Land Business Update

Week commencing 28 October 2024

What the Autumn Budget means for farmers and landowners

Chancellor Rachel Reeves has delivered her Autumn Budget after weeks of speculation about the contents. The following is a brief summary of some of the key announcements with implications for farmers and landowners and our understanding of them so far.

Overview

This is a Budget which has sent shockwaves through the rural sector and has implications for both owner-occupiers and tenant farmers. It feels like a very political Budget and the Government has signalled, through the changes in inheritance tax and its decision to speed up cuts to basic Payments in England, that bigger farms and rural estates will not get any special treatment. In fact, due to their size / assets, they will be less supported. The frustration and anger being expressed by those in the land-based sector reflects the fact that even relatively small farms will be caught by the new rules. There is also the problem that farming is a fundamentally capital-intensive business with low returns, making funding these liabilities difficult without undermining the viability of the business.

Inheritance tax changes

The Government has announced that from April 2026 Agricultural Property Relief (APR) and Business Property Relief (BPR) rules will be changed so there will be 100% relief on the first £1m of assets and then 50% relief on assets after that, which equates to an effective tax rate of 20%.

Dr Jason Beedell, Rural Research Director: "This is the most significant change to the inheritance tax regime for a generation. It will be seen as a major U-turn given promises were made ahead of the election that there were no plans to change APR or BPR and Defra minister Steve Reed also made a commitment just a couple of months ago to address low confidence and provide stability for the farming sector.

"The Government has said the aim is to restrict the generosity of APR and BPR for "the wealthiest estates", but the £1 million nil rate band, applied after any other general reliefs, will only enable around 100 acres to be transferred free of IHT, so this will really hit working farmers and their families hard. For an average sized farm (350 acres), the increase in IHT liability could be around £0.5m. For a large farm (1,000 acres), the increase could be around £2m. This comes at a time when farming businesses are facing direct support payments being phased out even faster, extreme weather events and market volatility."

Rhodri Thomas, our Head of Rural: "The rationale of reliefs, like APR and BPR, is that they help prevent the sale or break-up of a business to finance IHT payments. Many farming businesses have relied upon these long-standing reliefs to survive through multiple generations. We do not have all of the details yet, but the change has significantly increased the potential IHT liability on almost all farms, apart from the smallest ones. We are likely to see a long period of tax and business planning to understand the changes and to try to reduce the increased liability. We expect it to lead to more transfers between generations before death and also investigation of use of alternative business structures such as companies by farming businesses, subject to any rules introduced to prevent this. However, even with tax planning, we expect the change to lead to a greater number of farming businesses having to sell land and / or other assets to pay larger IHT bills."

Sam Holt, Head of Estates & Farm Agency, on the possible impact of inheritance tax changes on the farmland market: "The potential to benefit from Agricultural Property Relief has been one of the many tax advantages of buying UK farmland, so a change in the reliefs on offer will have some impact. If farming businesses need to sell land to pay for inheritance tax liabilities, then this will bring more land to the market, and if there are fewer tax incentives to buy or own farmland, then demand may ease in some areas. Tax is not the foremost driver of land prices, but it is an important factor."

Basic Payments in England

In another financial blow to farmers, Defra has also announced a much more rapid phasing out of the de-linked BPS payments for farmers in England than was previously expected.

Jonathan Armitage, our Head of Farming: “Most farmers had been expecting a continuation of the existing path to a zero payment by 2028. In fact, no farmer will receive more than £7,200 from next year. For a farmer who received a payment of £100,000 (about 429ha) in 2020, the total payment will be more than £40,000 less over the period 2025-2027 than anticipated. This will clearly have a negative effect on farm businesses’ cash flows and profits. Significant differences in approach are becoming clear between the devolved administrations as far as future farm support is concerned.”

Agricultural support budget

Although the overall Defra budget is being increased in real terms over the next two years, day-to-day spending has been cut by 1.9% per year.

The Treasury has flagged that Defra is facing “significant funding pressures on flood defences and farm schemes of almost £600 million in 2024-25”. It said while the Government is meeting those commitments this year, it will be necessary to review these plans from 2025-26 to ensure they are affordable.

Jonathan Armitage, our Head of Farming: “We will look with interest at how the day-to-day spending cut will be allocated within the department, whether it will be made to departmental running costs or to spending on the environment, food and rural areas. Defra’s budget has already been cut by approximately 5% in real terms since 2009/10 and is relatively small compared with other government departments. The land-based sector is being challenged to deliver a wider range of nationally important outcomes and so requires adequate funding. The current funding is almost all aimed at environmental management, most of which either reduces farming income or costs money to deliver or both. If farmers are to deliver the expected transition to their businesses, Defra will need to deploy significant resources to support farmers with some of the changes required.”

National Insurance Contributions and National Minimum Wages

As expected, it has been announced there will be an increase in employer National Insurance Contributions by 1.2% to 15%. Many land-based businesses do not employ many people, so they may find the increase in the employment allowance on employers’ contributions will cushion the increase wholly or partially. However, it could affect the growth plans of bigger businesses, as it is estimated to increase the cost of hiring a new employee on an average salary by about £600.

The Government has also confirmed a 6.7% rise in the National Living Wage from April 2025, which increases the wages of a worker on this rate by around £1,400 a year. The increase to £12.21 per hour is slightly more than the £12.10 recommended by the Low Wage Commission. The reason for the higher increase is due to recent strong earnings growth in the economy and the policy target (of both Labour and the Conservatives) that the NLW does not drop below two thirds of median earnings (so NLW is now £24,700, based on the £37,430 median). The target was finally achieved this year after almost a decade of above-inflation increases. There is a bigger increase of 18% for younger staff (18-20 years) to £10 per hour to get their rate closer to the over-21 rate, and for apprentices and 16-17 year olds to £7.55 (+18%). The UK’s rate is now above Germany’s, below France’s and above the average of the middle 50% of OECD countries, according to the FT.

Jonathan Armitage, our Head of Farming: “The availability and cost of labour is a serious issue for farming across all sectors. While we support the improvement of incomes at the lower end of earnings, increases in the minimum wage (almost 40% in the last five years) combined with increases in National Insurance will do nothing to relieve this pressure.”

Farming

Seasonal workers scheme

43,000 visas will be available for horticulture workers in 2025 and 2,000 for poultry workers. The NFU welcomed the announcement but called for it to be made permanent or at least longer-term, so businesses can plan knowing that overseas labour is available. The scheme was extended for five years until 2029 earlier this year and details of the number of visas available for 2026-2029 will be published later in 2024.

Earlier this year, the Migration Advisory Committee said in its review of the scheme that there is a clear need for the scheme in the short- to medium-term if the Government intends to maintain current levels of domestic food production. If the Government wants to reduce the reliance on migrant labour, as the previous Government did, then the MAC says that it must ensure there are appropriate policies and an environment for encouraging automation of these roles. The MAC also made recommendations on the flexibility of visas, fairer work and pay for workers, and enforcement of employee rights.

New rules for how milk purchase contracts must operate

The Fair Dealings Obligations (Milk) Regulations (FDOM24), which are designed to help purchasers and producers know their rights and responsibilities under milk purchase contracts, cover the direct purchase of cow’s milk from a farm by a business purchaser, so from farmgate to dairy processor or manufacturer. Contracts must now be in writing, signed, and include clear terms about pricing (including why variable prices are changed), how long the contract lasts, how it can be ended, and how disputes will be settled. The rules apply to new milk purchase contracts made after 9 July 2024 and to all contracts, including those pre-dating the rules, from 9 July 2025. They will be enforced by a new Agricultural Supply Chain Adjudicator, who can impose fines of up to 1% of the purchaser's turnover and / or make them compensate the producer. The Adjudicator will also encourage best practice and influence positive behaviour change.

Defra to carry out internal review of its regulatory approach

The review will 'examine whether the inherited regulatory landscape is fit for purpose and develop recommendations to ensure that regulation across the department is driving economic growth while protecting the environment'. It will be led by Dan Corry. It is not clear when it will report its findings.

Property and rural economy

Home insurance premiums expected to continue to rise

Premiums are expected to rise by 19% in 2024 and 5% in 2025, according to EY. This is due to the amount paid out for claims exceeding total premiums collected, by 22% in 2022 and 18% in 2023. The same applies to motor insurance.

Industrial Strategy published

The Government has published its 10-year plan to increase investment in high growth sectors. It identifies eight 'growth-driving' sectors: advanced manufacturing, clean energy industries, creative industries, defence, digital and technologies, financial services, life sciences, and professional and business services. All of them can happen in rural places and the role of rural land and property in scaling up electrification is an obvious opportunity.

Telecom rents likely to increase under new standard

The Vache Farm decision in *EE Ltd and another v AP Wireless II UK Ltd* has introduced a new standard for increased rents in lease renewals for telecoms mast sites. This case reassessed rental values for 'unexceptional rural sites', adjusting them for inflation and moving away from the low rates established by previous cases based upon the Electronic Communications Code. For landowners, this decision strengthens their position in rent negotiations, as they can now argue for higher, inflation-adjusted rates. It also highlights the importance of including index-linked rent review provisions in leases. Please contact Bhavesh Mistry if you would like to discuss the case or telecoms masts in general.

Environment

Downward long-term trends in butterflies continue in UK

The abundance of all species of butterfly in the UK (there are 50) has continued to decline, in both the long and short term; in England, abundance looks more stable but this may be due to a characteristic of the index used for England compared with the UK one. Butterflies that are habitat specialists also continue to decline in both the UK and England, including on farmland (22 specialist species) and particularly in woodland (15 specialist species). The indices are sourced by the UK Butterfly Monitoring Scheme (UKBMS) and are considered representative of trends. Butterfly Conservation, a charity, has some excellent factsheets on species ecology and good practice management for specific species and habitats. It called a 'butterfly emergency' earlier this year.

Conference of the Parties – biological diversity (COP 16) and climate change (COP 29)

We will cover the outcomes of the biodiversity COP in a future edition once the meeting has ended. As part of its contribution, the UK Government has published details of how it intends to protect 30% of land and sea by 2030, which is an international target agreed at a previous meeting.

The climate change COP will take place in November. In preparation, the Government has been advised by the Climate Change Committee that an 81% reduction in emissions by 2035, excluding shipping and aviation, would be a 'fair and ambitious contribution' to the Paris Agreement. Currently, the UK is off track to achieve its 2030 target of a 67% cut in emissions compared with 1990, with only a third of the reductions required covered by credible plans. The Committee's advice on the 2035 target has been supported by more than 50 business leaders.

UK appoints nature and climate envoys

Ruth Davis and Rachel Kyte have been appointed to be the nature and climate envoys. The posts represent an attempt to return to a position of global leadership on the two subjects. The role of climate envoy was scrapped under the previous Government but the nature envoy role is a new one. Davis's appointment has been particularly welcomed, with her called the 'environmentalist's environmentalist'.

Contacts

Jason BEEDELL
Rural Research Director

jason.beedell@ struttandparker.com

Rhodri THOMAS
Head of Rural

Rhodri.thomas@ struttandparker.com

Jonathan ARMITAGE
Head of Farming

Jonathan.armitage@ struttandparker.com

Sam HOLT
Head of Estates & Farm Agency

sam.holt@ struttandparker.com