agricultural support to farmers and the rural economy is delivered under the CAP through two main budgets (or Pillars).

Pillar 1 includes the SPS (direct aid to farm businesses) and Market Support for agricultural produce (now much diminished in importance). Pillar 2 is support through Rural Development Programmes. Pillar 1 delivered 80% of the £3.3 billion direct support to farmers in the UK in 2008 with 20% from Pillar 2. In future a greater percentage is expected to come from Pillar 2 and the size of the total CAP budget may well reduce as a result.

The SPS is an EU wide scheme which now channels all the old coupled support into one SP. The SP started in the UK in 2005 and is based on entitlements, issued in 2005 as one entitlement per hectare of agricultural land with a value based on historic levels of support received by that business during the reference period (2000, 2001, and 2002).

To cash entitlements in 2010, farmers must have one hectare for each entitlement which meets the payment conditions:

- The hectare(s) must be at the farmer's disposal on 15 May of each year
- The farmer must meet all cross-compliance rules on the whole holding for the whole calendar year.

There is no requirement to produce. Support in the UK has been fully decoupled from production.

To cross comply farmers must:

- Obey the Statutory Management Requirements (SMRs).
- Keep the whole holding in Good Agricultural and Environmental Condition (GAEC).

Cross compliance inspections will lead to reductions in farmers' SFP if a failure to comply with the rules is identified. In addition, some cross-compliance is part of domestic legislation and could therefore result in prosecution in addition to payment reductions.

The other part of Pillar 1 funding is the so-called market support measures, made up of tariff barriers, intervention buying, export subsidies and quotas. Most of these mechanisms are being phased out and are of little direct relevance to farmers' budgeting. The main exception is tariff barriers which are under negotiation in the WTO talks, but no immediate conclusion is expected. Tariffs and import quotas exist for cereals, dairy, beef and sheep. Milk quotas still remain, but will be removed after 31st March 2015.

Rural Development or Pillar 2 of the CAP supports environmental protection and improvement of the countryside, and encourages sustainable enterprises and thriving rural communities. A range of support measures are allowed under four

'axes', with a minimum percentage of each Member State's budget in each:

Axis 1 Competitiveness (min 10%): includes training young farmers, advice, food quality, production groups etc.

Axis 2 Land Management (min 25%): includes agri-environmental schemes, hill farming (Less Favoured Area support), forestry and animal welfare.

Axis 3 Diversification (min 10%): includes grant aid for non-farming business, tourism, rural services etc.

Axis 4 LEADER schemes (min 5%): funds local partnership programmes to address specific problems in certain areas.

Each country has a 7 year Rural Development programme running from 2007-13.

As entitlements are not attached to land in Scotland and entitlements are a tradable asset, a new entrant to a farming unit would not enter that farming unit with a guaranteed SFP. SFPE can be claimed by individuals who have purchased entitlements for investment purposes. All the investor is required to do is have access over land that is free of entitlement and that can comply with the GAEC's and SMR's. This has created a market for "naked acres" which have been trading, over the last period, for a figure in the region of £15-18 per ha.

For a new entrant to have access to SFPE they must either lease or purchase entitlement. Without SFPE a new entrant

across the majority of enterprises would struggle to work toward profitability if we took profitability data from the last period going back. The CAP is due for review with affect from 2013. Many commentators have voiced opinion that the status quo with regards to SFP distribution for Scottish farmers may stay in place going forward. This would be disastrous for the new entrant sector unless some form of reallocation or a reserve fund for new entrants were created.

With the introduction of the Rural Development funding from the EU which focuses financial support on both new entrants entering agriculture and retiring farmers leaving it, it is now possible to assist young people into agriculture and then to develop that business, through the reduction of risk, to invest and grow.

Grant support is available in many European countries (shown in table on page 40) through the RDR. Member countries had the option to make use of these measures and of the amount of support given. Direct grants to new entrants range from €0 in England to €110,000 in France. In addition, preferential grant rates can be awarded to new entrants under other funding measures.

Through the SRDP the Scottish Executive has afforded some provision for New Entrants. These include top up levels of grants for certain capital projects such as slurry handling facilities etc and also the Interest Rate Relief Scheme.

The interest relief grant will support the cost of the interest payable on a commercial business development loan from an authorised deposit taker (for example, a high street bank or building society). There is also an up front establishment grant equivalent to 75% of the interest rate relief.

There are different levels of support depending on the size of the business.

Businesses with 0.5 FTE or greater will receive interest rate relief up to a maximum of £27,397 over 5 years and up to a maximum interest rate of 3.5% above the Bank of England base rate at the time of application. A maximum establishment grant of £20,548 will also be paid.

For example, £50,000 borrowed over five years. Total interest paid is £5,152.60 = 5 x £1,030.52 annual claims plus an

establishment grant of £3,864.45 (75% of £5,152.60).

For businesses with greater than 0.25 and less than 0.5 FTE will receive an interest rate relief up to a maximum of £16,438 over 5 years and up to a maximum interest rate of 3.5% above the Bank of England base rate at the time of application. A maximum establishment grant of £12,329 will also be awarded.

For example, £15,000 borrowed over five years. Total interest paid is £1,545.60 = 5 x £309.12 annual claims plus an establishment grant of £1,159.20 (75% of £1,545.60).

5.0 A global view point

5.1 USA

Policies to assist new farmers date from 1946 when farm ownership loans were made available through the United States Department of Agriculture's (USDA) Farmers Home Administration.

Following a period of policy neglect, concerns about the age of existing farmers and a decline in the number of trained farmers and ranchers in the late 1970s resulted in an initiative in the 1980 Farm Bill to establish demonstration and training centres in each State to train new farmers.

Additional measures were introduced in the 1990 Farm Bill and the 1992 Agricultural Credit Improvement Act. These included loan funds for beginning farmers, training for those borrowing funds to purchase a farm, preferential status for beginning farmers in the sale of inventory land, and Federal-State partnerships to coordinate assistance to beginning farmers. The latter resulted in a number of State programs for beginning farmers. These included First Time Farmer loan programs, 'aggie bond' programs, concessional taxation arrangements, and State purchase of development rights to lower the price of farm land for beginning farmers.

Since 1992, the USDA Farm Service Agency has had a down-payment loans program, under which qualifying young

farmers can obtain loans at subsidised interest rates for up to 30 per cent of the farm purchase price if they put down 10 per cent. The Farm Service Agency can also act as guarantor for the remaining financing of the purchase.

The Federal Agriculture Improvement and Reform Act of 1996 increased the amount of loan funds available to beginning farmers and ranchers.

During the 1990s, land-linking programs emerged as initiatives by private and non-government organisations.

In 1999, the Beginning Farmer and Rancher Advisory Committee was formed to provide policy recommendations to the Secretary of Agriculture. In 2000 and 2001 it put forward recommendations for improvements to the Farm Service Agency loans program.

Pressure on legislators from beginning farmer advocates continued in the late 1990s and in 2000 and 2001, with the Growing New Farmers Consortium in north-eastern USA seeking endorsement and sponsorship by Federal legislators of a draft Beginning Farmer and Rancher Act.

From just two programs in 1991 in the USA, there are now 20 programs. The programs are supported by the National

Farm Transition Network which is coordinated by Beginning Farmer Centre at Iowa State University.

There is considerable diversity among these programs with respect to their underpinning rationales and ideologies, involvement of professionals and government departments, and the provision of educational offerings.

At the simplest end of the spectrum are some programs which are coordinated by State departments of agriculture and only provide a matching service by which those seeking farm land are put in touch with those selling farm land. At the more comprehensive end of the spectrum are programs, including some run by not-for-profit organisations, that are underpinned by a strong commitment to ameliorating or reversing the social impacts of structural change in agriculture.

The Land Stewardship Project in Minnesota, for example, has explicit goals to reduce corporate ownership in agriculture, to reduce the concentration of ownership more generally, and to establish new regional food systems that connect farmers and consumers more directly. The Land Stewardship Project, in addition to offering a land linking service, also offers courses, workshops, and mentoring programs for beginning farmers.

Other programs that offer services beyond land linking emphasise the need for professional advice in areas such as farm and financial planning, contracts and legal issues, retirement and estate planning.

These programs provide referral services to the relevant professionals, or may establish a team of professionals who are available for the duration of a farm transition.

5.2 France

In 2008 some 9,500 new entrants were installed throughout the whole of France; 6,500 of them were qualified young farmers eligible for extra State and EU aid.

Approximately 60 new entrants got started in Scotland in 2008. For all of Scotland's 26,000 or so professional holdings, that makes an average of just one new entrant per 433 farms. This compares with one new entrant per 34 farms in France.

Firstly it must be acknowledged that France has a huge advantage over Scotland in terms of land tenure owing to the Revolution and abolition of feudalism. This was followed by subsequent laws redressing land share and giving rights and ownership to farm tenants and workers and later, the Napoleonic code dividing land equally between siblings on inheritance.

These laws put the land in the hands of many and clearly had a significant impact on land accessibility in France. One might imagine this would result in a high instance of owner-occupiers but in fact 76% of agricultural land in France is rented. This compares with just less than 30% of farmed land in Scotland.

France actively encourages new entrants into farming. It is important to note that, firstly the French offer national (government) financial aid to Young Farmers (YF), part of which is drawn from the EU, and that secondly, the different regions i.e. Brittany, Auvergne, Limousin each have their own policy with regard to financial incentives for YFs. Finally the Départements within the Régions may have funds available to assist YFs.

There is also some assistance (in a few areas requiring a population boost) for those wishing to farm but who are older than 35-40. It is offered in the Limousin and the entrants must be experienced in farming.

5.2.1 YF criteria

The YF must hold a minimum of a national diploma in agriculture. The YF (if born after 1971) must complete a 6 month, on-farm practical training programme (although derogations can be given depending on circumstances e.g. experience level, family commitments). The YF must complete a 40 hour farm installation course detailing installation procedure/paperwork/ applying for rights etc. The YF must be 35 or under although the threshold rises a year for each child they have i.e. 38 accepted if he/she has 3 children.

5.2.2 Stipulations

The YF must commit to farm for a minimum of 10 years or repay grants/loans on reprisal of their farming business in

proportion to time farming. Release of monies only occurs after a viability study and 5 year business plan produced showing the project to be economically sound. The YF must meet environmental cross compliance requirements. YF must produce a full set of accounts by a quasi-governmental accountancy organisation for the first 2 years.

5.2.3 Other assistance

- YFs pay 50% reduction in income tax.
- YFs pay reduced social security rate for the first 4 years as they establish - 65% less in year 1 sliding to 15% less, year 5.
- YFs pay 50% less land tax and 50% stamp duty reduction.
- The national rural accountancy firm offers a 50% reduction on fees.
- YFs have priority when applying for 1) Single Farm Payment top up, 2) Suckler Cow Premium 3) Sheep premium and each Region has YF allocation available i.e. Limousin: 60 cows, 600 ewes, 250K litres milk quota
- YFs also have priority on any neighbouring land should it come up for sale or rent. This includes the right to pre-empt other interested parties.

5.2.4 The advisory bodies

ADASEA is a new entrants to farming, government organisation whose sole aim is to assist new entrants (mostly YFs) with their installation including :

- Advertising farmers wishing to give up or retire
- Trying to match these up with new entrants
- They (in addition to a couple of other agencies) are authorized to carry out the farm viability study
- They provide administrative support and advice on YF aid and rights

Chamber of Agriculture exists in each small to large town providing similar assistance to ADASEA but less specifically for YFs. They hold all documentation/application forms etc and also provide a farm advisory service. They play a similar role to the Dept of Ag in the UK but in a decentralized, face to face manner.

CER is the quasi-government rural accountant's organisation, again represented in each small town with which the YF must produce his/her first few years' accounts and can benefit from the 50% discount in fees.

Cooperatives are keen to assist the establishment of YFs and provide technical support and can purchase the YF's livestock on his/her behalf at 0% interest to enable them to get set up.

Banks work on a different premise to those in the UK in relation to YFs. There is even strong competition to attract YFs with over 80% of farmers banking with Credit Agricole.

The bank looks closely at the viability study which provides reference figures for

the net margin and therefore income left for personal drawings, margin for security (at 6-10% turnover) and annuities. Provided the net margin is high enough to meet these figures comfortably, and they like the YF and his/her ideas, they will allocate funds. There is the added security in the loans/grants coming from govt.

Personal capital is of greater consequence when buying land (as only a max of 20% of any YF loan can contribute towards this) and buying a house which requires personal funds/mortgage outwith YF loans/aid

Worked Example for a French YF

A worked example below of a young couple, both with agricultural qualifications.

Government: Low interest loan (ranging from 1%-3.5% depending on region) with 10-15 years to pay back (depending on region/land quality)

i.e. $110\,000\text{ €} \times 2 = 220\,000\text{ €}$ at 1% over 14 years in Creuse Departement (classified as LFA equivalent)

National YF Grant (LFA zone): $€22\,400 \times 2 = €44\,800$

Limousin Region Aid: $€3\,000 - €5\,000 \times 2$ (includes relocation aid)

Department Aid: $€3\,000 - €5\,000 \times 2$ (includes aid for a non-family installation)

	YF Couples	Single YF
Grants	€57 000	€35 000
Loans	220 000	110 000
Total	€277 000	€145 000

PLUS: additional low interest loans (up to €72 000 at 3-4% over 12 years).

Many YFs fresh out of college (early 20s) do their 6 month on-farm training period and then making use of the YF grant plus loan without any capital or with a very modest amount (i.e. < €20 000) set up either in a progressive transmission with a soon-to-retire farmer (who benefits from tax reductions) or in a GAEC (partnership) with one or more others, often family/neighbours. These are very common routes in to farming and with the reasonably high availability of rented land gives the French YF an opportunity to get started without tying up precious capital in buying land.

5.2.5 French tenure system

The minimum rental term is 9 years, automatically renewable for a further 9 years. The tenant must give a minimum of 18 months notice if he wishes to cease renting and the same goes for the landlord. However, the landlord can only do this if he/she or direct family is eligible to, and wishes to, farm the land themselves or if the tenant is about to retire. The tenant has first offer to buy if the farm is to be sold.

Rent Price is fixed between a min and max each year depending on the department i.e. Haute Vienne in the Limousin is currently €100 - €130 (usually at lower end of scale on longer duration tenancies). In practice landlords are often willing to reduce the rent slightly for YFs. There are also 3 separate rates fixed for renting the

house, the buildings and the land if renting a whole farm.

The next rental term is an 18 year contract, again an 18 month notice period and it is automatically renewed for 9 years. If a spouse or children wish to take over the tenancy they must have farmed on the farm for at least 5 years. There is a tax advantage for the landlord as only ¼ of the land is considered for inheritance tax under this agreement which is probably why it is one of the most popular!

There is also a 24 year agreement, renewable on an annual basis at end of term. The landlord must give 4 years notice to terminate contract, no reason required.

Finally there is a career tenancy i.e. 30 years or more which goes along the lines of the 24 year agreement above.

If a farm is to be sold, the sitting tenant has first option to buy but must inform the landlord within 2 months. The tenant is then eligible for a tax reduction e.g. pays 2% total tax on land.

Typically, a landlord is a neighbour, often a retired farmer himself which can be advantageous.

5.2.6 Early Retirement Scheme

France has operated a successful early retirement scheme for many years, specifically aimed at altering the agricultural demographics and encouraging new entrants. Up to the age

of 60 farmers can retire with a lump sum payment and an annual payment thereafter depending on the amount of land given up (of which 50% is EU sourced). During the 1990s, this saw some 60 000 farmers join the scheme, freeing up 2m Ha of which 60% was released to new entrants. (*Naylor, 1982*)

5.3 New Zealand

In New Zealand dairy farming is a solid career choice, offering good status and pay, a high quality of life, and well-defined training and career paths. That's the message to New Zealand high school students from technical schools, the national dairy apprentice program, and the dairy industry. And dairy training and career opportunities there not only open the field for new entrants, but also enable smooth expansion and retirement transitions.

As of 1994 30 percent of New Zealand dairy farmers came from non farm backgrounds. Training opportunities available in New Zealand to prospective dairy farmers is one explanation for the interest in dairying by people with no farming background. New Zealand's dairy training approach makes it possible for people from nonfarm backgrounds to quickly pick up the desired skillset.

One way that New Zealand agricultural technical schools recruit young people is through strong connections to high schools. Contact with high school students and guidance counsellors is a recruitment

strategy for both private schools and public programs. For example, New Zealand's Industry Training Organization (ITO) Agriculture actively recruits using such connections for its Dairy Cadet Program, an apprentice-like sequence for young dairy farmers. ITO Agriculture also recruits students from the entry-level farmer trainee courses at the technical colleges.

Non-institutional factors also attract young people into dairy farming. Economics, quality of life, and status are all reasons to enter dairy farming in New Zealand.

Training of aspiring dairy farmers is guided by the complementary programs of public and private technical schools and ITO Agriculture. Early training comes in the form of a two-year pre-cadet training course, with students typically in their late teens or early twenties, and about half from non farm backgrounds. In this course, the student attends classes full-time with an ITO Agriculture-approved program, and completes on-farm internships. This is the first step in a program leading to the national certificate in farm practice, and roughly half of those who complete the pre-cadet course go on to the Dairy Cadet Program.

New Zealand's ITO Agriculture provides financial and logistical support for young farmers with the Dairy Cadet Program. Dairy cadets earn academic credentials while working as dairy farm assistants, herd managers, or contract milkers. The students typically continue their formal

training through courses that meet one day every two weeks.

ITO Agriculture is responsible for facilitating dairy cadet employment steps with six regional offices. Field officers promote the cadet program and evaluate new cadets, recruit and evaluate farmer trainers, and arrange job interviews for cadets. They also maintain contact with the cadet's off-farm education program. The cadets earn a national certificate in farm practice at the conclusion of their coursework and apprenticeship, and then work as farm manager, contract milker, and eventually become a sharemilker.

In a sharemilking agreement, a young farmer (called a "sharemilker") operates a farm on behalf of the farm owner for an agreed share of farm income. Sharemilking has been part of the New Zealand dairy scene for more than 100 years, and offers young farmers a way to build assets and dairy management skills without a large input of money.

5.3.1 Farm ownership and retirement

After several years of sharemilking, a young New Zealand farmer typically cashes in 400 to 500 of the 600 to 800 cows accumulated during sharemilking to purchase a small farm. At this stage, a dairy farmer will typically continue to add cattle and land to the operation. Dairy farmers in New Zealand enjoy a fair degree of geographic mobility, moving to larger farms as they increase cow numbers. Eventually, they begin to use the labour of dairy cadets and sharemilkers more

The fact that the dairy farms are grass-based and have relatively few large capital investments make the sale of the farm reasonable both to the selling and buying farmer.

5.3.2 Example of a New Zealand dairy career pathway

- Early 20s: training at technical schools and farm apprentice-like employment; work as farm assistants, herd managers.
- Mid-20s to early 30s: manage, milk an owner's herd for a percentage of the milk cheque; accumulate own herds.
- 30s: own their cattle; farm under a 50-50 sharemilking agreement, accumulating cattle.
- Late 30s to early 40s: sell some of their accumulated cattle to generate a down payment for a small farm.
- 40s to early 50s: sell small farm and buy large farm.
- Mid-50s and up: stop milking cows and enter into share agreements with contract milkers or sharemilkers, affording the land-owning farmer many lifestyle choices. They sell or pass on the farm during this phase

5.4 The EU member states

The introduction of the Rural Development funding which focuses financial support on both entry in and exit from agriculture for new entrants and retiring farmers respectively. It is possible to assist new entrants financially in an EU context.

Grant support is available in many European countries through the Rural Development regulation. Member countries had the option to make use of these measures and the amount of support given.

continent to enable new entrants to become established. The amount of support ranges from €0 in England to €110,000 in France. The table below details the uptake installation aid for young farmers within the member states:

During this study it became clear that grants were being used across the

Country	Type of Aid (art. 8.2)	10 % Higher support for YF for investment in agricultural holding (art. 7)
Belgium Wallonie	<p>- EUR 100.000 investment:</p> <p>A single premium of 45% investment. €100.001 to €175.000 investment</p> <p>An interest subsidy covers 5% of the interests on the loan the YF has taken, it goes up to a max of EUR 10.000. Min 1% of the interest is in charge of the YF.</p>	<p>Yes,</p> <p>- 10% of investments for YF less than 6 years old set up.</p> <p>Aid can not exceed the amount of EUR 100.000.</p> <p>For YF less than 6 years old set up, aid can not exceed the amount of EUR YF 150.000</p>
Belgium Flanders	<p>There is still no higher support for YF in investment in agriculture holding.</p> <p>A single premium of max EUR 25 000 is paid over the first two years after setting up the farm.</p> <p>An interest subsidy of max EUR 30 000 covers 4% of the interests during 10 years. The above mentioned subsidies can be less because of an obligatory guaranty asked by the bank to the farmer who get this guaranty from the government for max EUR 25 000 euro. Max total aid is EUR 55,000</p>	No.
Denmark	<p>There is no direct installation aid.</p> <p>young farmers can loan 20 percent (from 70% to 90%) (maximum EUR 520.000) of the price of the farm with a State guarantee. The first 70 percent of the price are no problem, and can always be loaned. The last 10% is the young farmers savings and bank-loan.</p>	No.
Germany	<p>A single premium of EUR 10,000 if the young farmer invests at least EUR 50,000.</p> <p>This amount of aid differs between the federal states of Germany, e.g. Rheinland-Pfalz doubles this amount out of its own resources.</p>	No.
Greece	<p>A single premium:</p> <ul style="list-style-type: none"> * Mountainous area: EUR 25,000 • Disadvantageous area: EUR 20,000 • Flat land: EUR 15,000 	55% of the whole investment but it can not exceed the amount of EUR 225,000 per farm.

Hungaria	The single premium depends on the size of the farm and it is not linked to an investment There are 3 categories - EUR 20.000 – 4 ESU - EUR 30.000 – 7 ESU - EUR 40.000 – 10 ESU	Yes, max 50% and 60% in less favoured areas of a max. invest in different measures. Only for individual owner who has business plan and special “young farmer” registration. of
Spain	A single premium of max. EUR 20,000 not linked to an investment. An interest subsidy of max. EUR 20,000 This sum can be increased each time by + 10 % when: • It is a woman who is setting up • You hire an additional UTA • You are located in a less favoured area or zones of article 36 a): (i), ii) or iii) of regulation (EC) n° 1698/2005 Max total aid: EUR 55,000	Yes, max 50% and 60% in less favoured areas of a max. invest of • Individual owners: EUR 90,152 per UTA and EUR 180,304 per holding (max 2 UTA) • Firms and companies: EUR 90,152 per shareholder and EUR 360,600 per holding (max 4 UTA) • Intensive crops (greenhouses for fruits and vegetables): EUR 601,012
France	The max of the single premium depends on the zone and it is not linked to an investment • €35,900 mountainous areas • €22,400 in less-favoured area • €17,300 in flat land Interest subsidy: The max amount of the loan the young farmer can take is EUR 110 000 for a period of 12 years in flat land and 15 years in other land; the loan can be activated during 10 years; the interest is subsidised by the state, so the interest that have to be paid by the YF is rather low. The interest also depends on the zone. • 2,5 % in flat land • 1 % in other areas	Yes
Ireland	A Single premium of 15,000 Euro (Suspended in 2009!)	N/A
Italy	Single premium of EUR 25,000 Interest subsidy linked to the cost of the investment with a capitalised value of a maximum of EUR 25,000 Max total aid EUR 50,000	
Luxembourg	A single premium of max EUR 25,000 - not linked to an investment. An interest subsidy of max. EUR 25,000 For an additional diplôme: EUR 5,000 Max total aid: EUR 55,000	Yes it is possible within 5 years after installation to obtain: Max: For investments in special-purpose crops, the max amount can be 55% of EUR 625,000.
The Netherlands	Single premium of 20% of maximum investment of EUR 100,000 per YF Max aid EUR 20,000	NO
Austria	Single Premium linked to the labour use on the holding and to an investment of at least €15,000: • 0.5 to 1 full-time person: max €1,850 • 1 full-time labour unit (off-farm activity >50%): max €4,750 • 1 full-time labour unit (off-farm activity < 50%): max €9,500	Yes, Max 45% of max invest of EUR 127,177.46/VAK or of max €254,354.92/farm and 55% in the less favoured area

Portugal	A single premium of €40.000	Yes, for YF setting up with project over €25,000
Finland	A single premium of max €22,000, which is not linked in doing an investment, is an income in the final taxation. An interest subsidy of max €22,000 and/or A fiscal exemption for the usual capital transfer tax equal to 4% of the purchase price Max total aid incl. the fiscal exemption €50,000	Yes, max 25% to 55% out of max invest of €840.000 in agricultural holding and €1.300.000 in horticultural, there is no difference between the areas.
Sweden	There is a single premium of max €11,000. Advantages are given to women and full time young farmers Farming has to be at least 25% of the total income. 2 years after setting up, the YF can obtain an interest subsidy of max. €11,000 Max total aid €22,000	Yes (details missing At the time of submission)
United Kingdom	No	No

6.0 Case Study: An Estates perspective

Letting of land to new entrants: A Roxburghe Estate View. By kind permission of The Duke of Roxburghe and Roddy Jackson, Factor.

The Roxburghe Estate takes a pragmatic approach to encouraging opportunities for younger farming tenants and to renting Estate land. The 50,000 acre Estate in south-east Scotland includes 50 farms, of which 21 are hill farms averaging 1600 acres and 29 are low ground farms of circa 560 acres each. Five farms are managed in-hand with the remaining 45 let.

An analysis of changes of occupation over the last 25 years - effectively over the course of a generation - illustrates very clearly the limited turnover in farms to let over the years. There has been no change of occupation, other than by family succession, on 33 farms or 66% of the total. Some 23 have seen some changes of occupation, including 3 farms which have changed hands twice. Of these 23, 16 were let (including 5 farms which were previously in-hand), 5 were sold and 2 were taken in hand. In total there were only 7 open market lets during this period.

Taking the analysis back a further 25 years produced a further 7 open market lets. So over the last 50 years, there have been only 14 open market lettings, representing some 28% of the total.

There are 3 main reasons for such a low turnover of farms to let on the open market:

- Lease Succession
- Farm Re-organisation
- Land Sales

6.1 Lease Succession

A secure agricultural tenancy gives an eligible family successor the right to succeed to a lease provided certain criteria relating to financial and business competence are satisfied. Of the 50 farms on the Roxburghe Estate there has been no change of occupation (other than by family succession) on 33 – nearly two thirds.

The Estate's policy is not to wait until the tenant dies, but to admit a son or daughter into the lease at an earlier stage. In the last 10 years, 6 tenants' sons have been brought into the farm lease as a joint tenant. The Estate believes it is good practice for a son or daughter who has gained the necessary experience and is involved in the farming business to become a joint tenant at a young age. In some cases the Estate has been the one to encourage the father to accept the need for change and for additional responsibility for his offspring. While some may not see a tenant's family successor as a new

entrant, the Roxburghe Estate certainly does.

It actively encourages succession planning in order to provide the opportunity for that successor to become jointly responsible for the business, bring new ideas and often enthusiasm and energy to the farming operation and also to build a working relationship with the landlord. This can be done without the son or daughter being accepted into the lease, but the Estate believes it is important that greater responsibility be recognised by the family successor becoming a party to the lease.

6.2 Farm Re-organisation

As the industry's profitability has been squeezed, an inevitable consequence has been for farms to increase in size and for some farms to be amalgamated. It is the Estate's policy to support existing farm tenants and where possible to add land to the existing tenancy to ensure that their particular farm remain viable. This is one reason why a farm which comes in-hand may not be re-let on the open market. Some recent examples where this has happened show why Roxburghe Estate did not favour reletting on the open market in these cases.

- A small low-ground farm of 170 acres with a house but very limited buildings came inhand following the retirement of the tenant. The adjoining 275 acre farm was fairly marginal with a substantial area of poor grazing land

prone to drought. Despite having a hard-working tenant, the larger unit struggled to provide a reasonable living. After very careful review of the options, it was decided to let the 170 acre farm to the tenant, to create a more viable unit of 445 acres. This may not have secured the highest rent but in the view of the Estate it was the preferred option for long term estate management. The farm was let on a 15 year Limited Duration Tenancy under the new 2003 Agricultural Holdings Act.

- A 300 acre farm which again came in-hand following the retirement of the tenant could have been farmed in-hand, sold, re-let on the open market or let to existing tenants. It was decided to let it to three neighbouring farm tenants in order to support their existing businesses.
- A larger hill farm came in-hand in 2002, the year after the Foot and Mouth Disease outbreak. The Estate preferred to await introduction of the new Agricultural Holdings Act (which at that point was going through its Parliamentary stages) before re-letting the unit, so it was farmed on a temporary management contract for around 18 months. The unit was then divided into two holdings and all existing Estate farm tenants invited to offer for the tenancy. The two farms were then let on 15 year LDTs to two existing tenants. The hill farm could have been put on to the open market, but since it was a difficult time coming

soon after the Foot and Mouth outbreak, the Estate's first priority was to its existing farm tenants, some of whom were recovering after losing stock because of the disease.

The Estate might have been criticised for not offering these farms on the open market, but it values its relationship with its farming tenants whom it see as partners. Its first priority is seen as being to those

tenants where extra land would strengthen and safeguard their existing business.

6.3 Land Sales

Over the past 25 years, 5 farms which have come in-hand on the Estate have been sold, all of these on the Estate's periphery. Its policy has been to retain and re-let land within the core Estate but to dispose of some of the outlying farms.

7.0 Recommendations to overcome the barriers

7.1 High “Start up costs” and access to land

7.1.1 Partnerships/ Equity share with existing owner occupiers with no successor

Several individuals contribute capital to the ownership of a farm or a farm business. Each stake is represented as a number of shares if set up as a company, or partner's capital if this is a partnership. The ownership structure often does not match the management responsibility. For example one of the partners may manage the business, while the others simply have an ownership share. The owners receive a share of the profit in relation to their stake, while the working owner also receives a wage. In many respects this is not dissimilar to many family farms where one sibling actively farms, the others are equity partners but less active in management of the business.

While standard partnerships open individuals to unlimited liability, since 2001 there has been the option throughout the UK of using a Limited Liability Partnership (LLP). These were introduced to meet the needs of the professions (solicitors, accountants, etc), but are now being used in agriculture, with several successful examples, especially in English arable areas. Under the LLP the members have limited liability (reduced risk to personal wealth from creditors claims), but still have the flexibility of partnership agreements.

A farmer looking to ease back on physical workload who does not have a successor could enter into an agreement with a new entrant. At the outset, dependent on the new entrant's ability to buy shares of the business through own personal equity, the new entrant would be a “working owner” taking a wage with the “farmer” the majority equity owner. The shares would relate to the working capital (livestock, machinery etc) with the land remaining in the “farmer's” ownership.

As time progressed and the new entrant developed the ability to purchase a greater equity share of the business the “farmer” could take a further back seat through a transitional rental arrangement where a phased market rent is paid to the “farmer” by the partnership as his equity in that partnership falls relative to the new entrant.

Eventually the farmer would be in a position to retire taking a market rent for the unit from the new entrant and the new entrant would have stability and security through the majority share of the equity in the partnership.

In New Zealand and Australia there are more examples of equity arrangements being formed to buy farms and, as land prices have risen worldwide, this has become the way for someone like a sharemilker to get into land ownership.

7.1.2 Share farming

The basic principle is that two (or more) parties each provide different inputs and then share the profit on the basis of their respective contribution and the risk each carries.

Usually the relationship is between an owner who provides land and infrastructure (buildings, fencing, drainage, roads, drier, perhaps some machinery, variable levels of livestock) and covers related fixed costs (electricity, insurance, etc) while the other party provides labour, variable levels of machinery, livestock, input costs and management.

An agreement is drawn up which states everyone's responsibilities and which sets out the profit split – say 50:50 or 60:40 or 70:30 depending on each party's material contribution and management input. The profit shares vary as with all partnership agreements. The parties, however, each run their own separate businesses with their own VAT registration, accounting and tax assessments.

There are some examples, especially in England, of large businesses which have been established in this way. They were fairly common until the introduction of headage and area payments, which made clarity over who was actually the farmer and subsidy recipient more important.

There are a number of benefits to share farming including:

- Shares risk

- A way of bringing in new expertise, youth, ambition – it is a route for a new entrant who has built up specific enterprise expertise as an employee elsewhere.
- A way for the occupier to remain involved, but reduce physical workload.
- Can be done just for one enterprise within a larger whole, rather than for entire farm business.
- Flexible (contract law) and can be progressive, with share farmer taking on more of the risk and getting more of the return over time
- Share milker can move from an incentivised milker position, to an increasing ownership of cows and equipment, and then to farm ownership or equity partnerships.
- Landowner has a better chance of getting the farmhouse included as a farm asset for Inheritance Tax purposes in this type of agreement, than in a Contract Farming Agreement.
- More suitable since decoupling. The SFP is separate from the enterprise which is being share farmed.
- A way for a farmer to introduce a new enterprise in which he lacks expertise. The same could be said for a sheep flock/cattle herd

7.1.3 Contract farming arrangement

These are well established throughout the UK. They operate in both livestock and crop situations, but are much more widespread in the latter. They have been

attractive because they are covered by contract law (and hence avoid tenancy legislation) and because they allow the landowner to be classed as a farmer (with the tax and subsidy ownership benefits that brings) without actually having to do the physical farming.

In a CFA, the farm occupier (landowner or tenant) provides the land, buildings and fixed equipment and, crucially, continues to pay all the costs and receives all the income. The “contractor” provides all the labour and machinery and effectively does all the farming.

The two parties meet regularly to agree the farming policy. A separate bank account is set up by the occupier (usually called the No.2 account) and from this all the costs for the farming covered by the agreement is paid, and into this all the sale proceeds and relevant subsidies are paid.

The occupier receives a pre-agreed “retention” or “first share”. The contractor receives a payment (contractor’s basic fee) for all the work done on the farm, at pre-agreed contract rates. The profit (or divisible surplus) which is left after these payments are made, and all the costs and incomes are accounted for, is then split between the occupier and contractor, typically 20:80. The contractor gets the big share of the divisible surplus to act as an incentive to improve profits.

The overall aim is that the occupier gets a reasonable and fixed return, while the contractor has the incentive to gain from a good profit (but a lower return if the profit

is poor). The occupier carries the greater risk, because even if there is a large loss, the contractor’s basic fee is still paid.

Benefits of a CFA include:

- Allows the occupier of the farm to receive a fixed return and still be classed as a farmer with the inherent tax and subsidy benefits (for example the occupier clearly gets the SFP entitlements)
- Allows the contractor to prove themselves to the owner, and could lead to a longer term agreement or tenancy
- It is not a partnership and does not involve the associated risks or burdens
- Allows the occupier to contract farm one part of the business e.g. crops, while he concentrates on other parts e.g. livestock, diversification.
- A fairly low cost route to expansion for a well equipped farmer, contractor or new entrant
- Can be used as a way for a new entrant to build up ownership of livestock, but must be careful to avoid creation of a partnership.
- Covered by contract law so very flexible. Flexibility means this can be made to suit many different situations, can exclude parts of the farm or buildings, etc
- There is complete flexibility over what land and buildings and fixed equipment are included in the agreement. Some agreements include SFP and other subsidies, others do not.

7.2 Access to land – land tenancy

7.2.1 Freedom to contract

The tenanted sector covers a third of the agricultural area of England and Wales. Until 1995, all tenancies were governed by legislation consolidated in the Agricultural Holdings Act 1986. From September 1995, the Agricultural Tenancies Act (“ATA 1995”) has provided that new tenancies will generally be Farm Business Tenancies (FBTs), governed by a much more deregulated code of law – a freedom to contract.

Scotland should follow suit giving the ability for parties to write into a tenancy agreement the majority of terms relative to repairing and maintenance obligation, term length, rent review etc which would give both parties, and especially landlords, the confidence to offer units to the market where they currently are not under existing legislation.

7.2.2 Removal of the right to register an interest to acquire land

Section 25 of the AHA 2003 sets out the process for registering an interest in acquiring the land comprised in the lease of a 1991 Act tenancy and explains the duties of the tenant, the landowner and the Keeper. The statutory right to buy procedure protects the position of those tenants who have registered an interest in acquiring the land comprised in the lease.

At the time of the passing of this piece of legislation it was discussed that this right

to register an interest to acquire would move to an absolute right to buy. As previously discussed in this report this sent shock waves through the landlord sector and stemmed the supply of farms coming onto the market. If this piece of legislation were removed it would give landlords confidence that this policy was out of the political arena and off of the agenda providing confidence to let land.

The tenant occupying a secure tenancy would still be in a strong position were the farm ever to be offered to the market with a sitting tenant. A farm offered subject to a secure tenancy would be valued by an investor in the same respect as it would be valued by a sitting tenant – the value of the farm less the VPP. In this event the sitting tenant would be in as strong a position as any.

7.2.3 Removal of succession in perpetuity

The occupier of a tenancy governed by the AHA 1991 has the right to succession in perpetuity. This should be reverted to a 3 generational tenancy or the right for a 1991 Act tenancy to be assigned on two occasions. The removal of such would free up land to the market when a traditional tenancy came to the end of its life rather than a series of successions within the same family, many of which are made to avoid the loss of the tenancy and the provisions of the 1991 Act rather than for the passion, desire and drive for the industry.

7.2.4 Treatment of grant aid as tenant's improvement

Legislation should be altered so that grant aid is disregarded at waygoing rather than the tenant getting the opportunity to "have his cake and eat it" through the benefit of the grant for the capital project in the first instance and then, in crude terms, getting paid the grant money again at waygoing. If the grant were to be disregarded it would put landlords into a far more proactive mindset as in short, taking the above dairy farm example in 6.2 above, a landlord would gain a £100,000 capital improvement at the end of the tenancy for the valuation of a tenant's £40,000 investment. This would seem the most equitable situation with the tenant getting the benefit of the total capital improvement throughout the tenancy and then being compensated for their own personal investment.

7.2.5 Adjustment of section 16 of the AHA 2003

Section 16 of the AHA 2003 provides the respective rights and responsibilities of landlord and tenant in relation to the maintenance, replacement and in certain cases provision of fixed equipment on land comprised in SLDTs and LDTs. Subsections (1) and (2) of section 16 provide that any fixed equipment on the land is to be specified in the lease, and that landlord and tenant may adjust that specification in writing at any time during the term of the lease.

Subsection (3) sets out for LDTs and SLDTs the landlord's liability for providing

and maintaining fixed equipment both at the start of and during the term of the tenancy, while subsection (5) restricts the liability of the tenant for maintaining fixed equipment.

Subsection (6) prevents landlord and tenant from entering into an agreement under which the tenant would bear the cost of meeting the landlord's responsibilities under this section.

In short section 16 prevents a landlord from leasing a unit to a tenant with the fixed equipment (buildings, fences, dykes etc) in a state of repair that is not "thorough" i.e. like new. If a landlord were to do this the tenant would be within his right to serve a notice to repair on these items. If, for example, a landlord had a unit that required a significant amount of fencing or dyking works he would not look to put that farm to the market. It does not take long for repairs to such to run into the tens of thousands of pounds and therefore a landlord can, on occasion, not warrant such expenditure on the back of an agricultural rent. A landlord could not run the risk of offering that unit to the market if there is the possibility upon the signing of the lease that the landlord could walk straight into a repairing notice equating to a significant financial sum. A landlord would therefore offer the land to let on a number of short term arrangements (grazing licenses etc) to prevent such an event happening and sidestepping the liability. Grazing licenses offer very little for the new entrant as no commercial lender would secure against such an agreement and due to the relative lack of security of tenure it would be short sighted for a new

entrant to invest in working capital for a grazing license which they may not be in possession of a further 12 months forward.

If the provisions of section 16 were removed from the legislation, allowing a landlord to let a holding that required a degree of investment to fixed equipment, I believe a high number of farms would come into play on a longer term tenancy. Often the less desirable units would give a new entrant the starter block they require as the condition of the farm would be reflected in the rent accepted.

7.2.6 Right to assign a lease to a new entrant “New entrant assignation grant”

The occupier of a secure tenancy governed by the AHA 1991 (after point 3 above has been implemented and the secure tenancy has reverted to a 3 generation tenancy from a tenancy in perpetuity) should be afforded the right to assign the lease to a new entrant of no relation. This would be assigned on the same and exact terms to the current lease and the new entrant must meet the relevant qualifying criteria. The landlord would have a pre-emption right (if it wasn't for the greater good of the estate etc).

In such a circumstance that a new entrant entered the holding both the assignor and the landlord would receive a “new entrant assignation grant” funded through Pillar 2.

7.3 Taxation

7.3.1 Alteration to the taxation of let land

Income from let land is currently treated differently to trading income from farming. It is a positive disincentive for an elderly owner occupier to retire when he may be taxed more heavily by letting the farm to a tenant than if he continues to work it himself. An incentive needs to be designed which would be tax-neutral to the Treasury, so that tax revenues don't suffer, but which encourages elderly occupiers to let land to new entrants while continuing to enjoy the same tax treatment as a working farmer.

This could be achieved through a “Retiring Farmer Letting Relief” which would be available only to working farmers who choose to retire and let their unit specifically to a new entrant. This should be tax neutral since the tax treatment would be the same had the Retiring Farmer continued in farming.

Certain conditions would have to be imposed to avoid the exploitation of potential loopholes, for example a five year qualifying period prior to gaining relief entitlement. However, it should be possible to design a viable and workable scheme which achieves the tax neutral objective.

7.3.2 New entrant start up tax band

The income tax rate for a new entrant could be reduced for the initial “start up

phase” of a tenancy (say 3- 5 years). This will allow for reinvestment not planned in the accounting year and provide the new entrant with the essential breathing space for the sensitive business start up phase.

7.3.3 New entrant letting tax breaks

Landlords who let land to a new entrant could receive a partial exemption of tax on that income for the first period of the lease up to a maximum of five years.

7.4 Low rates of exit

7.4.1 Planning restrictions

Planning and retirement go hand-in-hand. With the average age of farmers now approaching 60, many farmers do not have a successor ready or willing to take over the business. However, they may be reluctant to leave a farm on which their working life has been spent. Some simply cannot afford to retire. Relaxing planning rules to allow retirement housing on or near to the farm would facilitate retirement, both for owner-occupiers and tenants.

Affordable housing is key for rural communities and is vital to retaining and increasing the rural population. There currently is a presumption in favour of granting planning permission for a new house for a retiring farmer through Planning Policy 3 which grants local authorities the power to establish policies to address this issue. In practice a limited number of local planning authorities have taken this forward or are being

sympathetic and realistic when the scenario of a retiring farmer comes forward. A change in this mindset, to include the same policy regarding planning permission for a new entrant where the retiree farmer remains in the principal house, would be significant.

7.4.2 Policy and statute

Amendments to statute covered in 8.2 above, new systems of share farming etc as discussed in 8.1 above and changes in the taxation of let land would contribute to breaking down this barrier.

7.5 Succession and inheritance

The importance of succession should be embraced by farmers. Every farmer will have to be succeeded whether he has an identified successor or not and plans should be put in place to prevent a situation where there has been no consideration for the next generation.

Succession must not be looked upon as death of mind, soul or body by farmers handing over the reins. There is often underlying conflict with family members and an inability within the current generation to engage and negotiate with their parents regarding the process of management or business transfer.

As part of Pillar 2 funding the Scottish Executive should offer a succession planning service which delivers a service that is responsible and sensitive to all that the process encompasses. If farmers can

use an independent professional facilitator who is skilled in effective communication and conflict resolution management then a succession plan can be developed, regardless of circumstance, that meets the needs, wants, expectations and fears of those involved.

Matching those without a potential successor into a form of equity agreement/partnership (as discussed in 7.1 above) could prove rewarding to those who don't want to leave the industry and are being kept in their owner occupied units by market forces (current subsidy system).

7.6 Funding/subsidies

7.6.1 CAP post 2013

Arrangements need to be put in place as soon as is practicable to ensure that all new entrants have access to the Single Farm Payment or whatever support arrangements emerge following the CAP Health Check. If required this should be done by creating a National Reserve through the top slicing of all existing entitlements to top up the National Reserve.

7.6.2 Government new entrant scheme

Obligatory support for young farmers should be geared into post 2013 CAP reforms through installation aid in the second pillar of the CAP (currently under Axis 1). This will go some way to bringing

the UK into line with other European countries

7.6.3 Government rent scheme

As part of the national policy a government rent scheme for new entrants could be set up. This would be allocated through the "business viability" priority of the SRDP or equivalent providing tenants with a proportion of rent for the initial period of a secure lease (3-5 years). Funds would only be released if the new entrant fulfilled the relevant new entrant criteria and upon the review of a 5-10 year farm business plan assessed by a specialist government rural case officer. This would go some way to allow a new entrant to compete with an established farmer in the market place. It will also take up some of the "marriage value" or "key" money often associated with a fresh letting that a new entrant often cannot access capital from a loaning body to compete with.

7.6.4 Landlord reward scheme

A landlord should receive a one off capital sum of say £2k/year of tenancy awarded up to a limit of £20k for the installation and offering of a secure tenancy to a new entrant. This would not only serve as an incentive to a landlord but from a commercial vantage it would warrant a lesser rent being accepted when assessing the offers comparative to the application of rent from an established farmer in the market place

8.0 Conclusions

It is evident there is concern and has been concern for a significant period going back relating to the ability for new entrants to enter into the Scottish agricultural industry to ensure that the competitiveness and the viability of this industry is maintained. Barriers have been identified for a number of years and the new entrant issue is continually on the political radar of cabinet ministers at a UK level. Interestingly the UK remains the only member state of the EU not to have taken forward installation aid support for new entrants. This would therefore suggest that there are progressive, capable and substantiated national policy solutions in place but this does not seem to be the case.

As with most problems faced by agriculture there is not a “one sized fits all” recommendation to tackling and breaking down the barriers faced by new entrants. This is a multi faceted problem with a variety of reasons why there isn’t a clear exit and entry system for new and retiring farmers respectively. Some of these relate to the economics of farming, the cost of entry into farming due to both the desire of substantiated farmers to spread fixed costs across additional hectares and the influx over the last decade of wealthy non farming investors. Further barriers are caused by what would seem an unwillingness to retire from existing farmers cultured from poor legislation, poor tax and planning policies and poor agricultural policy that allows farmers to

maintain in occupation through a living based on subsidy support without having to physically work the land.

Policy and legislation is however a complex issue. The alteration to taxation policy is reserved for Westminster and the reforming of CAP is looked at in an EU context and therefore the quick change many desire simply cannot take place. It is important however that the Scottish Executive have the platform to voice their thoughts in a Scottish context. The UK requires a single negotiating position on the shape of the next CAP and there is concern, due to the diverse nature of the UK as a member state, that there is serious risk of abandonment in certain farming areas if there were not supportive programmes in place. It is essential that there is not a divide between the Defra position and those of the devolved countries.

Affordable housing is key for rural communities and is vital to retaining and increasing the rural population. There is currently a presumption in favour of granting planning permission for a new house for a retiring farmer through Planning Policy 3 which grants local authorities the power to establish policies to address this issue. In practice a limited number of local planning authorities have taken this forward or are being sympathetic and realistic when the scenario of a retiring farmer comes forward. A change in this mindset, to

include the same policy regarding planning permission for a new entrant where the retiree farmer remains in the principal house, would be significant.

The world in which agriculture operates is becoming increasingly commercially minded within a swiftly changing and unstable business environment. There are increasing level of adjustment amongst established farming businesses paving the way for short term lets, share farming agreements, contract farming arrangements and the like which may also afford opportunities for new entrants. For the bona fide, determined aspirant new entrant it may be that a non perfect foothold is made into the industry with the view that this could be a vehicle to retain and grow capital in a business with a view toward a longer term goal of a tenancy in their own right or a farm purchase. In a revised CAP world post 2013 one would hope the playing field is levelled for the new entrant in terms of direct support. If this is not the case the challenge of entering farming without subsidy is almost insurmountable unless a niche can be carved into the market. The use of share type agreements really would come to the fore in this instance allowing a new entrant to buy over a herd on a gradual basis – a model which is common place in other parts of the world.

Land reform issues need addressing and legislation needs to be amended to give landlords back their former confidence to let, and to rejuvenate a spluttering landlord and tenant sector. The land reform policies introduced in 2003 exacerbated the new

entrant problem as at the time the legislation was passed there were discussions about giving secure tenants the right to buy their holdings. The prospect of such a policy shift has led to many landowners taking land back in hand land, rather than let, for fear they may lose ownership of the resource at the time of the policy change. A freedom to contract including the right to contract in to agreements the desired repairing liabilities, issues related to the treatment of grant funding and issues surrounding succession need to be carved into statute. This would not be palatable with many sectors of the industry but it would provide landlords the impetus to let and a greater area of land to the market for aspirant new entrants to access.

Policies relating to new entrants and retirees need to be handled with care. It is vital that no “deadweight” is created and that the policy reaches individuals and situations that warrant financial assistance. With many outside the industry already sceptical of direct support for agriculture it is essential that if taxpayers’ monies are being directed toward retiral schemes that it is used to generate real benefit.

A J Harvey Thomas BSc (Hons) MRICS

Estate Manager

Meyrick Estate Management Limited

Estate Office

Christchurch, Dorset BH23 7DU

Email : archelaus@hotmail.co.uk

9.0 References

- ADAS Consulting 2004, Entry to and exit from farming in the UK: final report.
http://www.agrilandsales.com/bulgarian_farmland_news-78.html (accessed 1533 2nd August 2011)
- Burton, R., 2002, Agricultural development in Scotland: the influence of changing social structure of family farms, Annual Report 2002, Macaulay Land Use Research Institute.
- Callander, R.F. (1987) A Pattern of Landownership in Scotland, Haughend Publications, Finzean, Aberdeenshire, Scotland.
- Cannadine, D. (1992 edn) The Decline and Fall of the British Aristocracy, London
- Carter, I., 1978, Farm life in North-East Scotland, 1840-1914, John Donald : Edinburgh.
- Committee of Inquiry into the acquisition and occupancy of agricultural land 1979, Report of the Committee of Inquiry into the acquisition and occupancy of agricultural land.
- Cook, P. 2007, Property (Tenancy Reform and Land Tenure Reform) Chapter 6 of Monitoring and evaluating the effects of land reform on rural Scotland – a scoping study and impact assessment, A draft report to Scottish Government
- Devine, T. 1999, The Scottish nation: 1700-2000, Penguin : London.
- DEFRA 2003, Government response to the Report of the Tenancy Reform Industry Group (TRIG), DEFRA : London
- DEFRA, n.d. Getting started in farming, DEFRA : London.
- Gemmill, W. 2005, The role of the new entrant, Journal of the Royal Agricultural Society, 166 1-5
- Henderson, G., 1944, The farming ladder, Faber and Faber : London. 101
- Hunter, J., 1976, The making of the crofting community, John Donald : Edinburgh.
- Johnston, T. (1909) Our Scots Noble Families, Forward Publishing, Glasgow, Scotland.
- Kitchen, F., 1963 ,Brother to the ox, rev edition, Dent : London.
- Lobley, M., Errington, A., McGeorge, A., with, Millard, N. and Potter, C., 2002, Implications of changes in the structure of agricultural businesses, Research Report Prepared for DEFRA, Department of Land Use and Rural Management, University of Plymouth, Plymouth.
- Land, Elites and People, Chapter 19, (pages 448 – 459) The Scottish Nation 1700 – 2000, T. M. Devine, Penguin Books, London, 2000.
- Mackenzie, F, 1998, 'Where do you belong to?': Land, identity, and community in the Isle of Harris, Outer Hebrides, Scotland, Carleton University, Canada.
- Marsden, T. and Munton, R., 1991, The farmed landscape and the occupancy change process, Environment and Planning A, 23 (5) p. 663 - 676.
- Naylor E, 1982, Retirement schemes in French agriculture, Journal of Agricultural Economics, 33, 25-36.

O'Brien, R.J., 1989, *The shaping of Scotland, Eighteenth century patterns of land use and settlement*, Aberdeen University Press; Aberdeen.

Policy Commission on the Future of Farming and Food, 2002, *Farming and food – a sustainable future*, HMSO : London

Potter C. and Lobley M, *Unbroken threads? Succession and its effects on family farms in Britain* *Sociologia Ruralis*, 36(3) 286-306.

Ross Gordon Consultants, 2000, *The future of young farmers in the European Union*, Working paper to the European Parliament, AGR 134 EN

SEERAD , 2000, *An agricultural strategy for Scotland*, SEERAD : Edinburgh.

Smith, J.H. (1962) *The Gordon Mill Farming Club, 1758-1764*, Oliver and Boyd : Edinburgh.

Smout, T.C. 1969, *A history of the Scottish people, 1560-1830*, Collins : London.

Ward J and Manley W 2002, *New entrants to land markets*, LUPG Research Notes LUPG001.

Whitby, M. (ed.) 1994, *Incentives for Countryside Management: The Case of Environmentally Sensitive Areas*. CAB International : Wallingford.

Wightman A, 1996. *Who Owns Scotland*. Canongate : Edinburgh.

www.nfus.org.uk/uploadedFiles/Campaigns/Election.pdf (accessed 1033 July 22nd 2011)