

Farm Diversification – January 2007

(updated May 2007 to include 2004-05 SPI results)

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1. Introduction

Agriculture has an important impact on rural communities, the rural economy and the environment and its position within the overall economy is changing. A possible and rational response to these changing economic circumstances is for farm occupiers to seek to enhance their household income from sources other than conventional farming production through diversifying their business activities.

Diversification is widely held to offer considerable scope for improving the economic viability of many farm businesses. Many farm diversification activities can also provide benefits for the wider rural economy and community by, for example, encouraging and providing additional job opportunities.

Defra has been active in analysing a number of sources of data on diversification. The aim of this publication is to bring together the latest information from the various diversification data sources. This is the fourth diversification publication of this type since 2004. Earlier diversification publications can be found at the following link: <http://statistics.defra.gov.uk/esg/publications/diversification.asp>.

This publication incorporates first release Farm Business Survey results for 2005-06 and Survey Personal Income results for 2004-05.

2. What is Diversification?

When analysing the various sources of data on diversification it is clear that diversification can be defined in many ways. In some studies, for example, agricultural contracting may have been included as a diversified activity and in others it may not have. The impact the definition can have on measures of diversification is explored in section 3.

In this publication we broadly define diversification as:

“the entrepreneurial use of farm resources¹ for a non-agricultural purpose for commercial gain.”

Hence, diversification reflects the reduced dependence of farmers on agriculture as a source of income. Diversification also implies some kind of entrepreneurial activity on behalf of the farmer.

There are some obvious activities that are included as diversification within the definition above such as tourism, sport, recreation and processing. There are others that are not such as the production of organic or novel crops, which whilst possibly reflecting a change in focus and possibly entrepreneurial activity by the farmer remain agricultural activities. Others such as off-farm employment or investment income are not regarded as diversified activities as they do not utilise farm resources. Section 3 clarifies the position of some of the more uncertain examples of activities when using the broad definition given above.

It should be noted that this definition does not reflect what funding was available for “diversification” under the England Rural Development Programme which closed in December 2006. It is a definition used for statistical purposes and not administrative

¹ Farm resources and agriculture are defined in ANNEX 4.

and policy ones. Further information on the England Rural Development Programme can be found at the following link: <http://www.defra.co.uk/erd/default.htm>. Final information on the number of diversification activities approved and assured under the Rural Enterprise Scheme, up to its close in June 2006, are given in ANNEX 3.

3. Examples of what is included in and excluded from this definition of diversification

What is included in diversification within this definition?

The following would be included as diversification:

- Non-agricultural contracting. Non-agricultural contracting is included in diversification because it is likely to involve some entrepreneurial activity by the farmer.
- Letting of buildings. Letting of buildings is included in diversification where it is undertaken for non-agricultural commercial purposes and would not be undertaken if the resource was to continue to be used for agriculture.

What is excluded from diversification within this definition?

The following would be excluded as diversification:

- Letting of land for agricultural or non-agricultural end-purpose. Even if the land was subsequently used for non-agricultural activity, this is not diversification as it is not the farmer who is undertaking this activity. Also, it is assumed that the farmer does not have any entrepreneurial role in the letting of land. This means letting of land for way-leaves is not a diversified activity.
- Agricultural contracting. This is excluded because, although it could include some entrepreneurial activity from the farmer, the activity itself is agricultural.
- Hiring of other assets for an agricultural or non-agricultural end-purpose. Letting of other assets is excluded because it is unlikely that this will involve the farmer in any entrepreneurial activity.

How diversification is defined can clearly have an impact on the reported level of diversification. For example, results from the Farm Business Survey indicate that half of full-time and part-time (SLR $\geq \frac{1}{2}$) farm businesses in England have some diversified activity, the main one being letting out buildings for non-agricultural use; when this is excluded, the proportion of farms is 25%. Thus, the decision on whether to include or exclude has a significant impact on reported levels of diversification. As indicated above, the definition of diversification used in this publication includes the letting of buildings. More in depth exploration of FBS results appear in ANNEX 1.

4. Sources of data on diversification

The main sources of information on diversification are:

- Farm Business Survey (FBS)

- Survey of Personal Incomes (SPI), conducted by HMRC
- June Survey of Agriculture and Horticulture (formerly the June Census) 1998 to 2003
- Survey of Labour, Machinery and Diversification on Agricultural and Horticultural Holdings 2005
- Farm Diversification Benchmarking Study 2002, commissioned by Defra from the University of Exeter
- The effects of public funding on farmers' attitudes to farm diversification, Exeter 2006
- The effects of CAP reform on Tenant Farmers Diversification activities - Baseline Study University of Coventry 2006

Reports on each of these can be found at at the following link:
<http://statistics.defra.gov.uk/esg/publications/diversification.asp>.

Comparisons between the various sources can prove difficult due to different definitions, samples and methodologies being used and each source has its own strengths and weaknesses. Summary information for a selection of these sources including their strengths and weaknesses is given in ANNEX 5.

This publication gives the latest information on diversification from the FBS, see ANNEX 1. SPI 2004-05 results are given in ANNEX 2. ANNEX 3 shows information on the number of diversification activities approved under the Rural Enterprise Scheme up to its close in June 2006.

ANNEX 1

NEW RESULTS FROM THE FARM BUSINESS SURVEY² – England 2005/06

The results in this annex relate to farms of size $\geq \frac{1}{2}$ Standard Labour Requirement³

Summary points

In 2005/06, there were some 60,000 farms in England of a size considered sufficient to occupy a farmer for at least half-time. The information in this annex relates to these farms. Although this is only half of the total number of farms in England, they account for 90% of land area farmed and 96% of agricultural production.

Diversified activity in this annex refers to non-agricultural activity of an entrepreneurial nature which uses farm resources.

- 50% of farms had diversified activity in 2005/06; the percentage of farms with diversification other than letting out buildings increased from 19% in 2004/05 to 25% in 2005/06 (Table 1 ►);
- total income from diversification was £420 million, 21% higher than in 2004/05; diversified enterprises generated 22% of the total income of farm businesses in 2005/06 and accounted for all of the annual increase in farm income (Table 2 ►);
- for 28% of farms which had diversified activity, the income from their diversified enterprise exceeds the income from the remainder of the farm business in 2005/06 (Figure 1 ►);
- the dominant type of diversified enterprise is letting out buildings for non-farming use; 38% of farms do this and letting out buildings generates 65% of total diversified income (Table 4 ►) and half of total diversified output (Table 5 ►);
- about 15% of diversifying farms discontinued their diversified enterprises in 2005/06 and another 15% started diversifying for the first time (Table 6 ►);
- 58% of diversified enterprises have an annual output of less than £10,000; 10% of diversified enterprises have an annual output of £50,000 or more (Figure 3 ►);
- there are some significant regional variations; 73% of farms in the South East have diversified enterprises but only 37% of farms in the West Midlands (Table 12 ►).

See the *note on presentation of averages* at the end of this document ►

² Further information on the Farm Business Survey may be found at <http://statistics.defra.gov.uk/esg/asd/fbs/default.htm>

³ Definition of Standard Labour Requirement is given at <http://statistics.defra.gov.uk/esg/asd/fbs/sub/slr.htm>

The following results from the Farm Business Survey (FBS) relate to farms of size at least ½ Standard Labour Requirement (SLR)⁴, a size considered sufficient to occupy a farmer half-time. Around 60,000 of the 120,000 farms in England are of size less than ½ SLR. They account for only 4% of agricultural production and 10% of agricultural land area but, because of their very part-time nature they may well have significant amounts of diversified activity not included in these results. How much is not known.

Most farm businesses engage in activities other than own farm agricultural work, even if only hire work for another farmer. However, the definition of diversified activity adopted in this Notice excludes agricultural work on another farm and is restricted to non-agricultural work of an entrepreneurial nature on or off farm but which utilises farm resources.

With this definition, half of full-time and part-time (SLR ≥ ½) farm businesses in England have some diversified activity, the main one being letting out buildings for non-agricultural use; when this is excluded, the proportion of farms is 25%.

Table 1: Number of farms (SLR ≥ ½) with diversified activities — England 2003/04 to 2005/06

	2003/04	2004/05	2005/06	% of farms in 2005/06
Total number of farm businesses (SLR ≥ ½)	60,000	60,800	61,700	100 %
Of which: have diversified activity	31,400	29,000	31,000 ⁽¹⁾	50 %
Farms with diversified activity other than letting buildings	10,800	11,700	15,100 ⁽²⁾	25 %

Source: Farm Business Survey

⁽¹⁾ The 75% confidence interval for this estimates is (29,700 – 31,700); the difference from 2004/05 is significant.

⁽²⁾ The 75% confidence interval for this estimates is (14,400 – 16,500); the difference from 2004/05 is significant.

The percentage of farms with diversification other than letting out buildings for non-farming use increased from 19% in 2004/05 to 25% in 2005/06. Nearly 4000 farms which let out buildings as their only form of diversification in 2004/05 had engaged in another diversified enterprise during 2005/06.

Contribution of diversified activities to farm business

Total income from diversified activities in 2005/06 was £420 million, an increase of 21% compared with 2004/05. Diversified enterprises accounted for 22% of farm income in aggregate in 2005/06 although there were wide variations between farms (Figure 1). The remaining farm income consisted mainly of Single Farm Payment.

Table 2: Components of farm income for farms ≥ ½ SLR — England 2003/04 to 2005/06

	Income 2003/04 (£ m)	Income 2004/05 (£ m)	Income 2005/06 (£ m)	% change $\frac{2005/06}{2004/05}$
Total farm business income (including diversification)	2,320	1,840	1,910	+ 4 %
Of which: Income from agriculture (excluding subsidies and payments to agriculture)	420	-200	-210	n/g
Subsidies and payments to agriculture (excluding agri-environment payments)	1,430	1,520	120	n/c
Income from Single Payment Scheme ⁽¹⁾	0	0	1,380	n/c
Income from agri-environment work	150	180	200	+ 14 %
Income from diversified enterprises	320	340	420 ⁽²⁾	+ 21 %

Source: Farm Business Survey (subsidies and payments may therefore differ from official scheme figures)

n/g Not given because quantities are negative

n/c Not comparable because of changes in subsidies and payments to agriculture

⁽¹⁾ Although most SPS payments were made in 2006/07 they are recorded on an accruals basis as due in 2005/06

⁽²⁾ The 75% confidence interval for this figure is £394m to £435m around an estimate of £416m

⁴ Definition of Standard Labour Requirement is given at <http://statistics.defra.gov.uk/esg/asd/fbs/sub/slr.htm>

Diversified activities accounted for 6% of farm output. This is less than its 22% contribution to farm income because agriculture (excluding subsidies) accounted for 79% of farm business output but generated no income on average in 2005/06.

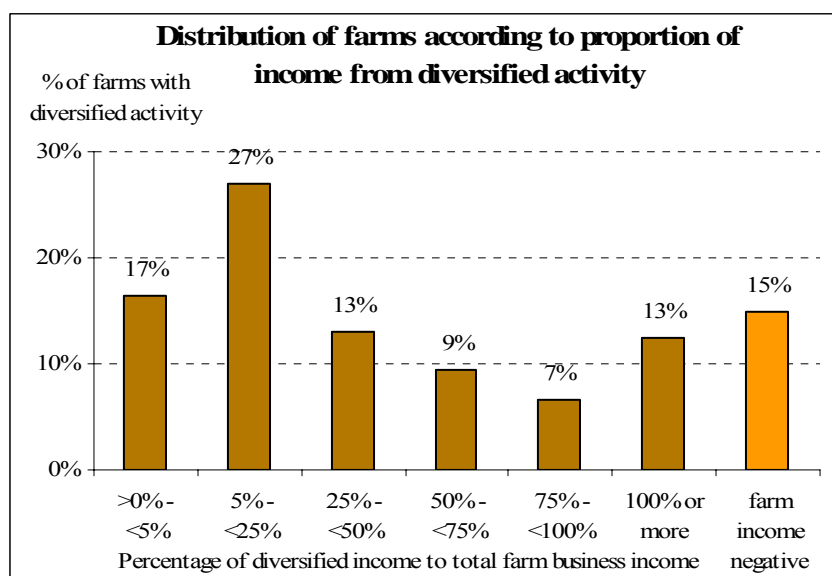
Table 3: Components of farm output for farms $\geq \frac{1}{2}$ SLR — England 2003/04 to 2005/06

	Output 2003/04 (£ m)	Output 2004/05 (£ m)	Output 2005/06 (£ m)	% change <u>2005/06</u> <u>2004/05</u>
Total farm business output (including diversification)	11,210	10,960	11,100	+ 1 %
Of which: Output from agriculture (excluding subsidies and payments to agriculture)	9,120	8,730	8,760	+ 0 %
Subsidies and payments to agriculture (excluding agri-environment payments)	1,430	1,520	120	n/c
Single Farm Payment	0	0	1,380	n/c
Agri-environment payments	160	190	220	+ 17 %
Output from diversified enterprises	510	530	620	+ 16 %

Source: Farm Business Survey (subsidies and payments may therefore differ from official scheme figures)

The variation between farms in the percentage contribution of diversified income to the farm business around the 22% average is given in Figure 1. Farms with no diversification are excluded.

Figure 1: Proportion of farm business income from diversification — England 2005/06

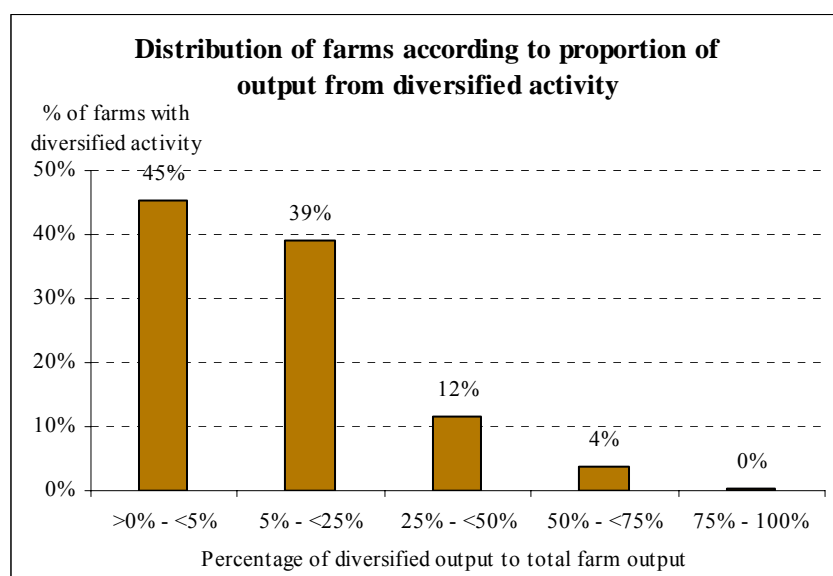


Source: Farm Business Survey

For 56% of 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. Figure 1 excludes farms with no diversified activities. However, the proportion of all farm businesses with negative income is also 15%.

For most farm businesses the contribution of diversified enterprise output to the farm business as a whole is relatively minor. However, for 16% of businesses, diversified output accounts for a quarter or more of the total farm output.

Figure 2: Proportion of farm output from diversification — England 2005/06



Source: Farm Business Survey

The distribution for output is unlike that for income illustrated in Figure 1, first because the average is only 6% compared with an average of 22% for proportion of income and, secondly, because agricultural output is generally large and positive whereas agricultural income can be near zero or negative.

Diversified enterprises

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. Only a small proportion of farms (2% - 3%) failed to make a profit on their diversified activities.

Table 4: Income from diversified enterprises — England 2005/06

	No. of farms	% of all farms	Total farm income for these farms (£ m)	Income of diversified enterprise (£ m)	Average enterprise income ⁽¹⁾ (£/farm)
Farm business income (incl. diversification)	61,700	100 %	1,910	-	-
Farms which engage in:					
Diversified enterprises (all kinds)	31,000	50 %	1050	420	13,400
letting buildings for non-farming use	23,400	38 %	830	270	11,600
processing/retailing of farm produce	4,900	8 %	137	66	13,400
sport and recreation	6,100	9 %	209	27	4,400
tourist accommodation and catering	2,700	4 %	55	20	7,400
other diversified activity	4,800	8 %	182	43	8,800

Source: Farm Business Survey

⁽¹⁾ See note on averages at the end of this Annex ►

Although half of all farms of size SLR $\geq 1/2$ have diversified activity, the total value of diversified enterprise output is only 6% of total farm business output. For farms which have diversified enterprises, the proportion is 9% of their farm output (Table 5). Half of diversified output comes from letting out buildings for non-farming use and nearly one-quarter from processing and retailing of farm produce, while the contributions from tourism, sport and recreation are relatively minor.

Table 5: Value of output from diversified enterprises — England 2005/06

	No. of farms	% of all farms	Total farm output for these farms (£ m)	Output of diversified enterprise (£ m)	Average enterprise output ⁽¹⁾ (£/farm)
Farm business output (incl. diversification)	61,700	100 %	11,100	-	-
Farms which engage in:					
Diversified enterprises (all kinds)	31,000	50 %	6,540	620	20,200
letting buildings for non-farming use	23,400	38 %	5,330	310	13,300
processing/retailing of farm produce	4,900	8 %	880	140	28,800
Sport and recreation	6,100	9 %	1240	37	6,400
tourist accommodation and catering	2,700	4 %	396	34	12,900
Other diversified activity	4,800	8 %	1080	100	20,700

Source: Farm Business Survey

⁽¹⁾ See note on averages at the end of this Annex ►

Comparison across years

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. The level of sampling error for these longitudinal analyses is a little higher than analyses for a single year but they provide a useful additional insight into what is happening.

Table 6: Start-ups and discontinued diversified enterprises between 2004/05 with 2005/06

	Number of enterprises in 2004/05	Discontinued during 2005/06	New in 2005/06	Number of enterprises in 2005/06
Diversified activity of any kind	30,400	4,000	4,600	31,000
letting buildings for non-farming use	24,500	3,900	2,600	23,200
processing/retailing of farm produce	5,000	600	800	5,200
Sport and recreation	4,900	400	1,600	6,200
tourist accommodation and catering	2,600	400	300	2,500
Other diversified activity	2,300	600	3,500	5,200

Source: Farm Business Survey

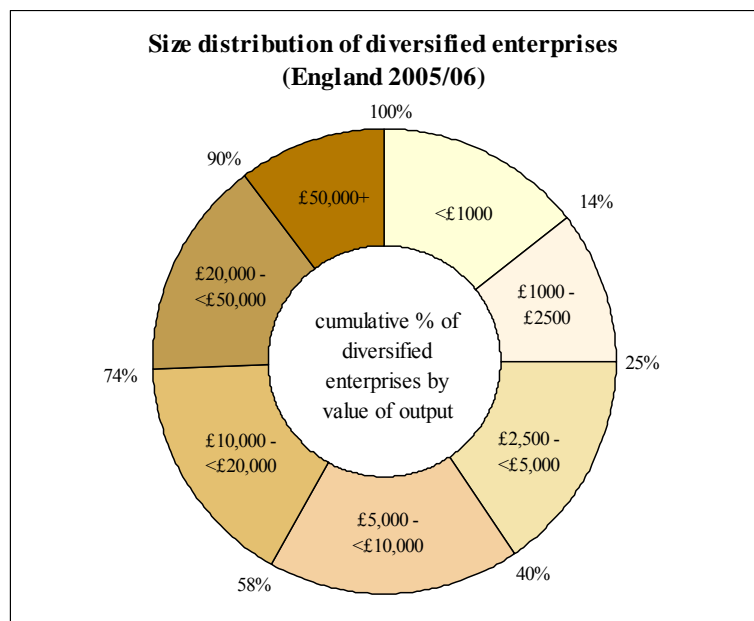
Note: These figures will differ from those in other tables because they have been obtained from a slightly different sample and have been re-weighted

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.

Size of diversified enterprises

Most diversified enterprises are small. While the average diversified output per farm is £20,200 (Table 5), 58% of diversified enterprises have an output value of less than £10,000 and 14% have an output value of less than £1,000 (Figure 3). 10% of farms have diversified output of £50,000 or more.

Figure 3: Size distribution of diversified enterprises — England 2005/06



Source: Farm Business Survey

On average, the largest enterprises by value of output are food processing/retailing (£28,800), compared with £6,400 for sport and recreation enterprises (Table 5).

Relation to farm size ⁵

It is sometimes supposed that small farms diversify more than larger farms. In fact, a lower proportion of smaller farms diversify than larger farms (Table 7). However, farmers on smaller farms supplement their income to a greater extent than larger farms from off-farm employment and self-employment (Table 8).

Table 7: Diversified enterprises by size of core farming activity — England 2005/06 (SLR \geq ½)

	Number of farms	Farms with diversified enterprises			
		Number	% of all farms	Avg output (£/farm)	Avg margin (£/farm)
ALL SIZES \geq ½ SLR	61,700	31,000	50 %	20,100	13,400
Very small	17,900	7,600	43 %	17,800	11,800
Small	20,600	10,000	49 %	14,900	11,300
Medium	10,000	5,400	54 %	20,500	13,100
Large	6,800	3,900	57 %	20,000	10,400
Very large	6,400	4,000	63 %	36,600	25,400

Source: Farm Business Survey

⁵ It is important to note that farm size here relates to core farming excluding diversification (see definition ►)

Total income generated from off-farm employment and self-employment of farmer and spouse was £280m in 2005/06 (for farms of size $\geq \frac{1}{2}$ SLR), less than the £420m income obtained from diversified activities.

Table 8: Off-farm employment by size of core farming activity — England 2005/06 (SLR $\geq \frac{1}{2}$)

	All farms	Farms where farmer/spouse have income from employment			
	Number of farms	Number of farms	% of all farms	Total income from employment ⁽¹⁾ (£ m)	Average income from employment ⁽¹⁾ (£/farm)
ALL SIZES $\geq \frac{1}{2}$ SLR	61,700	19,000	31 %	280	14,800
Very small	17,900	6,100	34 %	99	16,300
Small	20,600	7,000	34 %	90	12,700
Medium	10,000	3,100	31 %	48	15,700
Large	6,800	1,800	26 %	26	14,800
Very large	6,400	1,000	16 %	18	17,700

Source: Farm Business Survey

⁽¹⁾ Includes self-employment

Relation to farm type

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.

Table 9: Distribution of diversified activity by type of farm — England 2005/06

	Number of farms	Percentage of farms with:					
		Some diversified activity	Food retailing/processing	Sport & recreation	Tourism	Letting buildings	Other diversified activity
ALL FARM TYPES	61,700	50 %	8 %	10 %	4 %	38 %	8 %
Cropping:	25,600	62 %	9 %	13 %	4 %	50 %	10 %
Cereals	13,100	69 %	7 %	16 %	5 %	60 %	11 %
General cropping	6,800	55 %	5 %	15 %	1 %	48 %	4 %
Horticulture	5,900	53 %	18 %	5 %	6 %	28 %	14 %
Livestock:	27,100	41 %	7 %	8 %	5 %	28 %	8 %
Dairy	12,300	41 %	7 %	7 %	4 %	28 %	9 %
Grazing livestock (lowland)	8,800	45 %	9 %	12 %	4 %	32 %	5 %
Grazing livestock (LFA)	6,000	36 %	3 %	2 %	8 %	23 %	10 %
Other types and mixed	9,000	45 %	10 %	8 %	4 %	35 %	3 %

Source: Farm Business Survey

Age of farmer

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

Table 10: Diversified activity by age of farmer — England 2005/06 (farms with SLR $\geq \frac{1}{2}$)

	ALL AGES	Under 45	45 – 55	55 – 65	65 & over
All farms (SLR $\geq \frac{1}{2}$)					
Number of farms	61,700	12,200	18,800	21,100	9,600
Output from farm business (£m)	11,100	2,200	3,600	3,700	1,600
Farms with diversified activity (SLR $\geq \frac{1}{2}$)					
Number of farms	30,100	6,100	8,700	10,700	5,500
Percentage of all farms	50 %	50 %	46 %	51 %	57 %
Output from farm business (£m)	6,550	1,240	2,000	2,200	1,110
Output from diversified enterprises (£m)	620	120	180	200	120
Proportion of farm output from diversification	9.5 %	10.0 %	8.8 %	9.3 %	10.5 %

Source: Farm Business Survey

The columns in Table 10 represent the age of the principle farmer, not the age of the main manager of the diversified business, so care is necessary in interpreting this table.

Regional comparisons

Because of small sample sizes in individual regions, estimates are subject to higher sampling errors than national figures.

For most regions, income from diversification was around 20% of total farm business income, but for the West Midlands it was 9% and for the South-East it was 46%. The East of England and the South East account for over half the diversification income for England.

Table 11: Farm income for farms \geq ½ SLR — England 2005/06 (£ million)

	NW	NE & YH	EM	WM	EE	SE	SW
Total farm business income	168	216	259	170	529	279	284
of which:							
Income from agriculture (excluding subsidies and payments to agriculture)	-33	-87	-41	18	90	-84	-76
Subsidies and payments to agriculture (excluding agri-environment payments)	18	11	12	16	5	12	47
Income from Single Payment Scheme	122	218	218	110	305	195	214
Income from agri-environment work	30	34	25	12	30	28	42
Income from diversified enterprises ⁽¹⁾	32	40	45	15	100	128	57
Farmer/spouse off-farm income from employment and self-employment	36	37	28	32	57	38	54
% of farm income from diversification	19 %	19 %	17 %	9 %	19 %	46 %	20 %

Source: Farm Business Survey (subsidies and payments may therefore differ from official scheme figures)

⁽¹⁾ 75% confidence intervals for diversified income in individual regions are typically \pm 20% of regional income

In the North West and West Midlands, farmer/spouse income from off-farm employment and self-employment exceeded on-farm income from diversification (Table 11).

The South-East had the highest level of diversification but the lowest level of farmer/spouse off-farm employment (Table 12). The West Midlands had the lowest proportion of farms with diversified enterprises and the highest proportion of farms with neither diversified enterprises nor farmer/spouse off-farm employment.

Table 12: Regional incidence of diversified activity and off-farm employment — 2005/06

	England	NW	NE & YH	EM	WM	EE	SE	SW
Number of farm businesses \geq ½ SLR	61,700	8,300	8,600	7,900	6,600	10,300	8,300	11,700
Percentage of which:								
have diversified enterprises	50 %	49 %	45 %	48 %	37 %	53 %	73 %	45 %
farmer or spouse have off-farm employment or self-employment	31 %	33 %	36 %	27 %	30 %	34 %	23 %	32 %
have neither	34 %	34 %	34 %	35 %	43 %	32 %	20 %	37 %

Source: Farm Business Survey

In all regions, the most prevalent form of diversification is letting out buildings for non-farming use. Of the other types of diversified enterprise, processing & retailing was the main activity in the South East while sport & recreation was the main activity in the North, East Midlands, East of England and South West.

Table 13: Regional distribution by type of diversified activity — 2005/06

	England	NW	NE & YH	EM	WM	EE	SE	SW
% of farms with diversified enterprises	50 %	49 %	45 %	48 %	37 %	53 %	73 %	45 %
% of (all) farms which have:								
buildings let for non-farming use	38 %	35 %	29 %	44 %	30 %	41 %	59 %	30 %
processing/retailing of farm produce	8 %	8 %	6 %	6 %	3 %	8 %	18 %	7 %
sport and recreation	10 %	10 %	10 %	7 %	4 %	12 %	16 %	9 %
tourist accommodation and catering	4 %	4 %	2 %	4 %	4 %	3 %	7 %	5 %
other diversified enterprises	8 %	16 %	9 %	4 %	6 %	5 %	8 %	7 %

Source: Farm Business Survey

Note: The percentages in the lower part of the table sum to more than the top row since some farms have more than one diversified enterprise

Regional comparison across years

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. This longitudinal analysis provides a useful additional insight into what is happening.

Table 14: Start-ups and discontinued diversified enterprises between 2004/05 and 2005/06

	Number of enterprises in 2004/05	Discontinued during 2005/06	New in 2005/06	Number of enterprises in 2005/06
ENGLAND	30,400	4,000	4,600	31,000
North West	3,300	200	1,000	4,100
North East and Yorkshire & the Humber	3,500	300	1,000	4,200
East Midlands	5,300	1,700	400	4,000
West Midlands	2,400	400	500	2,400
East of England	4,700	200	500	5,000
South East	6,500	400	300	6,400
South West	4,700	700	1,000	5,000

Source: Farm Business Survey

Note: These figures will differ from those in other tables because they have been obtained from a slightly different sample and have been re-weighted

The North of England had the highest level of new diversified enterprises relative to discontinued enterprises but the South West also had a high number of start-ups. In the East Midlands, nearly one-third of diversified enterprises were discontinued.

Sampling errors for this kind of analysis are higher than for standard tables and so results from this table should be treated with caution.

* * *

Note on presentation of averages

There is some debate as to whether averages for subsets of a population with a given attribute should be taken over that subset or over the population as a whole. The usual convention for the main FBS results is to average over the whole population to allow various components, for example components of output, to be compared in relation to each other to give an additive whole. However, for minority attributes, this form of averaging gives untypical figures. When considering a diversified enterprise in isolation, it is more useful to average over farms which have that enterprise. This is the convention adopted in this Annex wherever the term 'enterprise average' or 'average of enterprise' is used.

The terms 'farm average' or 'average per farm' indicate that the average is taken over all farms.

ANNEX 2

Income data from the Survey of Personal Incomes (*updated May 2007 to include 2004-05 results*)

1. The following estimates of farmers' total 'income assessed for tax' are derived by grossing up from a sample of confidential and anonymised tax records analysed by the Inland Revenue in their Survey of Personal Incomes (SPI). Around 2% of the sample is made up of farmers. The results, therefore, can provide only a broad and generalised indication of farmers' total income assessed for tax purposes. They also show the composition of total income by source.

2. Direct comparisons between information from the SPI and the main sources of agricultural and farm income data are not very meaningful. This is because of important differences of scope, definition and timing and also the purpose for which the data are collected.

3. In the SPI, the full details of income declared and any allowances claimed are recorded on the survey form, together with the trade description of any income from self-employment. The agriculture and horticulture sub-set covers only the self-employed: these are people who trade as sole proprietors or as partners in a partnership. Employees are not included in the analysis and neither are directors of farming companies, *unless* they also have a qualifying self-employment income from agriculture or horticulture. The SPI records for each individual up to four sources for which they may receive self employment income. If an individual receives any of his/her income from the agricultural and horticultural sector they are included in the analysis.

4. Total income as defined by the Inland Revenue comprises income from self-employment, employment, pensions and investments. Capital allowances, stock relief and losses, which are allowable against profits for tax purposes, are deducted to derive self-employment income.

5. The results for the years 1999/00 to 2004/05 are summarised in Table 1 and Chart 1. In 2004/05 income from self-employment (83 per cent of which arose from agriculture and horticulture) accounted for 47 per cent of farmers' annual total income as assessed for tax. Other earned income, pensions and investments accounted for about 20, 11 and 22 per cent, respectively.

6. Table 2 compares the mean total income for farmers with self-employment income, all individuals with self-employment income and all taxpayers with earned income. For 2004/05 the figures were £20,500, £23,000 and £22,800 respectively.

7. Care needs to be exercised when interpreting the detailed information in the remaining tables because in certain categories the sample sizes on which the results are based are small. This can lead to considerable variation in the results from year to year.

8. Table 3 shows the distribution of farmers' total income assessed for tax, by source of income and by income band. In 2004/05 around 91,000 farmers (29 per cent) were assessed to have a total income of less than £6,000. At the other end of the distribution, 17,000 farmers (6 per cent) were assessed to have a total income of £50,000 or more. Farmers in the lower income bands are more reliant on self-employment income from agriculture and horticulture than those in higher income

bands: income from agriculture and horticulture is around 55 per cent of total income for farmers with incomes below £20,000, whilst the average for all farmers is 39 per cent. Conversely, other earned income and income from investments were a more important source of income for those in the highest income bands.

9. Table 4 shows that farmers in England have the highest income assessed for tax in the United Kingdom and that it is the lowest in Wales. Farms in Northern Ireland have the highest from other trades and Scotland the highest from other earned income.

10. Table 5 indicates that 13 per cent of farmers in the United Kingdom in 2004/05 appear to have had no additional income whatsoever from investments, pensions or employment. Of the possible combinations of income sources, the most common, accounting for around 38 per cent of the sample, was self-employment and investment income. In 2004/05, the highest average level of total income recorded was for those 4 per cent of farmers with income from self-employment (most of which was from agriculture and horticulture), and income from investment, employment and pensions. Overall, 30 per cent of farmers also have income from a pension.

11. Table 6 gives a regional breakdown and the sample size in the regions will be smaller and more care needs to be taken when interpreting the results. The levels of income from agriculture and horticulture are fairly consistent across regions whereas there is more variability across regions for sources of income.

12. Table 7 shows a breakdown by income bands for income from agriculture and horticulture. 230,000 farmers (74%) have less than £10,000 of their income assessed for tax from agriculture and 4,000 (1%) have more than £50,000. There are 135,000 farmers (44%) who have income from agriculture at less than £3,000 (with an average of £531) but whose average total income is £21,108. It would suggest that these farmers are "hobby farmers".

13. Table 8 gives a breakdown by the age band of the farmers. The highest mean income before tax is earned by farmers aged from 40 to 54 and the lowest is earned by the younger age groups. This may be a reflection of income from investments and pensions increasing with age.

14. Further information can be found at the Inland Revenue at the following link.

http://www.inlandrevenue.gov.uk/stats/income_distribution/menu.htm

TABLE 1 Farmers' total income assessed for tax in the United Kingdom

£million		April/March Years					
Year of Assessment	Income from Self-Employment		Other Earned Income	Pensions	Investment	All Income	Tax Payable
	Agriculture and Horticulture	Other Trades					
1999/2000	2,279	436	1,280	617	1,308	5,918	1,023
2000/2001	2,171	600	1,310	694	1,385	6,159	1,089
2001/2002	2,264	406	1,188	597	1,135	5,589	972
2002/2003	2,267	456	1,204	646	1,152	5,725	1,009
2003/2004	2,571	506	1,182	675	1,230	6,164	1,129
2004/2005	2,493	506	1,272	676	1,402	6,349	1,189

Source: Survey of Personal Incomes, Board of HM Revenue & Customs

CHART 1 Farmers' total income assessed for tax in the United Kingdom

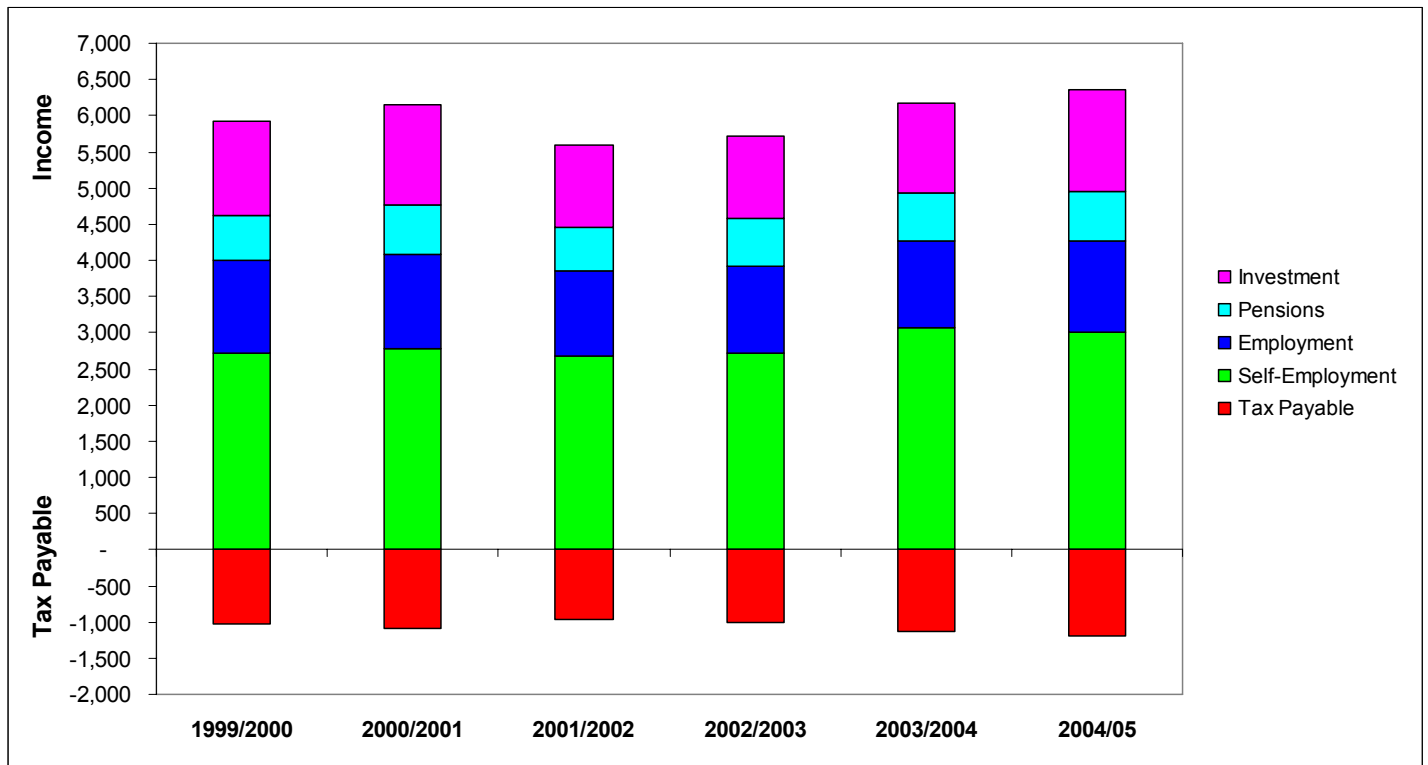


TABLE 2 Mean total income for farmers, individuals with self-employment sources and taxpayers with earned income

Year of Assessment	£ per person		
	Farmers	All individuals with self employment sources of income	Taxpayers with earned sources of income ¹
1999/2000	16,900	20,900	19,600
2000/2001	17,300	21,900	20,300
2001/2002	16,700	21,700	21,400
2002/2003	17,500	21,900	21,600
2003/2004	19,400	22,200	21,900
2004/2005	20,500	23,000	22,800

1. Consists of Self employment income, Employment income, Pensions and Investment income

Note: figures have been rounded to the nearest 100.

Source: Survey of Personal Incomes, Board of HM Revenue & Customs

TABLE 3 Numbers of farmers and composition of average income assessed for tax by income band, UK, 2004/05

All Income Range (£)	Total number in the population (thousands)	Income from Self-Employment						Other Sources of Income						All Income
		Agriculture and Horticulture		Other Trades		Other Earned Income		Pensions		Investment				
		average income including zero income	average income excluding zero income	average income including zero income	average income excluding zero income	average income including zero income	average income excluding zero income	average income including zero income	average income excluding zero income	average income including zero income	average income excluding zero income			
Up to 5,999	91	£ per person	1,925	1,925	56	1,294	314	1,980	577	2,772	463	689	3,334	
		% of total income	58%		2%		9%		17%		14%		100%	
6,000-9,999	55	£ per person	4,275	4,275	203	3,344	666	3,600	1,695	4,439	1,101	1,394	7,940	
		% of total income	54%		3%		8%		21%		14%		100%	
10,000-19,999	79	£ per person	7,794	7,794	473	5,927	2,005	7,867	1,953	5,958	2,057	2,524	14,282	
		% of total income	55%		3%		14%		14%		14%		100%	
20,000-49,999	67	£ per person	14,756	14,756	1,663	13,828	5,087	15,869	2,932	9,284	5,701	6,421	30,136	
		% of total income	49%		6%		17%		10%		19%		100%	
50,000-99,999	11	£ per person	23,265	23,265	7,149	31,202	10,799	30,043	6,541	19,148	18,963	19,976	66,711	
		% of total income	35%		11%		16%		10%		28%		100%	
100,000 and over	6	£ per person	36,675	36,675	44,104	149,571	99,422	174,784	17,881	51,855	91,645	94,108	289,727	
		% of total income	13%		15%		34%		6%		32%		100%	
Total	309	£ per person	8,062	8,062	1,637	19,503	4,112	17,280	2,187	7,276	4,535	5,724	20,532	
		% of total income	39%		8%		20%		11%		22%		100%	

Source: Survey of Personal Incomes, Board of HM Revenue & Customs

TABLE 4 Numbers of farmers and composition of average income assessed for tax by country, 2004/05

All Income Range (£)	Total number in the population (thousands)	Income from Self-Employment						Other Sources of Income						All Income
		Agriculture and Horticulture		Other Trades		Other Earned Income		Pensions		Investment				
		average income including zero income	average income excluding zero income	average income including zero income	average income excluding zero income	average income including zero income	average income excluding zero income	average income including zero income	average income excluding zero income	average income including zero income	average income excluding zero income			
England	205	£ per person	8,502	8,502	1,615	19,114	4,377	19,415	2,311	7,985	5,439	6,603	22,242	
		% of total income	38%		7%		20%		10%		24%		100%	
Wales	33	£ per person	6,615	6,615	850	11,963	2,562	10,044	1,956	5,773	2,247	2,745	14,229	
		% of total income	46%		6%		18%		14%		16%		100%	
Scotland	33	£ per person	8,610	8,610	1,291	17,216	4,163	17,299	2,040	6,632	4,080	4,988	20,184	
		% of total income	43%		6%		21%		10%		20%		100%	
Northern Ireland	37	£ per person	6,522	6,522	2,772	27,674	3,995	13,774	1,854	5,676	2,002	3,523	17,145	
		% of total income	38%		16%		23%		11%		12%		100%	
United Kingdom	309	£ per person	8,062	8,062	1,637	19,503	4,112	17,280	2,187	7,276	4,535	5,724	20,532	
		% of total income	39%		8%		20%		11%		22%		100%	

Source: Survey of Personal Incomes, Board of HM Revenue & Customs

TABLE 5 Farmers' sources of income assessed for tax, United Kingdom

Source of Income	2004/2005	
	Percentage of Farmers	Average Amount of Total Income (£)
Only self-employment income	13%	9,163
Self employment and one other source		
Investment	38%	17,552
Employment	5%	14,923
Pension	3%	8,204
Self employment and two other sources		
Investment and employment	15%	34,657
Investment and pension	23%	18,953
Employment and pension	..	..
Self employment and three other sources		
Investment, employment and pension	4%	57,685
All sources	100%	20,532

Symbols

.. not available, due to small sample size

Source: Survey of Personal Incomes, Board of HM Revenue & Customs

TABLE 6 Numbers of farmers and composition of total income assessed for tax by Country and Government Office Region, 2004/05

	Total number in the population (thousands)	Income from Self-Employment						Other Sources of Income						All Income
		Agriculture and Horticulture		Other Trades		Other Earned Income		Pensions		Investment				
		average income including zero income	average income excluding zero income	average income including zero income	average income excluding zero income	average income including zero income	average income excluding zero income	average income including zero income	average income excluding zero income	average income including zero income	average income excluding zero income			
England	205	£ per person % of total income	8,502 38%	8,502	1,615 7%	19,114	4,377 20%	19,415	2,311 10%	7,985	5,439 24%	6,603	22,242 100%	
North East	7	£ per person % of total income	9,041 42%	9,041	.. ..	..	5,073 24%	24,007	2,215 10%	6,675	3,818 18%	4,450	21,361 100%
North West	27	£ per person % of total income	8,097 54%	8,097	512 3%	6,280	2,149 14%	12,050	1,805 12%	6,748	2,564 17%	3,167	15,126 100%	
Yorkshire and the Humber	23	£ per person % of total income	8,624 46%	8,624	1,405 7%	17,755	2,857 15%	13,538	2,447 13%	8,786	3,455 18%	4,171	18,788 100%	
East Midlands	21	£ per person % of total income	8,604 41%	8,604	988 5%	17,235	3,714 18%	13,716	2,498 12%	6,975	4,952 24%	5,587	20,755 100%	
West Midlands	27	£ per person % of total income	8,831 46%	8,831	1,825 10%	20,617	2,374 12%	12,663	1,813 10%	5,925	4,207 22%	5,259	19,050 100%	
East of England	23	£ per person % of total income	9,968 43%	9,968	1,035 4%	13,657	3,431 15%	14,339	2,687 12%	8,921	6,165 26%	7,682	23,284 100%	
London	3	£ per person % of total income	13,337 13%	13,337	.. ..	..	30,239 29%	84,017	.. ..	..	32,768 31%	39,067	105,364 100%
South East	22	£ per person % of total income	9,242 23%	9,242	2,682 7%	26,330	12,888 32%	44,920	3,130 8%	11,245	12,375 31%	15,979	40,314 100%	
South West	52	£ per person % of total income	7,145 42%	7,145	1,249 7%	13,966	2,774 16%	12,632	1,838 11%	6,849	4,055 24%	4,817	17,059 100%	
Wales	33	£ per person % of total income	6,615 46%	6,615	850 6%	11,963	2,562 18%	10,044	1,956 14%	5,773	2,247 16%	2,745	14,229 100%	
Scotland	33	£ per person % of total income	8,610 43%	8,610	1,291 6%	17,216	4,163 21%	17,299	2,040 10%	6,632	4,080 20%	4,988	20,184 100%	
Northern Ireland	37	£ per person % of total income	6,522 38%	6,522	2,772 16%	27,674	3,995 23%	13,774	1,854 11%	5,676	2,002 12%	3,523	17,145 100%	
United Kingdom	309	£ per person % of total income	8,062 39%	8,062	1,637 8%	19,503	4,112 20%	17,280	2,187 11%	7,276	4,535 22%	5,724	20,532 100%	

Source: Survey of Personal Incomes, Board of HM Revenue & Customs

Note: the population is all those self employed with at least one agricultural or horticultural source of income

Symbols

.. not available, due to small sample size

TABLE 7 Numbers of farmers and composition of average income assessed for tax by size of agricultural income, UK

2004/2005

Income from agriculture	Total number in the population (thousands)	Income from Self-Employment				Other Sources of Income						All Income
		Agriculture and Horticulture		Other Trades		Other Earned Income		Pensions		Investment		
		average income including zero income	average income excluding zero income	average income including zero income	average income excluding zero income	average income including zero income	average income excluding zero income	average income including zero income	average income excluding zero income	average income including zero income	average income excluding zero income	
Up to 2,999	135 £ per person % of total income	531 3%	605	3,097 15%	24,048	7,514 36%	21,639	3,246 15%	8,026	6,721 32%	8,312	21,108 100%
3,000-5,999	56 £ per person % of total income	4,438 45%	4,435	521 5%	9,680	1,816 18%	10,383	1,394 14%	5,539	1,697 17%	2,436	9,864 100%
6,000-9,999	39 £ per person % of total income	7,807 59%	7,791	513 4%	11,520	1,208 9%	7,268	1,240 9%	5,635	2,504 19%	3,198	13,273 100%
10,000-19,999	46 £ per person % of total income	14,121 72%	14,206	324 2%	8,305	832 4%	6,266	1,377 7%	6,452	2,825 15%	3,495	19,479 100%
20,000-49,999	30 £ per person % of total income	28,975 78%	28,398	715 2%	12,344	1,663 4%	13,364	1,323 4%	7,514	4,369 12%	5,024	37,044 100%
50,000 and over	4 £ per person % of total income	93,551 81%	83,366	.. ..	..	6,100 5%	31,583	2,632 2%	13,503	11,735 10%	12,825	115,028 100%
Total	309 £ per person % of total income	8,062 39%	8,093	1,637 8%	19,503	4,112 20%	17,280	2,187 11%	7,276	4,535 20%	5,724	20,532 100%

Source: Survey of Personal Incomes, Board of HM Revenue & Customs

Note: the population is all those self employed with at least one agricultural or horticultural source of income

Symbols

.. not available, due to small sample size

**TABLE 8 Farmers' income assessed for tax by age, United Kingdom
2004/2005**

	No. of farmers (thousands)	Median income before tax (£)	Median tax (£)	Mean income before tax (£)	Mean tax
Under 25	7	7,010	208	9,240	996
25-29	9	10,600	887	12,800	1,700
30-34	17	10,100	836	15,600	2,490
35-39	27	11,600	1,060	17,900	3,000
40-44	36	10,600	823	21,800	4,380
45-49	35	10,800	696	26,000	5,780
50-54	33	11,300	938	21,100	4,060
55-59	38	10,700	849	20,900	3,870
60-64	37	9,330	506	21,200	4,330
65-69	25	12,100	592	22,100	3,870
70-74	19	12,100	363	22,700	4,030
75 and over	27	10,300	161	17,700	2,620
All ranges	309	10,600	663	20,500	3,870

Source: Survey of Personal Incomes, Board of HM Revenue & Customs

Note: the population is all those self employed with at least one agricultural or horticultural source of income

ANNEX 3

Diversification activities approved and assisted under the Rural Enterprise Scheme

The Rural Enterprise Scheme ran from 2000 to June 2006.

Diversification into alternative agriculture

256 projects were assisted over the whole of the programme (2000 - 2006) of which approximately 55 commenced in 2006.

Diversification out of agriculture

1098 projects were assisted over the whole of the programme of which approximately 232 commenced in 2006.

In addition other RES measures "Encouragement for Tourism and craft activities and "marketing of quality agricultural products" would also have assisted farmers with diversification projects. However, these measures were open to all rural businesses and there is no available breakdown of how many of the beneficiaries would have been farmers.

ANNEX 4

Notes and definitions

Definition of farm resources in relation to diversification

Farm resources are defined as land or capital that was previously used for agricultural purposes. Where a farmer / spouse take up external employment, then this will be classified as other gainful activity. However, any activities that the farmer / spouse spend their time on will still be classified as diversified activities whenever any land or capital previously used for agricultural purposes are also employed (e.g. farmer running a shop selling produce from the farm).

Whether an activity is defined as diversified or as another gainful activity would depend on a combination of factors. For example: whether the farm resource previously used for agricultural purposes could be switched back to agricultural use; whether the accounts of the activity are separate from those of the farm; and how long it has been a diversified activity. It is useful to think of diversification as a transition rather than an end-state.

Note that the definition of capital in the context of farm resources should exclude money. For example, if a farmer uses some of his profits from farming to invest in stocks and shares rather than investing in the farm, then this would not be classified as diversified activity. Rather, this would be revenue from other gainful activity.

Defining agriculture

Agricultural activities are defined using the Economic Accounts for Agriculture codes available from Eurostat. These are almost identical to the Standard Industrial Classification codes available from the Office of National Statistics. However, it should be noted that whilst diversified activities must be non-agricultural, non-agricultural activities are not necessary diversified. For example, other employment or other enterprises that are independent of the farm.

Diagrammatic Representations

Below are two diagrammatic representations of how non-agricultural and diversified activities are defined which summarise the definitions and methodologies described above.

The first diagram classifies diversified activities using a simple flow chart. If particular questions are answered and activities are defined this determines whether the activity is classed as diversified in the bottom row. The example of where the leasing of buildings could be classed as a diversified or non-diversified activity is included.

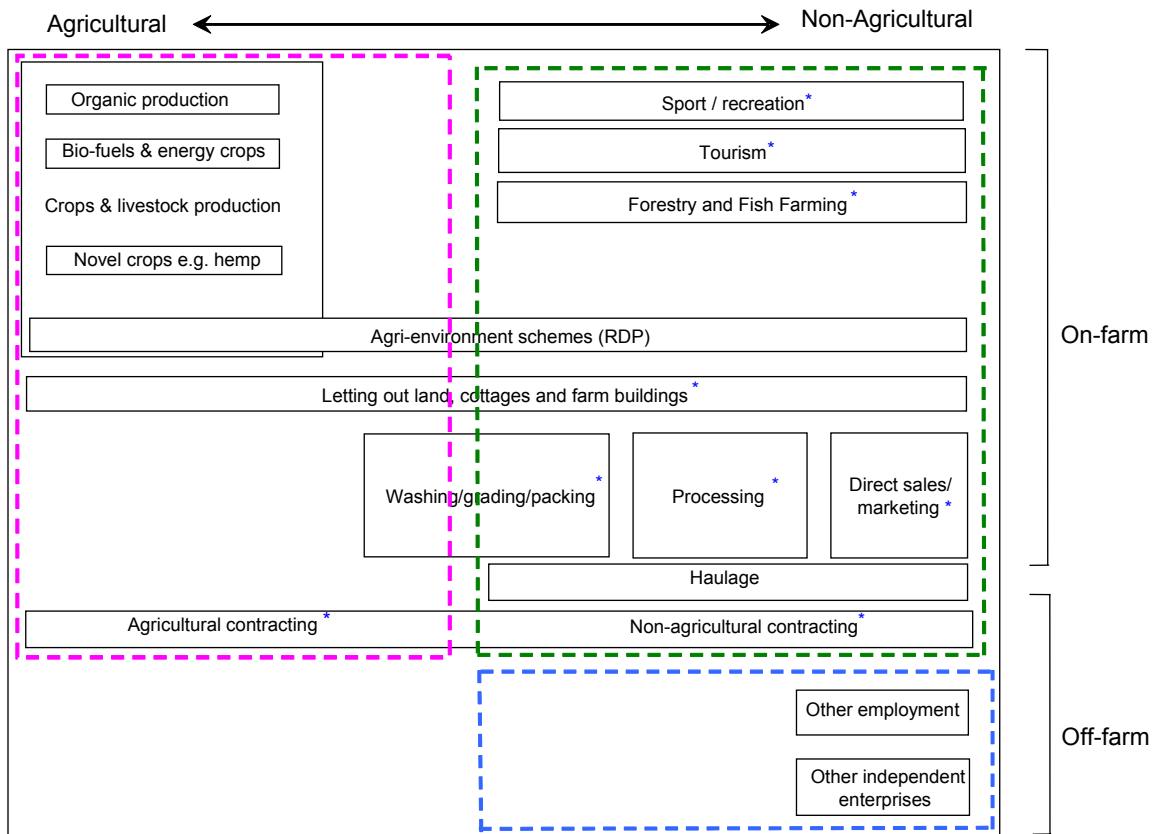
The second diagram looks at agricultural / non-agricultural and on-farm / off farm splits of various activities including other gainful activities. Some activities may cut across agricultural and non-agricultural such as haulage, contracting and the letting out of land, cottages and buildings.

Classifying Diversified Activities

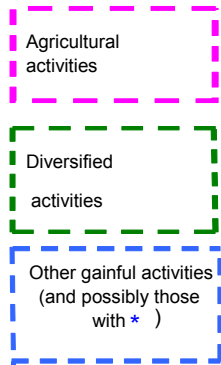
Use of farm resources?											
	No	Yes									
		Agricultural activities*				Non-agricultural activities*					
	Other gainful activity (e.g. farmer is employed as an agricultural consultant, spouse operates a B&B independent from the farm business)	Agricultural contracting (defined as hire of capital and hire of labour to operate it for an agricultural end purpose e.g. sheep shearing or cleaning and disinfecting of others' farms following FMD).	Other (e.g. breeding livestock, growing crops, organic farming, energy crops, packing mushrooms that have been grown on the farm assuming there is no market for unpacked mushrooms or the act of packing them is inseparable to the activity of harvesting them.)	Agri-environment scheme payments	Non-agricultural contracting (defined as hire of capital and hire of labour to operate it for a non-agricultural end purpose, e.g hire of van).	Rent of land (regardless of end purpose) e.g. letting land to another farmer to grow potatoes on, e.g. way-leaves rent.	Letting of buildings e.g. letting a barn to another farmer, letting a cottage to tourists, letting a farmhouse to farm workers.	Letting of other assets e.g. hiring a tractor	Other (e.g. cheese making, farm shop, building garden furniture using farm resources, creating wool products from raw wool, B&B, sundry woodland sales, using farm resources to teach horse riding)		
Is end purpose agricultural?	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	No	Yes	n/a
Diversified activity?	No	No	No	No	Yes	No	Yes/No	Yes	No	Yes	

*Defined according to Economic Accounts for Agriculture.

Defining agricultural, diversified and other gainful activities



Key:



ANNEX 5

Summary information on the sources of diversification data

	Farm Business Survey	Farm Diversification Benchmarking Study 2002 (Exeter Study)	June Survey of Agriculture and Horticulture (formerly the June Census) 1998 to 2003	Survey of Personal Incomes
<i>Population</i>	Businesses of size SLR \geq 1/2	All holdings	All holdings	Farmers assessed for tax
<i>Sample</i>	Approximately 1,800 of various types, sizes and tenure	Approximately 2,800 postal and 225 interviews of various types, sizes and tenure	Between 45,000 and 75,000 of various types, sizes and tenure	Approximately 28,000 random sample
<i>Definition</i>	Fully compliant with the definition used in this publication, including contracting work and letting of buildings	Includes speciality crops	Non-agricultural activities as interpreted and reported by the farmer	Other self employment income (some diversification will be included in income from agriculture)
<i>Main reasons for variations in headline figures</i>		Inclusion of speciality crops and agricultural contracting	Limited set of diversification activities included	Self-employment income will also include income from non-diversified activities
<i>Strengths</i>	Margin figures (income) for diversification are available Comparisons with other farming attributes available	Completely focussed on diversification and provides estimates of income and profit by type of activity Comparisons by full/part time Can link to June Survey	Large sample Longitudinal analysis Can link to Exeter study	Large sample which includes data on other earned income and income from all other sources Provides comparisons with other sectors
<i>Weaknesses</i>	Incomplete coverage (farms of size SLR < 1/2 are not included) Small sample size	Infrequent exercise Small sample size	Open to farmers interpretation of diversification Operates at holding rather than business level	It is not possible to split out diversification if included in agricultural self-employment for tax purposes Based on individuals rather than farm businesses Inconsistent definition of a farmer compared with other sources
<i>Differences in diversification</i>	Excludes speciality crops/ livestock	Includes speciality crops/ livestock	Excludes speciality crops/ livestock Excludes all contracting	Includes income from all other non-agricultural self-employment