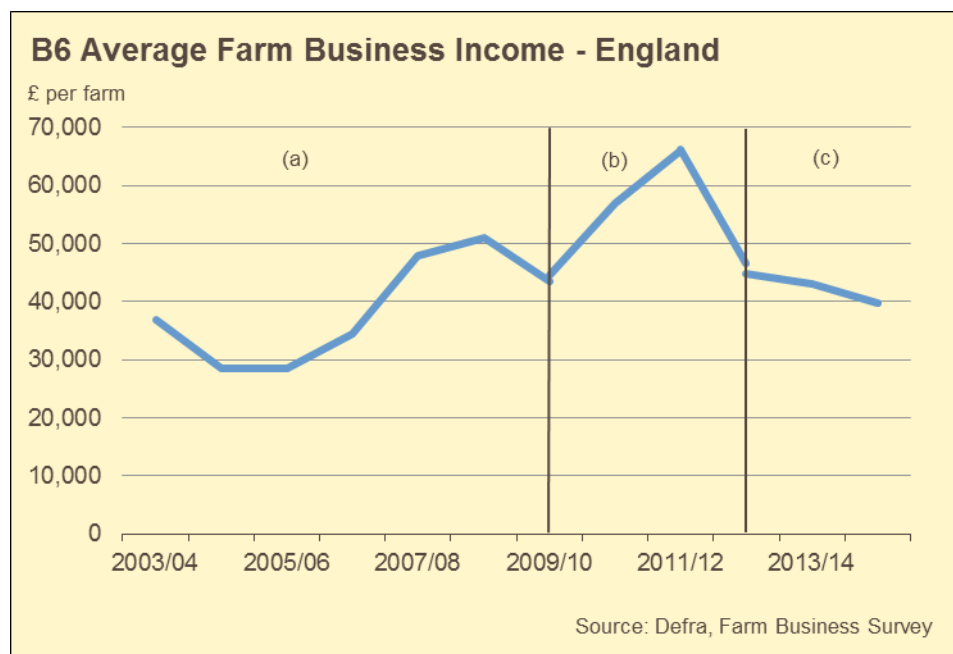


Observatory monitoring framework – indicator data sheet

Process: Farm Business

Indicator B6: Farm income

This indicator shows the Farm Business Income (FBI) for all farm types and individual farm types. FBI is the headline measure of farm income.



In 2014/15 the average Farm Business Income for all farm types fell 8% to £39,600 per farm compared to £43,100 in 2013/14.

The average Farm Business Income was lower across all robust farm types except grazing livestock farms.

Notes – Years ending February

(a) Farm type classification based on 'standard gross margins' (SGM) typology

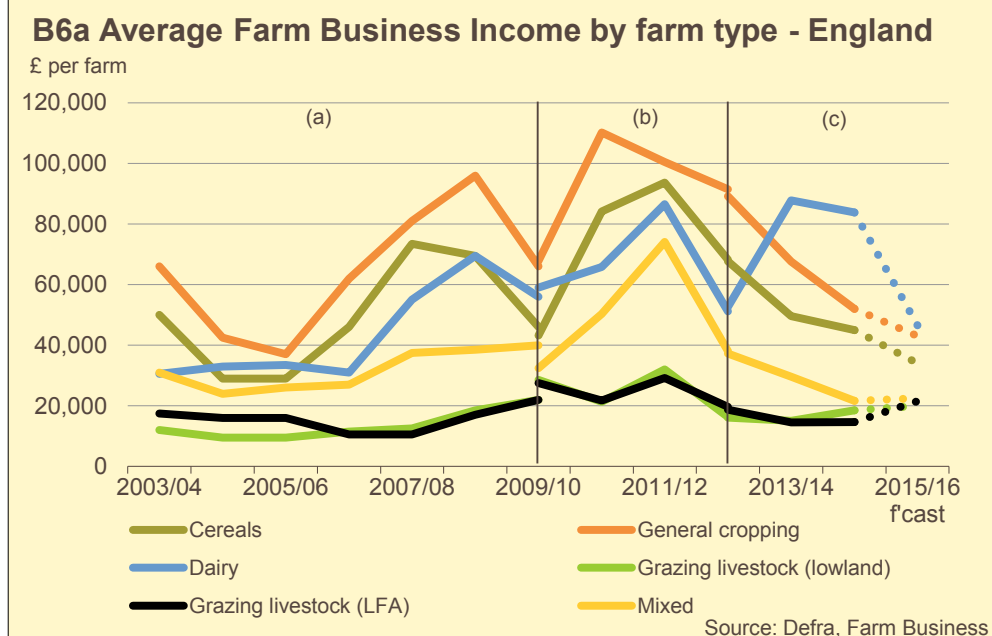
(b) Farm type classification based on 2007 Standard Outputs, revised weighting framework separating specialist poultry meat from specialist poultry layers

(c) Farm type classification based on 2010 Standard Outputs

Figures are for March/February years with the most recent year ending in February 2015. This covered the 2014 harvest and includes the 2014/15 Single Payment. The Single Payment was on average around 2% lower than the previous year reflecting the stronger pound against the euro when the conversion rate was set in September 2014.

Chart B6a shows the average Farm Business Income by farm type from 2003/04 to 2015/16.

Forecasts for 2015/16 are made for selected farm types only. An “all farm types” forecast is not made.



Notes – Years ending February

(a) Farm type classification based on 'standard gross margins' (SGM) typology

(b) Farm type classification based on 2007 Standard Outputs, revised weighting framework separating specialist poultry meat from specialist poultry layers

(c) Farm type classification based on 2010 Standard Outputs

In 2014/15:

- For cereals, despite more usual cropping patterns, average farm business income fell by 9% due to lower commodity prices as a result of the strong pound and plentiful supplies on global markets.
- On general cropping farms, average incomes fell by 23% primarily due to lower output from potatoes and barley (spring and winter) and higher input costs.
- Average incomes on mixed farms fell by 27%. Overall, farm business output decreased by around 20%, driven largely by a lower output from agriculture.
- On dairy farms, farm business income fell by around 5%. Milk prices fell gradually throughout the year, although they were higher in the first six months compared with 2013, and this combined with higher volumes meant that agricultural output for the year as a whole (March to February) was slightly lower (2%) than the previous year.
- Average incomes increased on lowland grazing livestock farms by 23%, albeit from a low base, due to higher output from both agri-environment and diversified activities. Lower output from beef enterprises was offset by an increase in sheep output.
- On LFA grazing livestock farms, average incomes were broadly unchanged as farm business output and farm business costs both fell by a similar amount.

Forecasts for 2015/16:

- Average Farm Business Income is expected to have fallen on cereal, general cropping, dairy and specialist pig farms due to lower prices for key outputs such as cereals, milk and pig meat.
- Reduced input costs are the main driver for higher incomes on specialist poultry farms.
- The 2015 Basic Payment is expected to have been around 8-9 percent lower than the 2014 Single Payment for all farm types except LFA grazing livestock. For these farms, the higher payment rate for moorland and SDA land is expected to increase output compared to the previous year.

This indicator was updated in July 2016. The next update will be in November 2016 to include actual Farm Business Survey results for 2015/16.

Further information and contact

Background information can be found in the accompanying fact sheet.

For further queries or information on this indicator contact Defra's Observatory team on +44 (0)20 802 66202 or email observatory@defra.gsi.gov.uk

Observatory Monitoring Framework – indicator fact sheet

Process: Farm Business

Indicator B6: Farm income

<i>Indicator</i>	Farm Income
<i>Data</i>	Average Farm Business Income
<i>Geographic coverage</i>	England
<i>Years</i>	Chart B6 Farm Business Income - all farm types 2003/04 – 2014/15 Chart B6a Farm Business Income by farm type 2003/04 – 2015/16
<i>Source</i>	Defra
<i>Origin of data</i>	Farm Business Survey
<i>Updates</i>	This indicator is updated annually and will next be updated in November 2016.
<i>Background</i>	<p>Farm incomes are a measure of business viability. Monitoring average farm income for different farm types provides a measure of the profitability of different sectors, the potential for survival of farm businesses and aids understanding of the changes in the agricultural industry.</p> <p>Following formal consultation in 2006, Farm Business Income was adopted as the headline measure of farm income. In essence, FBI is the same as net profit, a standard financial accounting measure used widely within and outside agriculture.</p> <p>Using the term <i>Farm Business Income</i> rather than <i>Net Profit</i>, 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. Net Farm Income will continue to be published as a secondary measure for continuity purposes.</p> <p>For non-corporate businesses, Farm Business Income represents the financial return to all unpaid labour, not just the farmer and spouse, 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. It treats the tenure of farms as it is and it encompasses all farm-based business activities; that is, all activities that use farm land, buildings and machinery, including non-agricultural diversification. The diversification enterprises included within Farm Business Income include those not covered within the farm accounts. Farm Business Income also aligns more closely with the aggregate measure of farm income – <i>Total Income from Farming</i>.</p> <p>The forecasts for 2015/16 are derived from information available in early January 2016 for prices, animal populations, markets, crop areas, yields and input costs and are intended as a broad indication of how incomes for each farm type are expected to</p>

move compared with 2014/15. The forecasts are subject to a margin of error, reflecting, in particular, the fact that farm income is derived as the relatively small difference between total output and total input; small percentage changes in either of these can result in large percentage changes in income. It should also be noted that within each year there is a wide range in income across farms around the average figures published here

The Single Payment is an important contribution to average farm incomes for many farm types.

Farm Business Survey

The Farm Business Survey (FBS) provides annual information on the financial position and the physical and economic performance of farm businesses. The FBS is a collaborative programme between Defra and a consortium of six universities/colleges contracted to do the bulk of the work. Data are collected on farm and from face to face interviews with farmers.

Published data are for the accounting year ending in February.

Changes to the threshold level

The survey covers all farms above a minimum threshold. For accounting years up to 2003/04 the minimum size threshold was 8 European Size Units (ESU). The sample structure was re-designed for 2004/05 when the minimum size was defined by Standard Labour Requirements (SLR). At that time, the coverage of the survey was restricted to part-time and full-time farms and to the main farm types. Spare-time farms with less than 0.5 SLR or farms with negligible economic activity were excluded. From 2010/11 the survey was again re-designed and the coverage is now restricted to those farms with at least 25,000 Euros of Standard Output.

Changes to the sample size

Up to the 2003/04 accounting year, the sample size for the England FBS was 2,250 farm businesses. From 2004/05 until 2009/10, it was 1,850 businesses. From 2009/10 the sample size has been around 1,950 farms.

From 2010/11, the population of farms covered by the survey has been stratified into 14 farm types and 7 regions. Within each stratum, sampling is with uniform probability, however, minimum publication thresholds are applied and some farm types are sampled at a higher rate to ensure adequate coverage for analysis. Farms are retained in the sample for several years and around 10% of the sample is replenished each year.

Changes to the methodology for allocating fixed costs

A new methodology for allocating fixed costs was introduced in 2008/09 across the four sections or 'cost centres' of the business (agriculture, the single-payment scheme, agri-environment schemes and diversified activities).

In previous years the survey has shown the vast majority of fixed costs as being associated with agriculture, with the allocation based mainly on the judgement of the research officers conducting the survey. It was recognised that this did not accurately reflect farm business structures in the present time and the increasing contribution of non-agricultural enterprises to farm incomes. It might be expected that outputs for these activities would have associated costs relative to their respective size.

To take account of this, land and property costs, general farming costs and overhead machinery costs have been apportioned across the four cost centres, by applying coefficients either based on gross margins or outputs, reflecting the degree to which

each activity draws upon these costs. FBS researchers in the field can, however, override this process and enter other data if they feel it provides a more accurate cost allocation.

It is not possible to present income for diversified activities for 2007/08 and earlier years using the new apportionment methodology as detailed allocation of costs for diversified activities was not collected. The amount and severity of caveats associated with making such a re-allocation would therefore render any such estimates as not comparable to this year's data.

Farm type classification

Until 2009/10 farm typology was derived using Standard Gross Margin (SGM) coefficients. The classification of farms was revised for the 2010/11 Farm Business Survey, to bring the classification in line with European guidelines using 2007 Standard Output Coefficients. These are calculated using a 5 year average centred on 2007. The changes were backdated to 2009/10 for comparability. In line with EU methodology, Standard Output coefficients were updated to 2010 coefficients from 2012/13. Results for 2012/13 are shown using both methods for comparability.

Changes to the weighting methodology

The weighting methodology was changed for 2012/13 to improve the reliability of the results for farms with poultry and back dated to 2009/10 to ensure a consistent time series. The change was two-staged. Poultry farms were split into two groups (egg and poultry meat producers) at the inverse sampling fraction stage. In addition, the FBS estimates of total number of laying birds and total number of table birds are now calibrated to match those from the previous June Survey of Agriculture and Horticulture. This practice is already in place for other livestock counts (as well as crop areas and farm counts) to draw strength from the increased robustness of the much larger sample of the June Survey. The egg and poultry meat sectors are able to move separately, recognising their differing fortunes.

Further information

Farm Business Survey results can be found at:

<https://www.gov.uk/government/collections/farm-business-survey>

Farm Business Survey - technical notes and guidance can be found at:

<https://www.gov.uk/farm-business-survey-technical-notes-and-guidance>