

THE FARM BUSINESS SURVEY 2006/07

The Farm Business Survey is undertaken each year by Defra (Department for Environment, Food and Rural Affairs), to collect full management accounting data on the agricultural activities of farm businesses as well as some limited information about non-agricultural activity. Results are compiled by using accredited documents and face-to-face interviews and written up into 'Farm Accounts in England 2006/07'. There were 59,500 farms included in this study, covering farms that occupy a farmer for at least half of their time. Although these account for slightly less than half the total number of farms, they account for 90% of land area farmed and 96% of agricultural production.

New measure of farm income

In October 2006, Defra undertook a formal consultation with outside stakeholders on the subject of farm income measures. Lead government departments in Wales, Scotland and Northern Ireland also held similar consultations late in 2006. The government's response to the consultation, announced earlier in 2007, was that Farm Business Income should be adopted as the headline measure of farm income. Government will continue to publish Net Farm Income as a secondary measure for the foreseeable future for continuity purposes.

Farm Business Income represents the financial return to all unpaid labour (farmers and spouses, non-principal partners and their spouses and family workers) and on all their capital invested in the farm business, including land and buildings. For corporate businesses it represents the financial return on the shareholders capital invested in the farm business. In essence Farm Business Income is the same as Net Profit, which as a standard financial accounting measure of income is used widely within and outside agriculture. Using the term Farm Business Income rather than Net Profit, gives an indication of the measure's farm management accounting rather than financial accounting origins, accurately describes its composition and is intuitively recognisable to users as a measure of farm income.

Farm Business Income can be considered as comprising of income from four different 'segments' of the business: agriculture, agri-environment, diversification and the single payment.

The other ways farm incomes can be measured, as used by the Farm Business Study are:

- Net Farm Income – This assumes all farms are tenanted and that all tenant-type assets are owned by the farmer. It represents the return to the farmer and spouse for their manual and managerial labour and on tenant type capital in livestock, crops and machinery but excluding land and buildings. It is calculated before deduction of interest payments on any farm borrowings and also excludes interest earned on any financial assets owned.
- Family Farm Incomes – This is a measure used by the European Commission, it is based upon actual tenure and indebtedness, however it is broader than net farm income as it represents the return to all unpaid labour (farmers and spouses, non-principle partners and directors and their spouses and family workers).
- Cash Incomes – This is the difference between total revenue and total expenditure, which purely deals with cash transactions and takes no account of non-cash receipts and consumption such as unpaid labour, depreciation, debts and credits. This, however, gives a poor view of the performance of a farm business.

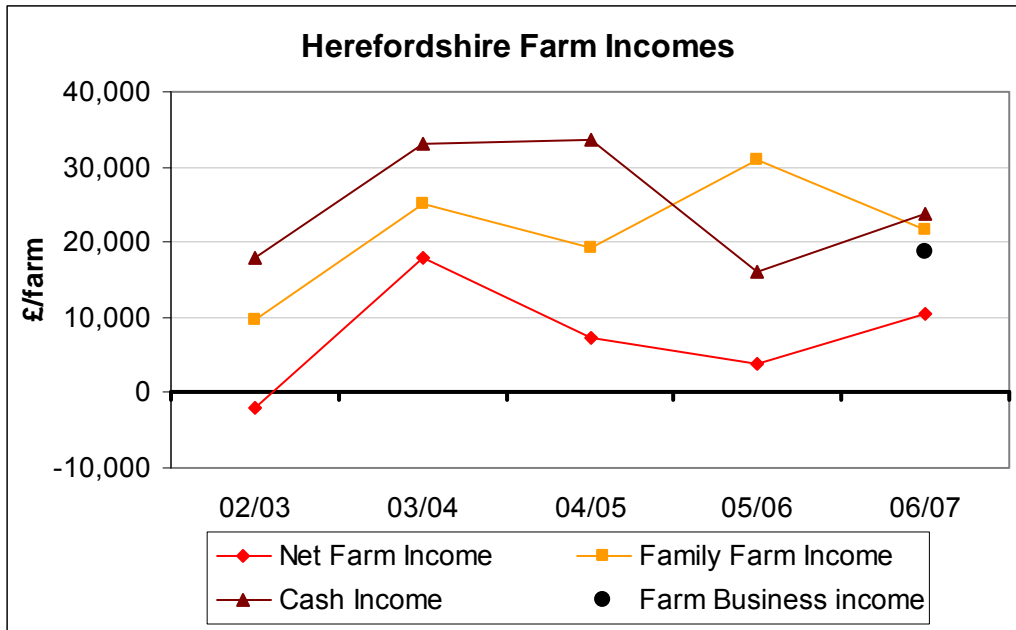
Summary for England as a whole

Average farm business income for all farm types was 21% higher in 2006/07 compared to 2005/06. Of the individual farm types, cereal and general cropping farms saw the largest increase in average incomes (70% and over) as a result of increased prices for wheat, barley, oilseed rape and potatoes. Amongst the livestock sector, higher costs caused a fall in incomes on specialist pig, dairy and mixed farms. The increased income on horticultural farms was caused by an increase in farm output, particularly for field vegetables, which was only partially offset by an increase in costs.

Summary for Herefordshire

The chart below shows average (mean) values for the different types of income measures for the Herefordshire farms included in the study. Farm incomes have generally fluctuated over the last 5 years. Net farm income in Herefordshire is the lowest out of all the measures but family farm income has seen a decrease over the last year whilst net farm and cash income have seen an increase from 2005/06.

Chart 1 Herefordshire farm incomes for 2002/03 to 2006/07.



Note: all charts use nominal figures, which do not take into account effects from the Retail Price Index.

It is useful to look at Herefordshire's farm incomes alongside regional and national figures to see if similar trends have occurred.

Note: all charts use nominal figures, which do not take into account effects from the Retail Price Index.

Farm Business Income is being used as the new headline measure of farm income. Data is first available for Herefordshire for 2006/07, in which the average per farm was £18,800. This was lower than both the West Midlands region (£24,900) and across England as a whole (£37,800).

Chart 2. Net Farm Income

In 2006/07, **net farm incomes** across all areas have increased since the previous year, but the figure for Herefordshire is still below that of the West Midlands region and England.

Herefordshire's net farm income has seen a steeper increase compared to regionally and nationally; increasing from an average £3,900 per farm in 2005/06 to **£10,500** in 2006/07.

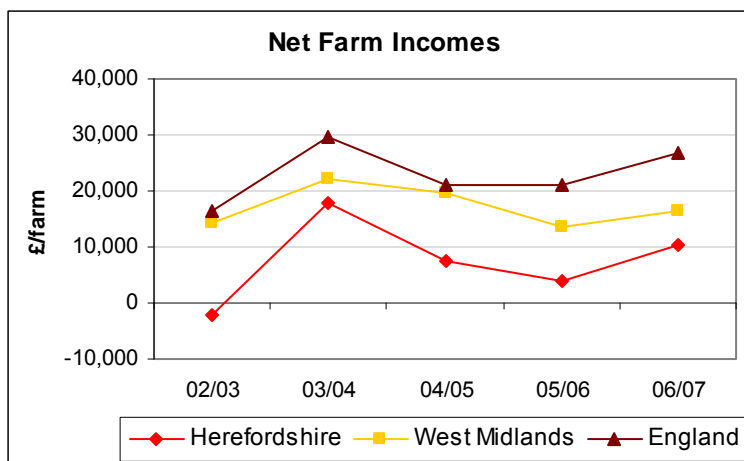
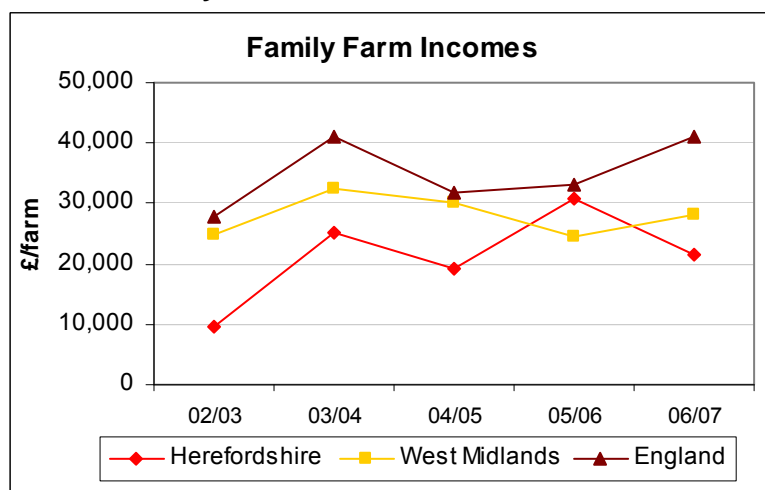


Chart 3. Family Farm Income



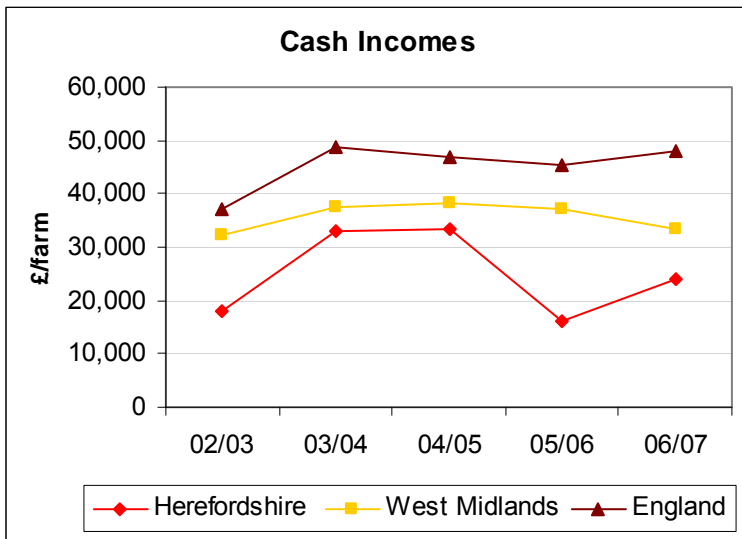
Despite year-on-year fluctuations, Herefordshire has seen an overall increase in the average **family farm income** since 2002/03.

In 2005/06, Herefordshire's family farm incomes nearly matched that of England (£30,900 compared to £33,100, 7% lower), but has since seen a decrease to **£21,600** in 2006/07 (47% below that of England).

Compared to 2002/03, Herefordshire's position in 2006/07 relative to the West Midlands region and England as a whole has still improved. The gap between Herefordshire's family farm incomes and that for the region and nationally was greatest in 2002/03, 66% lower than England.

Cash incomes tend to be higher than the other income measures and typically give a poor view of the performance of a farm business; however Herefordshire's figures are still lower than the West Midlands region and across England as a whole.

Chart 4. Cash Income



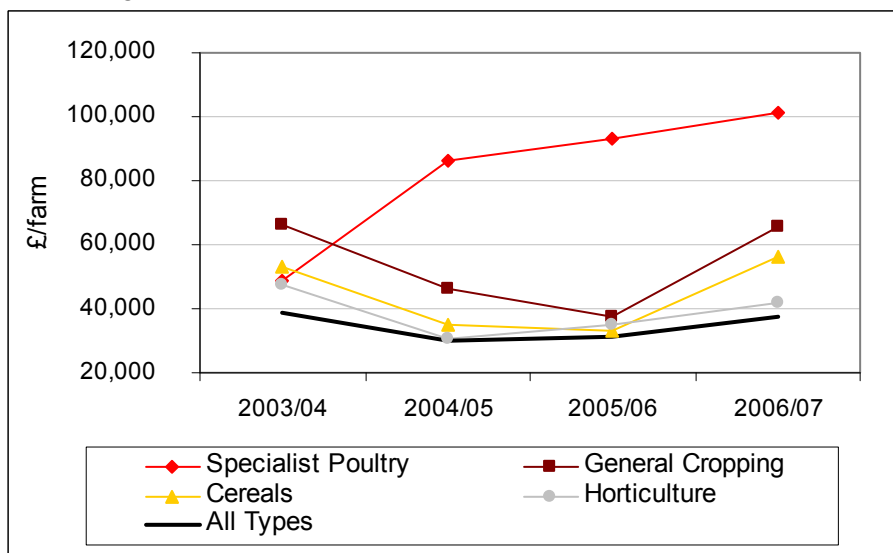
Herefordshire's cash incomes experienced a large decline in 2005/06, despite an increase in 2006/07, figures are still not back up to where they were two years ago.

Average cash income in Herefordshire per farm was **£23,900** in 2006/07, compared to £33,200 in the West Midlands and £47,900 in England.

Average Farm Business Income by Farm Type for England

Herefordshire figures for farm business income by farm type are not available. Charts 5 & 6 show the average farm business income for 2003/04 to 2006/07 for each of the different farm types for the whole of England. This indicates which farm types are most profitable and whether farm business incomes are improving or deteriorating. Table 1 shows figures just for the last two years.

Chart 5. Farm business income for farms in England (farm types presented are those above the average in 2006/07)



Specialist poultry farms have the highest farm business income and have increased every year since 2003/04. The other specific farm types shown, general cropping, cereals and horticulture all have higher farm business income than the average for all farm types in 2006/07 and have all seen an increase over the last year after decreases in farm business incomes in 2004/05 and 2005/06.

Chart 6. Farm business income for farms in England (farm types presented are those below the average in 2006/07)

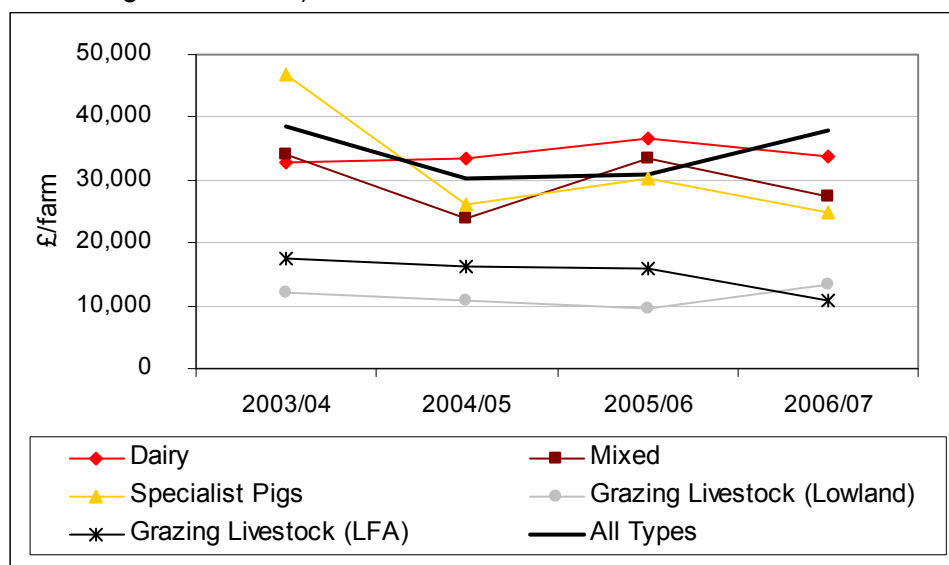


Chart 6 shows the categories of farms which in 2006/07 have farm business incomes below the average for all farm types. Farm business incomes for dairy farms have remained fairly stable over the past 4 years, incomes for specialist pigs and mixed farms have decreased. Grazing livestock (lowland) saw an increase in farm business income over the last year but is still one of the lowest farm types in terms of farm business income, along with grazing livestock (LFA – less favoured areas).

Table 1. Farm business income by farm type (£/farm) in England at current prices for 2006/07 and the previous year 2005/06.

	2005/06	2006/07	Difference (£) 05/06 - 06/07	Improved Worsened
Specialist Poultry	93,200	101,200	£8,000	↑
General Cropping	37,300	65,800	£28,500	↑
Cereals	33,000	56,300	£23,300	↑
Horticulture	34,900	42,100	£7,200	↑
Dairy	36,600	33,600	-£3,000	↓
Mixed	33,300	27,400	-£5,900	↓
Specialist Pigs	30,300	24,700	-£5,600	↓
Grazing Livestock (Lowland)	9,700	13,500	£3,800	↑
Grazing Livestock (Less Favoured Area)	15,800	10,800	-£5,000	↓
All Types	31,000	37,800	£6,800	↑

Over the last year, the average business farm income for **all types of farms** experienced a 22% increase per farm of around £6,800 across England as a whole. Five out of the nine farm types also experienced an increase in the average farm business income over the last year. **General cropping** and **cereals** experienced the largest increases in farm business incomes, with increases of £28,500 and £23,300 per farm between 2005/06 and 2006/07. **General cropping** and **cereals** are also the farms with the second and third highest average farm business income (£65,800 and £56,300 respectively).

Specialist poultry farms have the largest farm business income in general (£101,200) and experienced an increase of £8,000 on average per farm over the last year.

The greatest decrease in business farm incomes was experienced by **mixed** and **specialist pig** farms' £5,900 and £5,600 respectively over the last year.

The data showing net farm income by farm type is only available for England, however by assuming that similar trends are occurring across each county we can get a feel for what this means locally. Using information from the 2007 Agricultural Census we can see how much of an impact the changes in farm business income may have on farming across Herefordshire.

The 2007 Agricultural Census gives a breakdown of the types of farms, as shown in Table 2 below. The highest proportion of Herefordshire farms, as well as in England, are classed as 'Other' holdings, which are those that do not fit well with mainstream agriculture, e.g. specialist goat or specialist horse. No income data is published for farms classed as 'Other' due to the wide range of activities that they encompass.

Table 2. Percentage of farms by farm type in Herefordshire and England

	Herefordshire	England
Other	41%	45%
Grazing Livestock (lowland)	20%	16%
Horticulture	8%	4%
Cereals	7%	11%
Mixed	7%	4%
General Cropping	6%	4%
Grazing Livestock (less favoured areas)	6%	6%
Specialist Poultry	3%	3%
Dairy	2%	5%
Specialist Pigs	1%	1%

Source: Agricultural Census, 2007.

Note:

- No accounting information is supplied about farms classed as 'Other'.
- Information about the June 2007 Agricultural Census data is available in the August 2008 issue of the QER.

20% of Herefordshire farms were grazing livestock (lowland), which if they follow national trends, would have experienced an increase in the average farm business income over the last year.

General cropping farms experienced the largest increase in average farm business income over the last year. Herefordshire has a slightly larger proportion of this type of farm compared to England. Potentially 6% of Herefordshire's farms experienced this increase compared to 4% across England.

Nationally cereals experienced a large increase in farm business income over the last year; 7% of Herefordshire's farms are classed as cereal, however this is a lower proportion than England (11%).

Specialist poultry farms experienced an increase in farm business incomes nationally, however, only 3% of Herefordshire's farm holdings were Specialist Poultry, although this is the same proportion as nationally.

Horticulture accounts for 8% in Herefordshire compared to 4% in England as a whole. Nationally, horticulture experienced an average increase of £7,200 in farm business income. If Herefordshire followed similar trends to that of England, this would potentially be good for Herefordshire's economy.

Specialist pig farms experienced one of the largest decreases nationally in farm business income, however only 1% of Herefordshire's farms were this type, the same as England as a whole.

Mixed farms in Herefordshire, account for 7% of farms compared to 4% in England, so the average decrease of £5,900 farm business income per farm may affect Herefordshire more than it would across England as a whole.

Non-Agricultural Income and Diversification

The proportion of farms with diversified activity is not available for Herefordshire.

Farms throughout England

In 2006/07, 50% of farms in England had some form of diversified activity (non-agricultural activity of an entrepreneurial nature which uses farm resources). This equates to 3,000 of the 59,500 farms surveyed for this study. However the majority of these include letting out buildings for non-agricultural use; when this is excluded 27% of farms have some form of diversified activity (16,100 farms), an increase from 25% in 2006/07.

The total income from all types of diversification was £430 million in 2006/07, 5% higher than in 2005/06; diversified enterprises generated 19% of the total income of farm businesses in 2006/07. The remaining farm income consisted mainly of Single Farm Payment.

For 41% of businesses with diversified activities, diversified income accounted for a quarter or more of the total farm income. For 27% of businesses, the estimated income from diversification exceeds the income from the rest of the farm business. However, the proportion of all farm businesses with negative income is also 14%.

Sixty percent of diversified income is generated from letting out farm buildings for non-agricultural use. For the 21,000 farms which let out buildings, the income they obtain from this (£260m) is approximately 20% of their total farm income (£1,130m). For food processing and retailing this proportion is 30% (£60m of £190m). Nearly 30% of farms which diversify have more than one diversified enterprise. Only a small proportion of farms (1.5%) failed to make a profit on their diversified activities.

Since over 80% of the Farm Business Survey sample is identical between two adjacent years, it is possible to look at start-ups and discontinued diversified enterprises. About 10% of farms which had diversified enterprises in 2006/07 started them within the previous 12 months, and about the same proportion which had diversified enterprises in 2005/06 gave up during 2006/07. The number of new entrants slightly exceeded the number giving up, so the total number increased. For single diversification activities, letting of buildings for non-farming use showed the biggest decline, and sport and recreation showed the biggest increase.

Most diversified enterprises are small. While the average diversified output per farm is £25,200, 57% of diversified enterprises have an output value of less than £10,000 and 12% have an output value of less than £1,000. 11% of farms have diversified output of £50,000 or more.

Total income generated from off-farm employment and self-employment of farmer and spouse was £326m in 2006/07 (for farms of size $\geq \frac{1}{2}$ SLR)¹, less than the £430m income obtained from diversified activities.

Lower proportions of smaller farms diversify than larger farms. However, farmers on smaller farms supplement their income to a greater extent than larger farms from off-farm employment and self-employment. The 55-64 age group shows a higher incidence of diversification than the other age groups. The under 45 age group shows a slightly higher proportion of diversified output to total farm output.

62% of cropping farms have diversified enterprises compared with 42% of livestock farms and 44% of farms of other types (pigs, poultry and mixed). Hill farms have the lowest proportion of diversified activity (35%). Within cropping, horticulture farms stand out relative to other farm types as having a low percentage of farms engaged in sport and recreation but a high proportion involved in processing/retailing. The proportion engaging in sport and recreation is highest for other cropping types.

Farms throughout the West Midlands region

Within the West Midlands region the proportion of farms with diversified activity falls to 39% compared to 50% for England as a whole; the lowest proportion out of all English regions (South East had 71%). Similar to England, the largest type of diversified activity is letting out farm buildings for non-agricultural use (28% of all farms). Other forms of diversified activity include processing/retailing of farm produce, sport and recreation, tourist accommodation and catering as well as other diversified enterprises.

In the West Midlands, farmer/spouse income from off-farm employment and self-employment exceeded on-farm income from diversification. Within the West Midlands region, 38% of farms had neither diversified enterprises nor farmer/spouse off-farm employment; the largest proportion out of all the English regions with the exception of East Midlands, which also had 38%.

*Source: NON-AGRICULTURAL INCOME AND DIVERSIFIED ENTERPRISES
RESULTS FROM THE FARM BUSINESS SURVEY – England 2006/07*

For further information on the data in this article, please contact the Research Team on 01432 383634, or e-mail researchteam@herefordshire.gov.uk

**OR for a copy of the full report go to
<http://statistics.defra.gov.uk/esg/asd/fbs/default.htm>**

¹ $\geq \frac{1}{2}$ SLR meaning farms large enough in size and labour requirement to occupy a farmer for at least half of their time (SLR – Standard Labour Requirement)