

THE FARM BUSINESS SURVEY 2007/08

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 2007/08'. 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 around 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 scheme¹.

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).

¹ The Single Payment Scheme (SPS) is the principal agricultural subsidy scheme in the European Union. Under the scheme farmers have greater freedom to farm to the demands of the market as subsidies are no longer linked to production, and environmentally friendly farming practices (known as cross compliance) are better acknowledged and rewarded.

- **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.

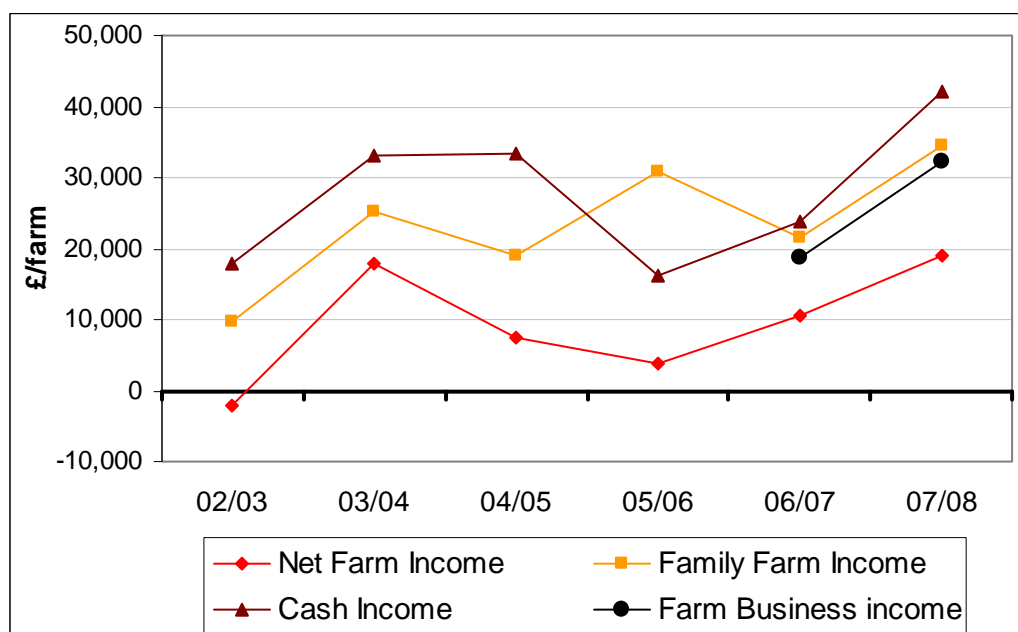
Summary for England as a whole

The average Farm Business Income for all farm types was £48,200 in 2007/08, 40% higher than in 2006/07. This reflects firmer prices for a range of commodities during the year, particularly cereals and milk. On many farm types, the benefit of the higher output resulting from these firmer prices was only partially offset by higher input costs since the substantial increases in fuel and fertiliser prices did not occur until later in the 2007/08 accounting year.

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 seen considerable variation over the last five years, but with the last two years being characterised by increases in income. All four measures of income showed an increase between 2006/07 and 2007/08. Net farm income (£19,096) remained the lowest measure and cash income (£42,217) the greatest. However, it was net farm income that saw the greatest increase in percentage terms between 2006/07 and 2007/08 (82%), followed by cash income (77%). Family farm income (£34,555) had increased by 60% since 2006/07 and farm business income (£32,124) by 71%.

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.

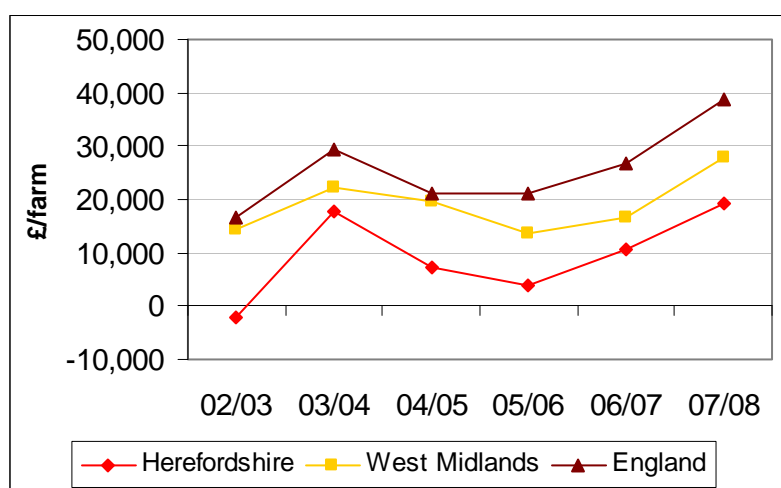
It is useful to look at Herefordshire's farm incomes alongside regional and national figures to see if similar trends have occurred.

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 and was first available for Herefordshire in 2006/07. In 2006/07 the average for Herefordshire was £18,800 per farm. This was lower than both the West Midlands region (£24,900) and across England as a whole (£37,800). However, between 2006/07 and 2007/08 Herefordshire saw a considerably greater increase in percentage terms (71%) than either the West Midlands (50%) or England (27%). This took the average farm business income in Herefordshire to £32,124 compared to £37,341 in the West Midlands and £48,144 in England as a whole.

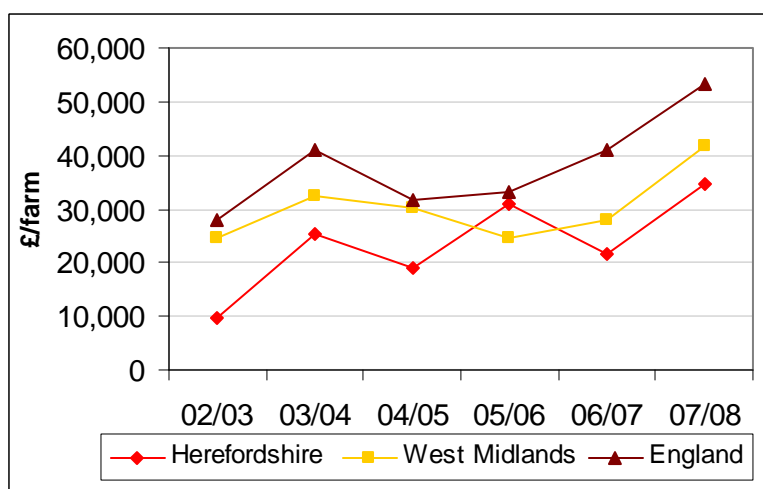
Net farm income showed the same trend in 2007/08 with Herefordshire experiencing a greater percentage increase (82%) than either the West Midlands (68%) or England (44%).

Chart 2. Net Farm Income



Herefordshire's net farm income was £19,096 in 2007/08, still low compared to the average of £27,696 in the West Midlands and £38,574 across the whole of England.

Chart 3. Family Farm Income

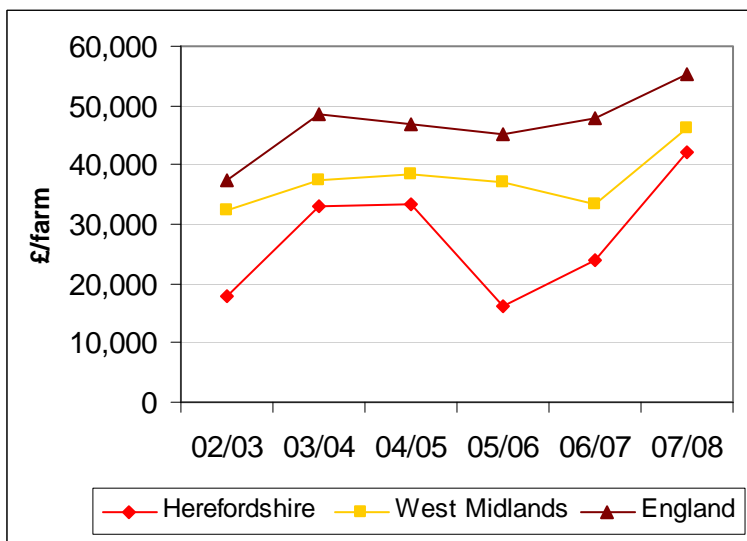


Despite year-on-year fluctuations, Herefordshire has seen an overall increase in the average **family farm income** since 2002/03.

The figure for Herefordshire in 2007/08 (£32,124) was an increase on 2006/07 (£21,631) and is the highest it has been throughout the monitoring period. Despite this the average family farm income in Herefordshire is still lower than the West Midlands (£41,765) and England (£53,434)

Cash incomes, by their nature are 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

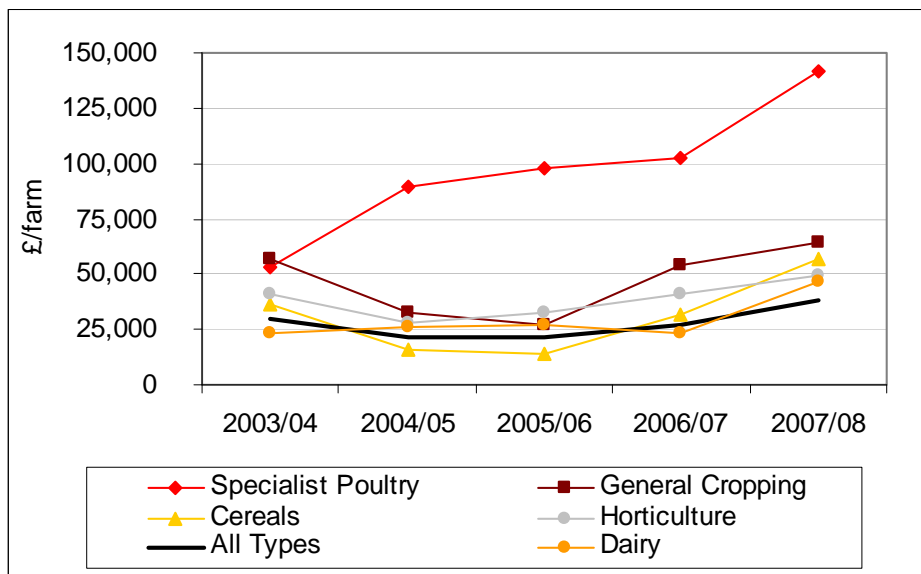


Herefordshire farms experienced a large increase in cash incomes in 2007/08 (77%), taking it to **£42,217**. This increase was greater than that seen in the West Midlands (39%) or across England (15%).

Average Farm Business Income by Farm Type for England

Farm business income figures by farm type are not available for Herefordshire. Charts 5 & 6 show the average farm business income for 2003/04 to 2007/08 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 2007/08)



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,

horticulture and dairy all have higher farm business income than the average for all farm types in 2007/08 and, with the exception of dairy, have all seen an increase in the last two years. Between 2003/04 and 2005/06 most farm types saw a decrease in farm business income. The exception to this was specialist poultry.

Chart 6. Farm business income for farms in England (farm types presented are those below the average in 2007/08)

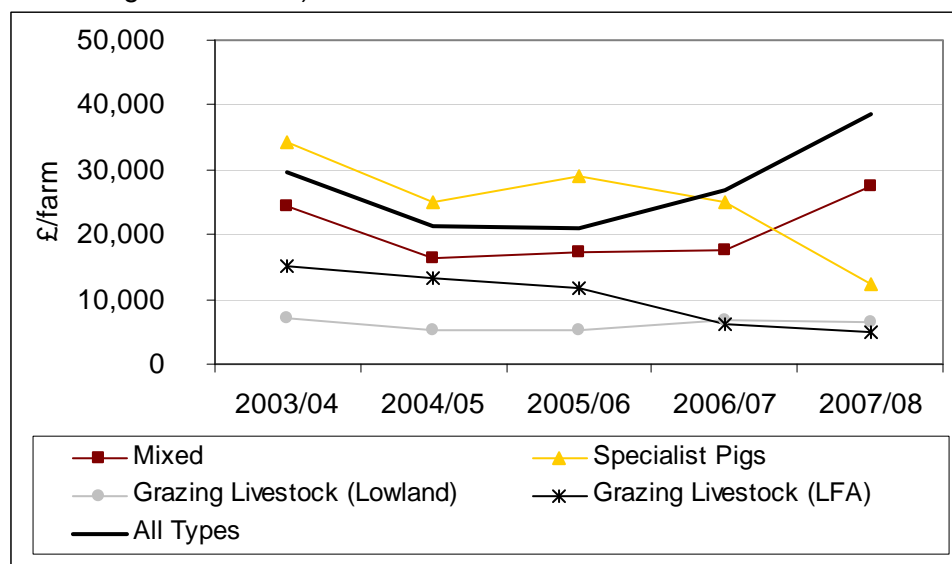


Chart 6 shows the categories of farms which in 2007/08 have farm business incomes below the average for all farm types. Farm business incomes for specialist pigs and grazing livestock (less favoured areas - LFA) farms have both decreased considerably over the monitoring period. Grazing livestock (lowland) has one of the lowest incomes and has remained relatively constant since 2003/04, but showing a minor decrease in 2007/08. Grazing livestock (LFA – less favoured areas) has shown continual decrease since 2003/04 and had the lowest farm business income in 2007/08. In contrast mixed farms saw an increase in 2007-08.

Table 1. Farm business income by farm type (£/farm) in England at current prices for 2007/08 and the previous year 2006/07.

At current prices	2006/07	2007/08	% difference 07/08-06/07	Improved Worsened
Specialist Poultry	102,600	141,400	+38%	↑
General Cropping	54,000	64,700	+20%	↑
Cereals	31,300	57,100	+82%	↑
Horticulture	40,800	49,400	+21%	↑
Dairy	22,900	46,700	+104%	↑
Mixed	17,600	27,600	+57%	↑
Specialist Pigs	25,000	12,400	-50%	↓
Grazing Livestock (Lowland)	6,800	6,500	-4%	↓
Grazing Livestock (LFA)	6,100	5,000	-18%	↓
All Types	26,700	38,600	+45%	↑

Over the last year, farm business income for **all types of farm** experienced an average increase of 45% or £11,900 per farm across England as a whole. Six of the nine farm types experienced an increase in farm business income between 2006/07 and 2007/08. **Specialist poultry, cereals** and **dairy** experienced the largest average increases in income, with respective increases of £38,800, £25,800 and £23,800 per farm between 2006/07 and

2007/08. The greatest decrease in farm business income was experienced by **specialist pig** farms, a decrease of £12,600 over the last year.

Specialist poultry farms on average have the largest farm business income (£141,400) followed by **general cropping** (£64,700) and **cereals** (£57,100).

Grazing livestock (LFA), **grazing livestock (lowland)** and **specialist pig** had the lowest farm business incomes in 2007/08, £5,000, £6,500 and £12,600 respectively.

The data showing net farm income by farm type is only available for England, however if we make the assumption that similar trends to those nationally are occurring across each county we can suggest what might be happening locally. Using information from the 2008 Agricultural Census we can see how much of an impact the changes in farm business income may have on farming across Herefordshire.

The 2008 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)	19%	16%
Cereals	7%	11%
Horticulture	7%	4%
Mixed	7%	4%
General Cropping	6%	4%
Grazing Livestock (LFA)	6%	6%
Specialist Poultry	3%	3%
Dairy	2%	5%
Specialist Pigs	1%	1%

Source: Agricultural Census, 2008.

Note:

- No accounting information is supplied about farms classed as 'Other'.
- Information about the June 2008 Agricultural Census data is available in the August 2009 issue of the QER.

Specialist poultry farms experienced the largest increase in average farm business income over the last year. Herefordshire has the same proportion of this type of farm (3%) compared to England.

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

Dairy farms also experienced a large increase in farm business income nationally, however only 2% of Herefordshire's farm holdings were dairy, this is a smaller proportion than nationally (5%).

General cropping farms, which account for 6% of farms in Herefordshire, also saw a large increase in farm business income over the last year. General cropping accounts for 4% of farm holdings nationally.

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The largest proportion (19%) of Herefordshire farms were grazing livestock (lowland) which, if they followed national trends, would have experienced a small decrease in the average farm business income over the last year.

Horticulture accounts for 7% of farm holdings in Herefordshire compared to 4% in England as a whole. Nationally, horticulture experienced an average increase of £8,600 in farm business income.

Mixed farms in Herefordshire account for 7% of farms compared to 4% in England. So the average increase of £10,000 farm business income per farm could have a greater positive affect in Herefordshire than across England as a whole.

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.

Non-Agricultural Income and Diversification

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

Farms throughout England

In 2007/08, 51% of farms (29,200 farms) in England had some form of diversified activity (non-agricultural activity of an entrepreneurial nature which uses farm resources). However the majority of these include letting out buildings for non-agricultural use; when this is excluded 28% of farms have some form of diversified activity (16,100 farms), an increase from 27% in 2006/07 and just 18% in 2003/04.

The total income from all types of diversification was £400 million in 2007/08, 8% lower than in 2006/07; diversified enterprises generated 15% of the total income of farm businesses in 2007/08 (all farm types). The remaining farm income consisted mainly of Single Farm Payment.

For 36% of businesses with diversified activities, diversified income accounted for a quarter or more of the total farm income. For 22% 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 10%.

The predominant type of diversification activity is the letting out of buildings for non agricultural use (36% of farms). For these farms 64% of diversified income is generated in this way. For the 20,700 farms which let out buildings, the income they obtain from this (£270m) is approximately 20% of their total farm income (£1,380m). Food processing and retailing is carried out on 7% of farms. Income from this activity on average accounts for 24% of total income on these farms (£40m of £170m). Nearly 30% of farms which diversify have more than one diversified enterprise. Only a small proportion of farms (2%) failed to make a profit on their diversified activities.

About 10% of farms which had diversified enterprises in 2007/08 started them within the previous 12 months, and 7% which had diversified enterprises in 2006/07 gave up during 2007/08. The number of new entrants exceeded the number giving up, so the total number increased. For single diversification activities, processing and retailing of farm produce was the only one to show a decline.

Most diversified enterprises are small. Whilst the average diversified output² per farm is £23,800, 56% of diversified enterprises have an output value of less than £10,000 and 15% have an output value of less than £1,000. 11% of farms have diversified output of £50,000 or more. For each of the individual types of diversified activities the size distribution varies according to the activity. Tourism has only 7% of farms with an output value of less than £1,000, whereas processing and retailing has the largest (15%). However processing and retailing has the largest percentage of farms (23%) having an output value of £50,000 or more.

Total income generated from off-farm employment and self-employment of farmer and spouse was £290m in 2007/08 (for farms of at least ½ Standard Labour Requirement³), less than the £400m 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 to total farm output.

Of the cropping farms in England, 61% have diversified enterprises compared with 44% of livestock farms and 44% of farms of other types (pigs, poultry and mixed). Hill and Dairy farms have the lowest proportion of diversified activity (41%). 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 45% compared to 51% for England as a whole; the lowest proportion out of all English regions (South East had 75%). This proportion is greatly increased however, compared to 2006/07 when it was 39%. When considering the type of diversification activity the West Midlands is similar to England, with the largest type of diversified activity being the letting out farm buildings for non-agricultural use (34% 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, 36% 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 had 37%.

Source: Non-Agricultural Income and Diversified Enterprises: Results from the Farm Business Survey – England 2007/08

For further information on the data in this article, please contact the Research Team on 01432 260 893, or e-mail researchteam@herefordshire.gov.uk

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

² Output is a measure of the value of products or services that an enterprise delivers. In the case of farm businesses this might be the value of stock sold or the rental value of property let for non-agricultural use.

³ Farms of size at least ½ Standard Labour Requirement (SLR) are those considered sufficient size to occupy a farmer at least half-time. See <https://statistics.defra.gov.uk/esg/asd/fbs/sub/slr.htm> for definition of SLR.