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Scottish Farm Business Income Estimates 2017-18

26th March 2019

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Introduction

Farm business income has on average gone up since the previous year. The average income has risen by 19 per cent to £35,400.

However estimates show that farms supported by subsidies on average made a loss of £7,400.

The number of farmers that are able to pay themselves a minimum agricultural wage has increased to 60 per cent.

Farms that engage in diversified activities continue to perform better than those that don’t by around £19,600 per annum.

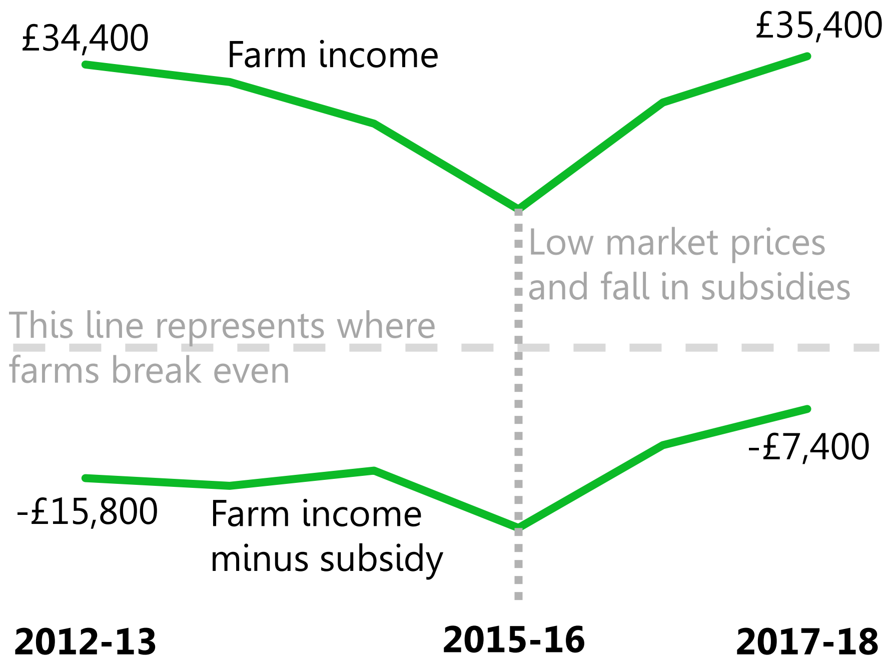
Sheep farms in less favourable areas (LFA) continue to rely on subsidies the most. Dairy farms have the highest income and are less reliant on support.

This analysis is based on the latest published statistics for the period 2017-18.

All financial figures quoted in this report relate to changes in real terms. This means cash values have been adjusted to take into account inflation.

Agricultural businesses which do not receive subsidies are not represented in this survey. This includes pigs, poultry and horticulture.

Farm business income rises but still dependent on support



Average Farm Business Income **£35,400**

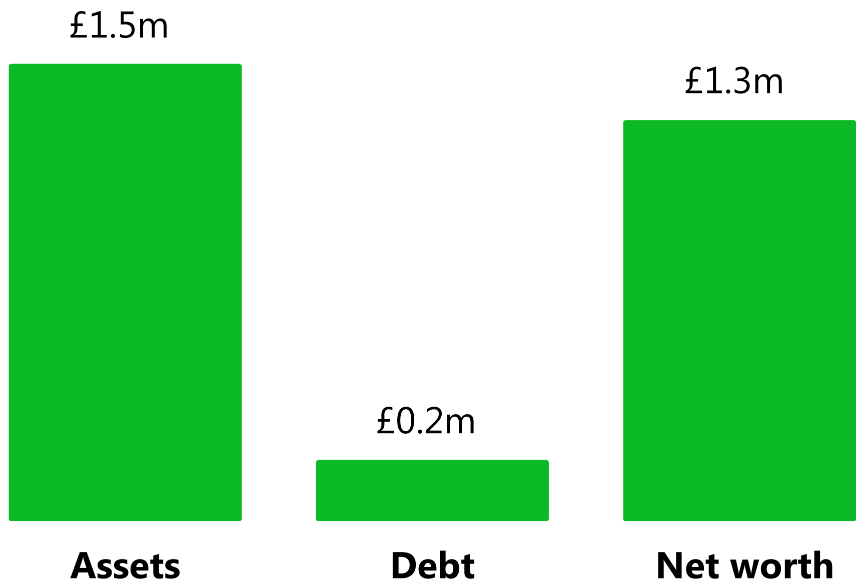
Farm income has increased in the past year. Average income is estimated at £35,400 which is a six year high and a 19 per cent increase from the previous year.

Subsidies play an important role in farm incomes. In the survey over 60 per cent of farms were making a loss, with the average business making a loss of £7,400 without additional support in 2017-18.

The cost of raw materials to farms and the produce they sell both increased. With increased subsidy payments and revenues from diversified activities, this led to an overall increase in Farm Business Income in 2017-18.

The Scottish Government collects financial data from nearly 500 farm businesses that helps us to estimate the incomes across the industry. We call this Farm Business Income (FBI). Information on the types of farms included in the survey is available on our website.

The farm debt ratio increased slightly over the previous year



12% Average debt ratio for Scottish farms

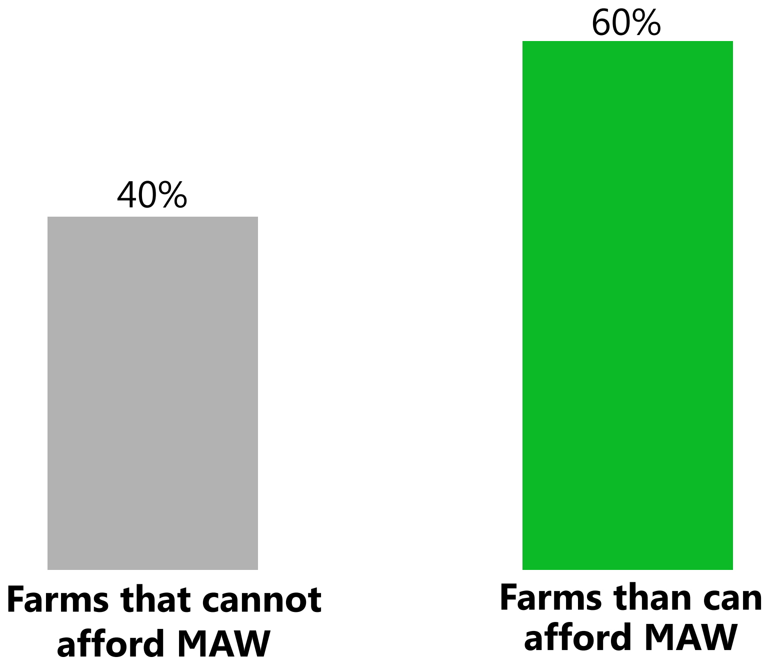
The financial information collected from our survey allows us to estimate the financial health of the farms. By looking at the farms assets and the debt each business holds we can calculate the overall value of the business which is called net worth.

The amount of assets that are held by farms has decreased slightly over the previous three years. The amount of debt held by farms has also risen slightly. Neither of these shifts have greatly changed the average debt ratio.

When debt rises in line with rising asset values this shows banks are willing to invest in the sector as they have confidence that farmers can repay their loans.

As the farm debt ratio has only increased slightly, the statistics do not indicate immediate concerns with rising levels of debt.

More farmers can afford to pay themselves the minimum agricultural wage



Farm business accounts estimate the earnings of the people who will draw money from the income of the farm business, usually the owners or partners. We call this unpaid labour as they do not get paid a regular wage.

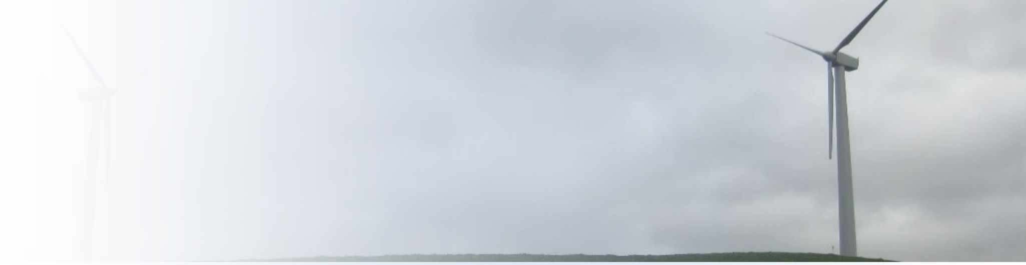
There is an increase in the percentage of farms that can pay unpaid labour more than minimum agricultural wage (MAW).

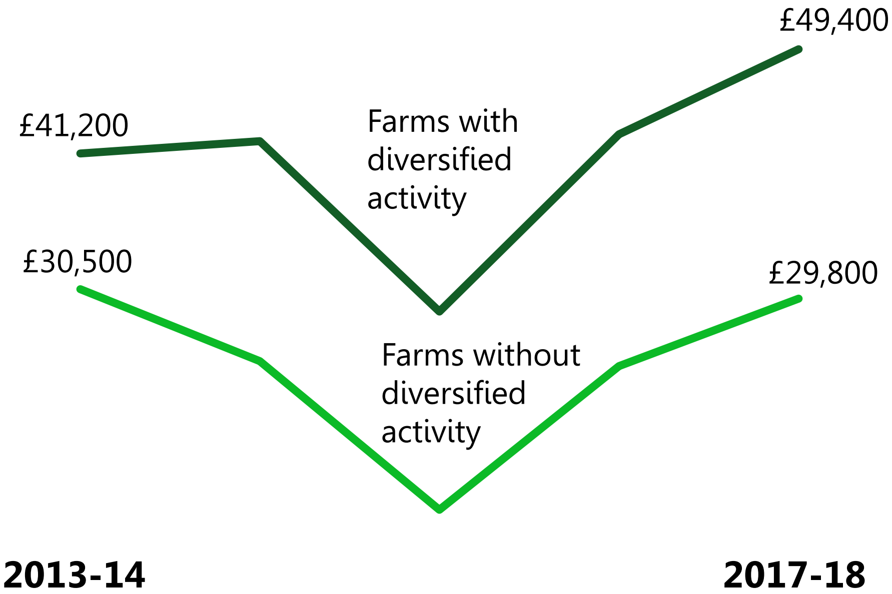
Sixty per cent of farms in the survey were able to pay £7.43 per hour (MAW) for unpaid labour or more. Nine per cent of farms could afford to pay unpaid labour over £35 per hour.

Forty per cent of farms were not able to pay the MAW and 16 per cent of farms were unable to provide earnings to unpaid labour from farming income.

Some farmers may earn money elsewhere, for example from activities that happen off the farm. Also farmers that can afford higher wages are more likely to invest their drawings back into their business.

Farms that diversify business activity earn more money





61% Diversified farms that rent out buildings

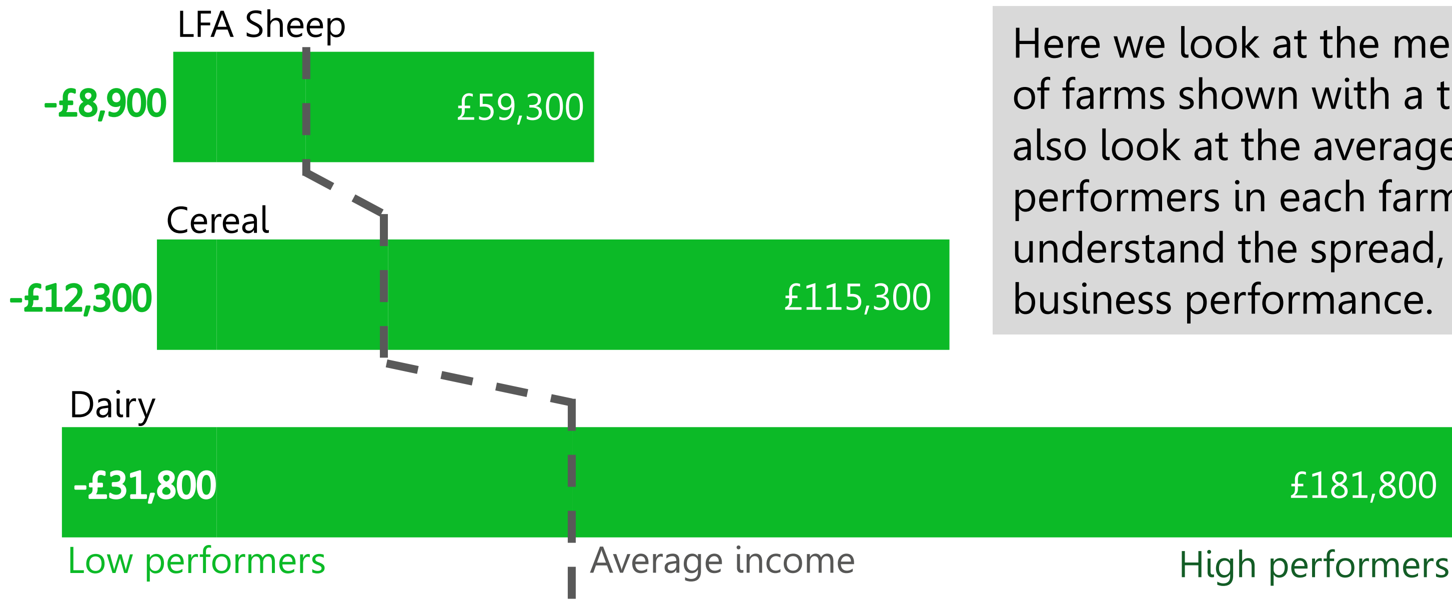
Around 400 farms have been providing us with their data over a long period of time. This allows us to see changes in their diversified activity that generates income. Such activities include letting out holiday cottages or small wind turbines that generate electricity.

More than half of farms have diversified activities that generate additional incomes to their businesses. Farms that have not got diversified activity on average generate £19,600 less income per annum.

The most common diversified activity was renting out farm buildings. Profitable activities that farmers are doing include waste disposal, rural crafts, advertising in fields and clearing roads in winter.

The additional income that diversified activity creates has now increased to 66 per cent over those farms that don't. In 2013-14 this gap was only 35 per cent. This shows diversified activity is becoming more important.

Business performance is varied in each farm type...

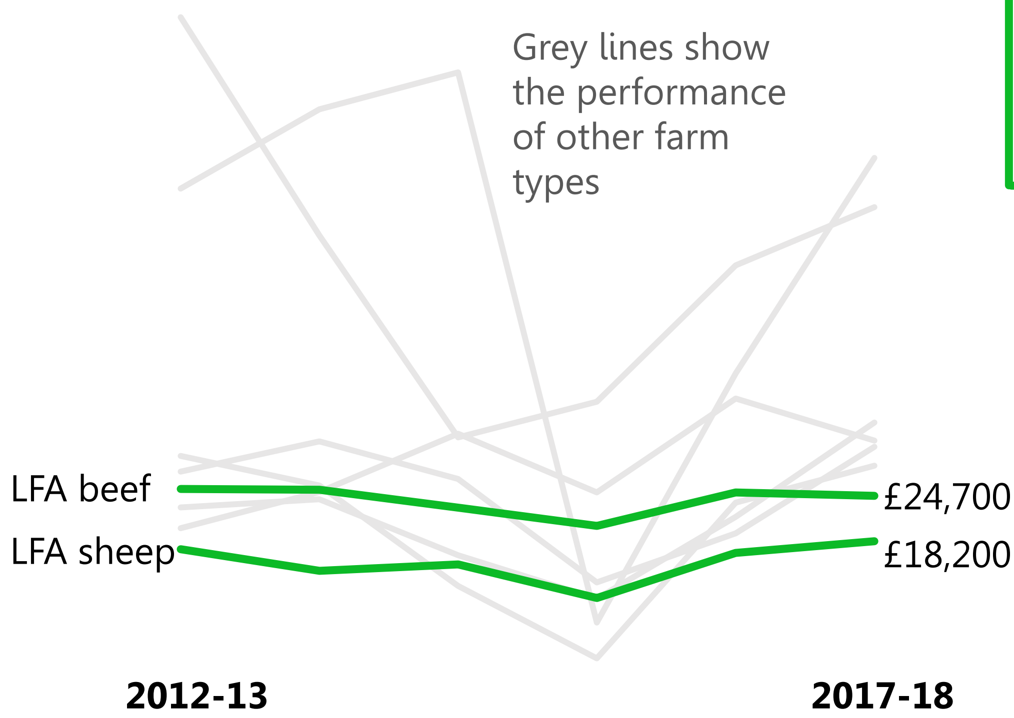


Here we look at the mean average income of farms shown with a thick grey line. But we also look at the average high and low performers in each farming type to understand the spread, or variance, in farm business performance.

Some farms have high business incomes but others are making large losses. For example, in dairy farming, low performing farms are losing on average £31,800 while the high performers have an average income around £181,800.

Dairy farms have the highest spread but also have on average the highest farm income. Cereal farms have lower farm income and the gap between high and low performers is not as great. LFA Sheep farm businesses have low farm incomes but the spread between businesses incomes is also low.

...LFA sheep farms still have low incomes and rely on subsidies



LFA sheep and LFA beef farms have been grouped together because they have low but stable incomes. LFA land is low quality and often very hilly so there is little opportunity to do anything else with the land and so it is difficult to do any other activities.

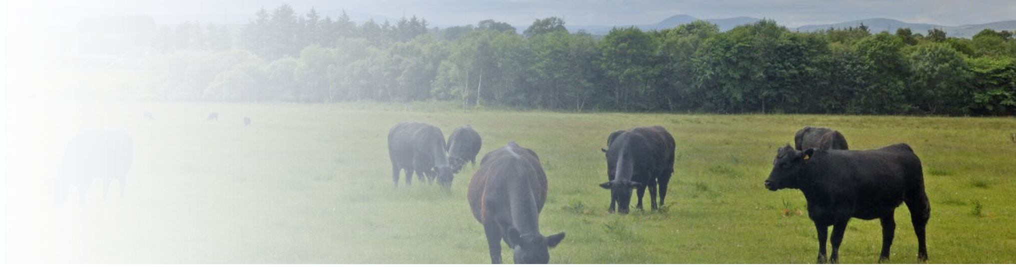
£18,200 LFA Sheep farms average income

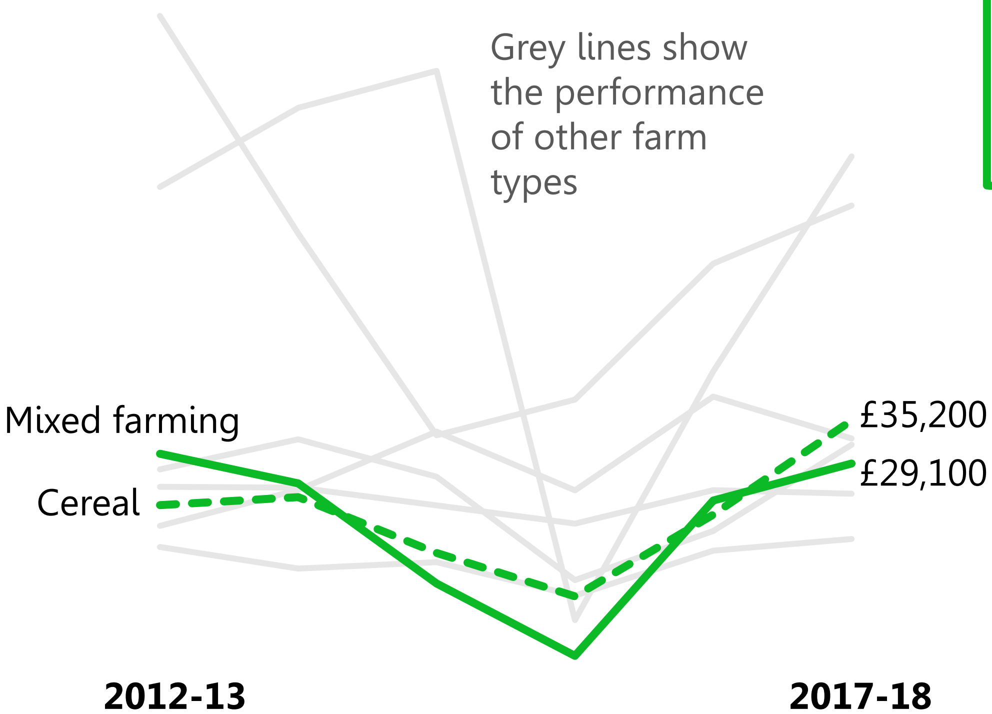
Sheep farms and beef farms in less favoured areas have the lowest income and have been historically low compared to other farm types.

Subsidies play an important role for a large number of LFA farms. For example LFA sheep farms without subsidies would on average be making a loss of £27,400.

These farms are mostly found in very remote areas. Current subsidies allow many of these farms to remain an active part of the community.

...cereal farms have performed better this year





We have grouped a number of farm types together included cereal and mixed farming and called them 'mid-income'. They have a higher average income but also greater fluctuations in performance over time.

Mixed farms usually engage in complimentary activities like growing crops to feed their cattle.

£29,000 to £35,200 Average range of mid-income farms

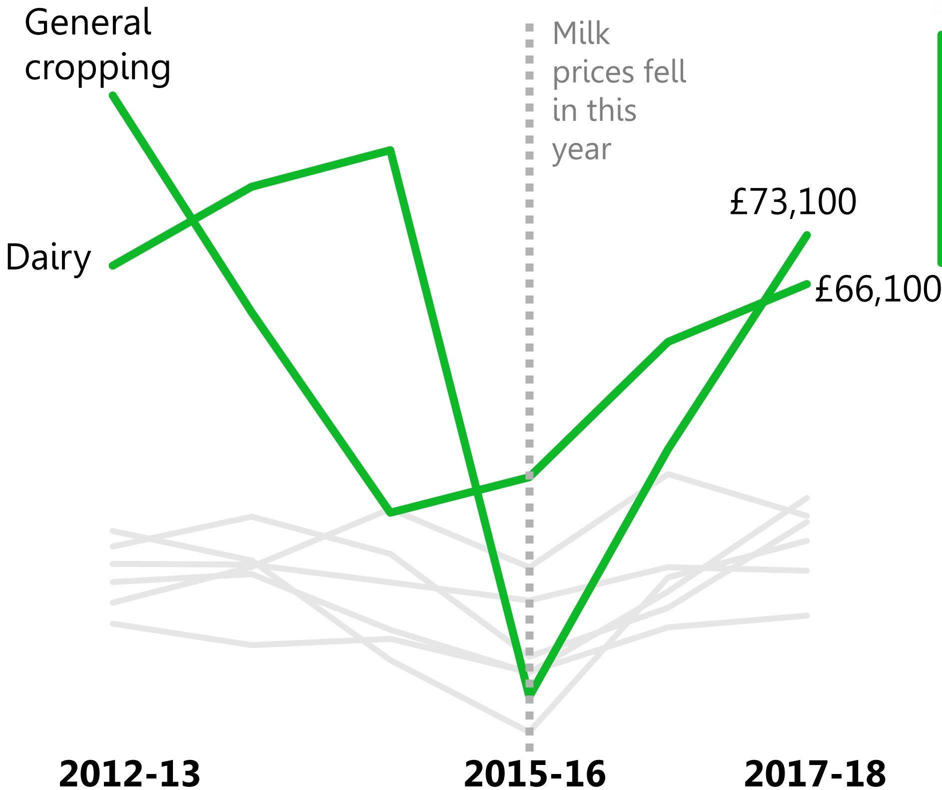
Mid-income farms in general have performed better this year. Cereal farms have risen to a six year high with average income at £35,200.

Some farm types in this mid-income group still rely on subsidies. Combined cattle and sheep LFA farms received on average £59,000, which is £21,100 higher than the next highest subsidised group which is mixed farming.

Cereal farms without subsidies had a positive income of an average £1,300 per annum. Whereas combined cattle and sheep LFA farms were making a loss of £26,300 without subsidies.

Lowland cattle and sheep farms are also categorised as mid-income.

...dairy and general cropping farms continue to recover



£73,100 Dairy farms average income

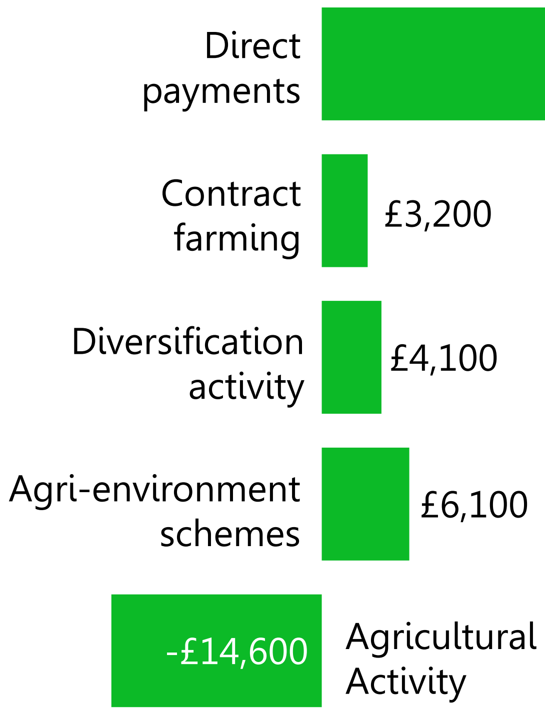
Dairy and general cropping farms are grouped because they have high incomes and their performance has varied a lot in recent years. Some farms may be making larger incomes than average, but some will also be making a loss.

Dairy farms had the highest average income by farm type this year. Their average income was estimated at £73,100. General cropping farms were also performing well.

There are indications that these dairy and general cropping farms sensitive to market prices. For example this years milk price was £0.28 per litre, an increase of 22 per cent from the previous year suggesting that this group will continue to experience fluctuating performance.

The increase in farm income from 2016-17 to 2017-18 for general cropping was largely due to the increase in value from cereals.

Direct payments make up the largest source of farm income



This summary of farm incomes are grouped into five main categories. Direct payments and agri-environment schemes are subsidy payments made to farms. Contract farming is a joint venture between farmers. An example of this is machinery rings, where machinery and labour is shared between farms.

5% Increase in Direct payments

Direct payments to farmers made up the largest average income. There was an increase in this year of five per cent.

Farms on average made a loss from agricultural activity of £14,600. These losses to the business were offset mainly from direct payment and agri-environment scheme subsidies.

Diversification and contract farming made the largest non-subsidy contributions to farm business income in this year.

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Glossary

Debt ratio – can explain how much of a businesses assets are financed by debt

Diversified activities – non-agricultural activities that use farm resources

Farm Business Income (FBI) – the total income available to all unpaid labour and their capital invested in the business. Income from diversified activities are included in overall FBI

Farm types – farms are classified based on the how much of their standard output is from the crop and livestock enterprises on each farm

Less Favoured Area (LFA) – land where farming is more difficult due to natural constraints, such as hills and soil quality

Minimum Agricultural Wage (MAW) – is set by the Scottish Agricultural Wages Board each year. For this analysis an average MAW is used to cover the years included in the Farm Business Survey

Off-farm income – income from activities not related to the farm business or farm diversification, such as a income from another family member's employment

Standard output – estimated worth of crops and livestock

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Data sources and more information

Data Source

Estimates of average farm business income in Scotland come from the Scottish Farm Business Survey. This is an annual survey of around 500 farms which covers the supported sectors and only includes farms with economic activity of at least £21,315. Part-time farms are not included.

The Scottish Farm Business Income (FBI) publication provides farm business level estimates of average incomes for the accounting year 2017-18, which relates to the 2017 crop year.

Comparison

Similar surveys take place in England, Wales and Northern Ireland. Full results for the United Kingdom are available online.

https://www.gov.uk/government/collections/agriculture-in-the-united-kingdom

Data Tables and Methodology

The data used to create the charts in this publication and the methodology document are available online.

https://www.gov.scot/stats/bulletins/01331/

If you have any questions or comments about this publication, please email Christina Coakley at agric.stats@gov.scot or phone 0300 244 9717.

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