

## Methodology note

# The role of CAP payments in farm income

May 2016

## Introduction

1. This paper uses data from the Farm Business Survey (FBS) for England to show the relationship between Common Agricultural Policy (CAP) payments and farm incomes.
2. There are many factors affecting farm incomes, including commodity prices, weather conditions, farm productivity and land quality. This analysis looks at one factor - the relationship between CAP payments and farm incomes. It does not account for dynamic market effects, changes in behaviour or any other factors which may affect farm incomes following direct payment changes.
3. The FBS covers farms with at least 25,000<sup>1</sup> euros of Standard Output, which are the largest 61% of farm businesses in England<sup>2</sup>. These farms are estimated to cover 98% of output and 92% of agricultural land.
4. The CAP's agri-environment schemes are excluded from this analysis.

## Step by Step process

1. A five year matched dataset was used. This contained data from a subset of 1,294 farms that have been in the FBS in each of the last five years (2010/11 to 2014/15). The results have been weighted to reflect the 2014/15 FBS population.
2. The average Farm Business Income<sup>3</sup> (FBI) was calculated for each farm over five years, together with the average payment from the Single Payment Scheme (SPS)<sup>4</sup>.

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<sup>1</sup> A threshold shared with Wales, Scotland and a number of other Member States.

<sup>2</sup> There are 94,000 farm businesses in England (excluding specialist horse farms), of which 57,500 have more than 25,000 euros of standard output and are therefore covered by the Farm Business Survey.

<sup>3</sup> For non-corporate businesses, Farm Business Income (FBI) 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. FBI does not account for the value of imputed rent or labour costs

3. Distributions of farms were generated (by farm type) for:

- FBI (which includes the Single Payment)
- FBI minus 50% of Single Payment
- FBI minus 100% of Single Payment

This allowed for the estimation of how the distribution of farm incomes changes with the scenarios above. This does not account for any costs farmers incurred in order to claim Single Payment.

## Results

1. Table 1 below shows the number of farms in England within different FBI groups (averaged over the five years 2010/11-2014/15) for the three scenarios mentioned above.

Table 1: Number of Farms within each average income group with different levels of SPS payments, England (average 2010/11-2014/15)

FBI Bracket	Including CAP direct payments	Excluding 50% of CAP direct payments	Excluding CAP direct payments
Less than £0	5,900	10,700	20,600
£0 to £10,000	7,600	11,100	8,300
£10,000 to £25,000	13,200	11,400	10,800
£25,000 to £50,000	13,500	11,400	7,800
£50,000 to £75,000	5,900	4,200	3,800

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where farmers own land or use unpaid family labour. For corporate businesses it represents the financial return on the shareholders capital invested in the farm business. In essence FBI is the same as Net Profit, which as a standard financial accounting measure of income is used widely within and outside agriculture.

<sup>4</sup> The Basic Payment will be included in the 2015/16 FBS. This data is currently being collected and will be available for analysis from November 2016.

Over £75,000	11,500	8,800	6,300
Total	57,500	57,500	57,500



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