

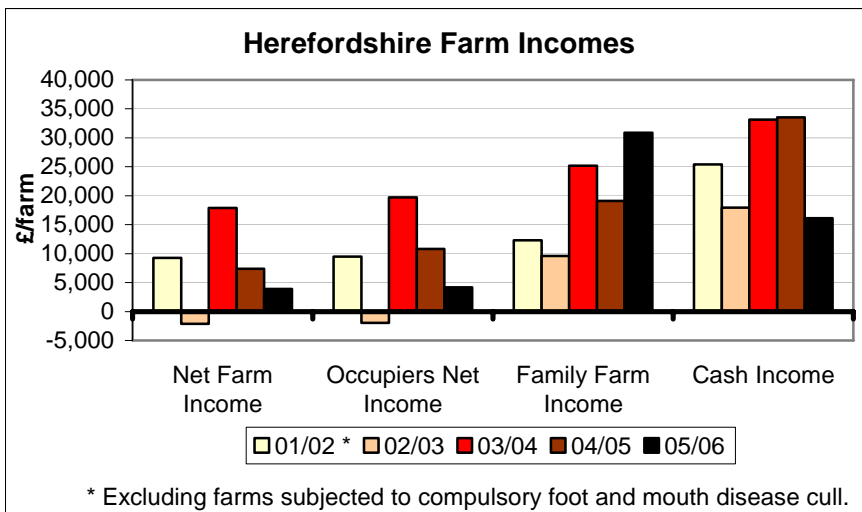
The Farm Business Survey 05/06

The Farm Business Survey is undertaken each year by DEFRA (Department for Environment, Food and Rural Affairs) and collects 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 2005/2006'. There were 61,700 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.

There are a number of ways farm incomes can be measured, the Farm Business Study use:

- 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.
- Occupier's Net Farm Income – Represents the return to the farmer and spouse for their manual and managerial labour and on their assets invested in the farm business, land and buildings. As with net farm income, total inputs do not include farmer and spouse labour but interest payments on farming loans are deducted. Accounts for non-cash transactions such as depreciation of fixed assets, valuation changes, debts and credits are included so this will give a fair picture of the financial state of the farm business as perceived by the farmer and spouse.
- Family Farm Incomes – This is a measure used by the European Commission, like the occupier's net income it is based upon actual tenure and indebtedness, however it is broader than either the net farm income or occupier's net 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.

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. Incomes were generally lower in 2005/06 than the previous year, except for family farm income which saw an increase.



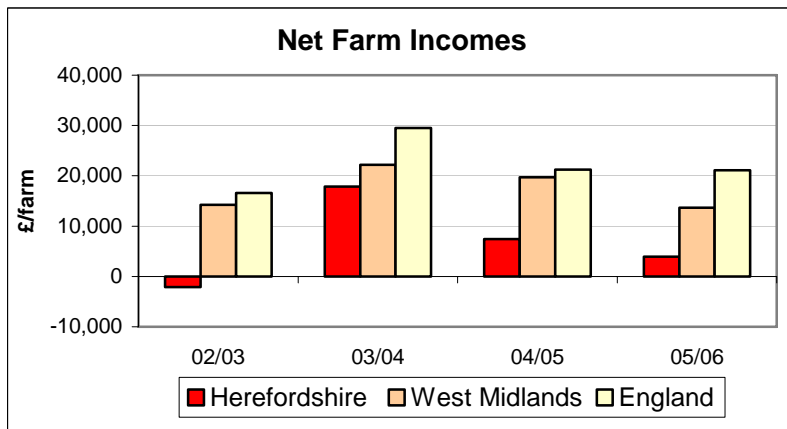
Note: all charts use nominal figures, which do not take into account effects from the Retail Price Index.

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

Net Farm Income

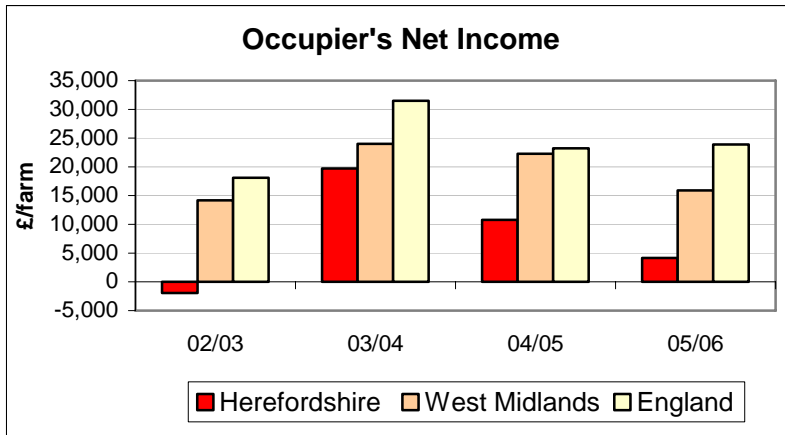
In 2005/06, net farm incomes have decreased on average across all areas, however the decrease in Herefordshire was proportionately larger than regionally or nationally.

There has been a 47% decrease in Herefordshire's average net farm income from £7,402 per farm in 2004/05 to £3,921 in 2005/06. Comparative figures in 2005/06, were £13,649 for the West Midlands (30% decrease from 2004/05) and £21,137 for England as a whole.



Occupier's Net Income

This measure of income has followed a similar pattern to net farm incomes, with Herefordshire and the West Midlands experiencing a decrease. Herefordshire experienced a 61% decrease in average occupier's net farm income over the last year, from £10,796 in 2004/05 to £4,174 in 2005/06.



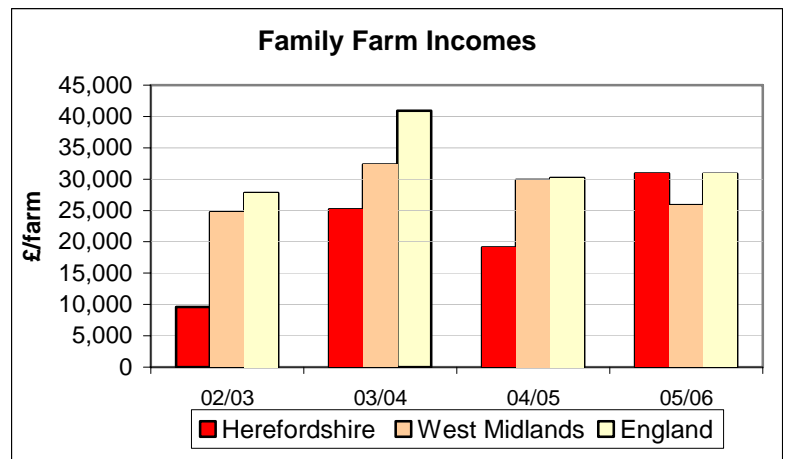
Farms in the West Midlands region experienced a 29% decrease over the last year to £15,905 in 2005/06.

Whilst England experienced a slight increase (3%) over the last year to £23,862 in 2005/06.

Family Farm Income

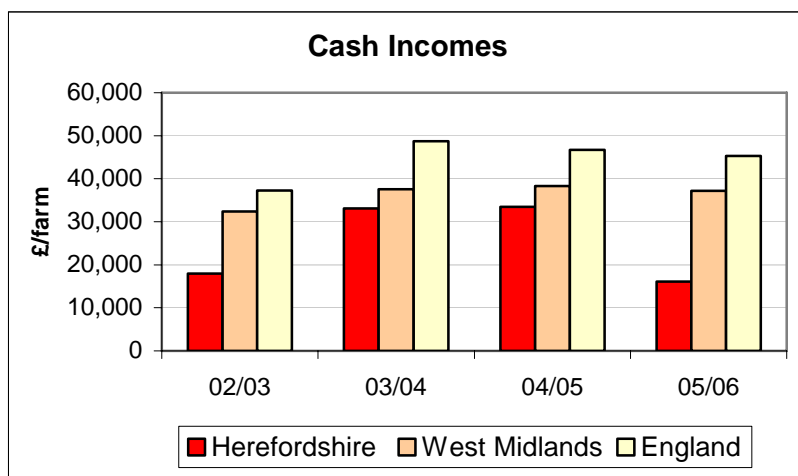
Herefordshire's average family farm income has experienced a 61% increase in the past year (from £19,127 in 2004/05 to £30,881 in 2005/06). Now comparing favourably with the picture regionally and nationally.

England has seen a slight increase overall of just 2% (from £30,205 to £30,859) and the West Midlands as a whole has experienced a decrease of 14% in the last year (from £29,893 to £26,100).



Cash Income

Cash incomes tend to be higher than the other income measures but farms in Herefordshire have seen a decrease over the last year, more marked than that experienced regionally and nationally.



The gap in cash incomes between Herefordshire and England has increased. In 2002/03, cash incomes in Herefordshire were 0.48 of those in England; the ratio grew to 0.72 in 2004/05. However in 2005/06, the gap widened between farms in Herefordshire and those across England as a whole with a ratio of 0.36 (i.e. average cash incomes are 64% lower).

Average cash income in Herefordshire is currently £16,128 compared to £37,235 in the West Midlands and £45,264 in England.

Average Net Farm Income by Farm Type for England

Herefordshire figures for net farm income by farm type are not available. The following table shows the average net farm income over the last 3 years for each of the different farm types for England. This indicates which farm types are most profitable and whether net incomes are improving or deteriorating.

Net farm income by farm type (£/farm)	2003/04	2004/05	2005/06	Change between 2003/04 and 2005/06	
				Difference £	Improved ↑ Worsened ↓
Dairy	£23,600	£26,400	£27,100	£3,500	↑
Grazing Livestock (Less Favoured Area)	£15,000	£13,400	£11,800	−£3,200	↓
Grazing Livestock (Lowland)	£7,100	£5,400	£5,300	−£1,800	↓
Cereals	£36,400	£15,600	£14,100	−£22,300	↓
General Cropping	£56,800	£32,200	£26,700	−£30,100	↓
Specialist Pigs	£34,400	£25,100	£29,000	−£5,400	↓
Specialist Poultry	£53,200	£89,700	£97,500	£44,300	↑
Mixed	£24,400	£16,400	£17,400	−£7,000	↓
Horticulture	£40,600	£28,400	£32,700	−£7,900	↓
All Types	£29,500	£21,200	£21,100	−£8,400	↓

Across England, the average net farm income only increased over the last 2 years for Dairy and Specialist Poultry farms; the rest experienced a decrease.

Specialist Poultry farms in England as a whole experienced the largest increase in net farm income of approximately £44,300 since 2003/04. Dairy farms across England only experienced an average increase of approximately £3,500 over the last 2 years.

The largest decreases over the last 2 years were seen in General Cropping farms, (£30,100) and Grazing Livestock (Lowland) farms (£22,300 less).

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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 2006 Agricultural Census we can see how much of an impact the changes in net income may have on farming across Herefordshire.

The 2006 Agricultural Census gives a breakdown of the types of farms, as shown in the table below. The highest proportion of Herefordshire farms, as well as in the West Midlands and 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.

2006	Cereals	General Cropping	Horticulture	Specialist Pigs	Specialist Poultry	Dairy	Grazing Livestock (LFA)	Grazing Livestock (lowland)	Mixed	Other
Herefordshire	6%	6%	8%	1%	3%	3%	6%	20%	8%	38%
West Midlands	8%	4%	5%	1%	3%	7%	6%	19%	6%	41%
England	11%	4%	5%	1%	3%	6%	6%	16%	5%	41%

Source: Agricultural Census, 2006.

Note:

- No accounting information is supplied about farms classed as 'Other'.
- Information about the June 2006 Agricultural Census data is available in the August 2007 issue of the QER.

20% of Herefordshire farms were Grazing Livestock (lowland), which if they follow national trends, would have experienced a decrease in net farm incomes over the last 3 years.

Specialist Poultry farms experienced a large increase in net farm incomes nationally, however, only 3% of Herefordshire's farm holdings were Specialist Poultry.

The farms types nationally that experienced the largest decreases were General Cropping and Cereal farms, both of which account for 6% of Herefordshire's farm holdings. Potentially meaning that 12% of Herefordshire's farm holdings experience large decreases in their net farm incomes over the last 3 years.

Non-Agricultural Income and Diversification

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

Farms throughout England

In 2005/06, 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 31,000 of the 61,700 farms surveyed for this study. However the majority of these include letting out buildings for non-agricultural use; when this is excluded 25% of farms have some form of diversified activity (15,100 farms).

For 56% of farm businesses with diversified activities, diversified income accounts for a quarter or more of the total farm income. For 28% of businesses, the estimated income from diversification exceeds the income from the rest of the farm business other than diversified activities. However, the proportion of all farm businesses with negative income is also 15%.

Three-quarters of diversified income is generated from letting out farm buildings for non-agricultural use. For the 23,000 farms which let out buildings, the income they obtain from this (£312m) is nearly 40% of their total farm income (£830m). For food processing and retailing this proportion is a half (£66m of £137m). Nearly 30% of farms which diversify have more than one diversified enterprise.

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 15% of farms which had diversified enterprises in 2005/06 started them within the previous 12 months, and about the same proportion which had diversified enterprises in 2004/05 gave up during 2005/06. The number of new entrants slightly exceeded the number giving up, so the total number increased. Letting of buildings for non-farming use showed the biggest decline, and sport and recreation and 'other' diversified enterprises showed the biggest increase.

Most diversified enterprises are small. While the average diversified output per farm is £20,200, 58% of diversified enterprises have an output value of less than £10,000 and 14% have an output value of less than £1,000. 10% of farms have diversified output of £50,000 or more.

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 over 65 age group shows a higher incidence of diversification than younger age groups, and a slightly higher proportion of diversified output compared to total farm output.

62% of cropping farms have diversified enterprises compared with 41% of livestock farms and 45% of farms of other types (pigs, poultry and mixed). Hill farms have the lowest proportion of diversified activity (36%). 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 37% (2,400 farms) compared to 50% for England as a whole; the lowest proportion out of all English regions. Similar to England, the largest type of diversified activity is letting out farm buildings for non-agricultural use (81%). 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. The West Midlands also had the highest proportion of farms with neither diversified enterprises nor farmer/spouse off-farm employment.

*Source: NON-AGRICULTURAL INCOME AND DIVERSIFIED ENTERPRISES
RESULTS FROM THE FARM BUSINESS SURVEY – England 2005/06*

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>