

**Agricultural change and farm incomes in Devon:
an update**

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1 The nature of agricultural change in Devon: evidence from the Agricultural Census

This section draws largely on data from the Agricultural (June) Census to describe the current characteristics of farming in Devon and the pattern of agricultural change over a number of years. Before addressing the nature of farming in Devon it is important to recognise some of the limitations of the use of agricultural census data. The June census of agricultural and horticultural holdings is the main source of trend data on holding size, land use, labour inputs, etc. Although commentators frequently refer to changes in the number of farms of different types and sizes, it should be noted that agricultural census data is collected at the holding level and that a farm and a holding are not necessarily synonymous (i.e. a farm business may consist of several holdings). Although several attempts have been made to correct census data to reflect multiple holding farms, it is widely recognised that agricultural census data fails to capture the true, and increasingly complex, nature of land holding as many businesses hold land under a variety of tenure systems and expansion is increasingly achieved by various contract farming agreements.

In addition, the trend towards the 'lotting' of farmland when farms are offered for sale (with small plots being disposed of in conjunction with traditional farmhouses) and older farmers occupying 'retirement holdings' has seen a significantly increased number of holdings being classified as 'other' as they become too small for most forms of commercial agriculture. Finally, changes to the methodology of the survey have led to the inclusion of a large number of very small holdings, the majority of which are also classified as 'other'. Further problems with this data source arise from changes in definitions over time and from changes to both how the data is collected and how it is released. The recent inclusion of 'minor' holdings and holdings on the temporary register will have significantly altered the apparent balance between full-time and part-time farms. Unfortunately these changes have coincided with changes to the labour categories (such that it is no longer possible to follow the number of part-time farmers) and the cessation of the publication of farm business size data. It is therefore hard to distinguish trends in the 'core' set of productive holdings. Despite these reservations, the June census still provides a useful indication of some of the key characteristics of agriculture in Devon.

Table 1 shows the changes in the national, regional and county distribution of farm types. It will be seen that Devon remains a strong livestock area, with almost three quarters of the holdings being Cattle and Sheep, or dairying. The small increase in these holdings is likely to be a reflection of more small holdings now being classified as 'other', and being excluded from these calculations than

an increase in these types of holding. In fact the number of dairy holdings in the county has decreased from 1957 in 2000 to 1518 in 2004.

Table 1: Holding types, England, SW Region and Devon CC, 2002 and 2004

| | England | | South West | | Devon CC ¹ | |
|----------------------------|---|------|------------|------|-----------------------|------|
| | 2002 | 2004 | 2002 | 2004 | 2002 | 2004 |
| | <i>% of holdings not classed as Other</i> | | | | | |
| Cereals | 18% | 18% | 9% | 9% | 6% | 6% |
| General Cropping | 9% | 9% | 2% | 2% | 1% | 1% |
| Horticulture | 8% | 8% | 8% | 8% | 7% | 6% |
| Pigs & Poultry | 5% | 6% | 5% | 5% | 5% | 5% |
| Dairy | 12% | 13% | 19% | 20% | 19% | 20% |
| Cattle and Sheep (LFA) | 10% | 9% | 7% | 7% | 15% | 13% |
| Cattle and Sheep (lowland) | 29% | 28% | 40% | 40% | 39% | 39% |
| Mixed | 9% | 9% | 9% | 10% | 9% | 10% |
| | <i>% of all holdings</i> | | | | | |
| Other | 40% | 31% | 43% | 35% | 41% | 33% |

¹Excludes Plymouth and Torbay UAs

Table 2 Farm Types, Devon districts¹, 2004

| | East Devon | Mid Devon | North Devon | South Hams | Teign-bridge | Torridge | West Devon |
|-------------------------|---|-----------|-------------|------------|--------------|----------|------------|
| | <i>% of holdings not classed as Other</i> | | | | | | |
| Cereals | 6% | 7% | 5% | 9% | 7% | 5% | 4% |
| General Cropping | 1% | 1% | 1% | 2% | 2% | 1% | 0% |
| Horticulture | 8% | 6% | 5% | 8% | 10% | 4% | 5% |
| Pigs & Poultry | 7% | 7% | 3% | 3% | 5% | 4% | 4% |
| Dairy | 30% | 23% | 15% | 17% | 9% | 27% | 16% |
| Cattle & Sheep, LFA | 0% | 0% | 18% | 6% | 19% | 14% | 37% |
| Cattle & Sheep, lowland | 38% | 46% | 44% | 45% | 38% | 36% | 27% |
| Mixed | 10% | 11% | 9% | 14% | 11% | 8% | 6% |
| | <i>% of all holdings</i> | | | | | | |
| Other | 35% | 31% | 30% | 35% | 37% | 29% | 39% |

¹ Due to the small number of holdings in Exeter district farm type data is not published. Because of the suppression of most of the farm type data for Exeter district a number of other districts have had data suppressed so that the Exeter data cannot be deduced from the county and other districts. The figures presented in Table 2 are therefore based on a certain amount of informed estimation.

The distribution of farm types within the districts (Table 2) also reflects the diversity of the farming environments of Devon. West Devon is dominated by lowland and LFA cattle and sheep farms, the LFA farms being absent for the eastern districts. Horticulture plays a more important role in the southern districts and those closer to the concentrations of population and climatic and soil conditions favour arable systems in the same area. The cropping of the county has changed little over the last four years. Cereal areas are continuing to fall as the economies of scale favour the eastern counties producers, and the difficulties and cost of on farm storage for farm assurance purposes discourage small scale production. However, with a large number of farmers producing grain for on-farm consumption, cereal production will continue. Also, two thirds of the land remains as permanent pasture and rough grazing and there has been a small increase in the areas of woodland as project such as the South West Forest and other agri-environment schemes encourage tree planting. Over the longer term there have been considerable changes in agricultural land use, however (Table 3).

Table 3 Agricultural land use in Devon, 1950 to 2004

| | 1950 | 1960 | 1970 | 1980 | 1990 | 2000 | 2004 |
|--|------|------|------|------|------|------|------|
| <i>Arable</i> | | | | | | | |
| Cereals | 16.6 | 11.9 | 13.4 | 13.9 | 12.3 | 12.0 | 11.9 |
| Potatoes | 1.7 | 0.7 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 |
| Horticulture | 2.0 | 1.5 | 0.8 | 0.4 | 0.4 | 0.4 | 0.4 |
| Other crops and fallow | 5.4 | 5.3 | 3.1 | 2.1 | 2.4 | 4.7 | 4.7 |
| Total crops and fallow | 25.7 | 19.4 | 17.6 | 16.9 | 15.4 | 17.4 | 17.3 |
| Temporary grass | 16.1 | 22.7 | 23.0 | 16.0 | 13.5 | 12.1 | 12.1 |
| Set-Aside | | | | | 0.3 | 1.8 | 1.8 |
| | 41.8 | 42.1 | 40.6 | 32.9 | 29.2 | 31.4 | 31.2 |
| <i>Permanent grass and rough grazing</i> | | | | | | | |
| Permanent grass | 45.3 | 46.1 | 47.3 | 56.0 | 59.3 | 57.3 | 57.4 |
| Rough grazing | 12.9 | 11.8 | 10.1 | 7.3 | 6.8 | 5.6 | 5.6 |
| | 58.2 | 57.9 | 57.3 | 63.3 | 66.1 | 62.9 | 63.0 |
| <i>Other land</i> | | | | | | | |
| Woodland | * | * | 1.4 | 2.6 | 3.3 | 3.9 | 4.0 |
| All other land | * | * | 0.6 | 1.2 | 1.4 | 1.8 | 1.8 |

* No data collected

‘ Sole rights

The size distribution of the county's holdings follows much in line with the regional and national picture, with an increase in the mid range units, and a decline in the smallest ones, whilst there is no change in the percentage of large holdings (see Table 4).

Table 4 Holding size: England, South West region and Devon CC 2002 and 2004 (% of holdings)

| | England | | South West | | Devon CC ¹ | |
|-------------------------|-------------------|------|------------|------|-----------------------|------|
| | 2002 | 2004 | 2002 | 2004 | 2002 | 2004 |
| | % of all holdings | | | | | |
| Less than 5ha | 41% | 38% | 42% | 40% | 40% | 37% |
| 5ha to less than 20ha | 20% | 20% | 20% | 21% | 20% | 22% |
| 20ha to less than 50ha | 15% | 16% | 16% | 17% | 17% | 19% |
| 50ha to less than 100ha | 12% | 13% | 12% | 13% | 14% | 14% |
| 100ha and over | 12% | 13% | 10% | 10% | 8% | 8% |

¹Excludes Plymouth and Torbay UAs

The distribution of holding sizes within the districts is more marked, however, with those with the highest residential property values having the largest proportion of small holdings. Exeter has a higher share still of small holdings although the full details are suppressed (Table 5).

Table 5 Holding size, Devon districts 2004

| | East Devon | Mid Devon | North Devon | South Hams | Teign-bridge | Torridge | West Devon |
|-------------------------|-------------------|-----------|-------------|------------|--------------|----------|------------|
| | % of all holdings | | | | | | |
| Less than 5ha | 40% | 35% | 33% | 38% | 41% | 35% | 37% |
| 5ha to less than 20ha | 21% | 23% | 21% | 20% | 25% | 22% | 21% |
| 20ha to less than 50ha | 18% | 18% | 20% | 18% | 19% | 19% | 19% |
| 50ha to less than 100ha | 13% | 16% | 17% | 14% | 10% | 15% | 15% |
| 100ha and over | 8% | 8% | 9% | 10% | 5% | 9% | 8% |

Methodological changes in the census since 2000 to include minor holdings and holdings on the temporary register have significantly added to the numbers part-time farmers. However, over the past four years the increase in full time paid and family workers is matched by the drop in full-time farmers (see Table 6). Consequently the increase in labour force is through further part-time, casual and seasonal workers and part-time farmers, so one would predict that the actual number of hours worked on these holdings will have fallen. The increase in part-time and casual workers is partly a reflection the economic conditions within the

industry and farmers being unable to support full-time staff as well as taking on additional labour at peak times or for specific tasks.

Table 6: Labour 1950 to 2004, Devon County

| | 1950 | 1960 | 1970 | 1980 | 1990 | 2000 | 2004 |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Full time hired & family workers | | 14,050 | 7,292 | 4,990 | 3,764 | 2,336 | 2,548 |
| Part time hired & family workers | | 2,848 | 2,464 | 1,984 | 2,238 | 1,683 | 1,783 |
| | 19,168 | 16,898 | 9,756 | 6,974 | 6,002 | 4,019 | 4,331 |
| Casual and seasonal workers | 5,124 | 2,111 | 2,124 | 3,230 | 2,904 | 1,983 | 2,028 |
| Total workers | 24,292 | 19,009 | 11,880 | 10,204 | 8,906 | 6,002 | 6,359 |
| Farmers ¹ full time | | | 9,146 | 9,990 | 8,880 | 8,634 | 8,388 |
| Farmers ¹ part time | | | 2,034 | 2,752 | 3,376 | 7,616 | 8,948 |
| Spouses ² | | | | 3,708 | 3,920 | | |
| | | | | 16,450 | 16,176 | 16,250 | 17,336 |
| Total labour force | | | | 26,654 | 25,082 | 22,252 | 23,695 |

2 Trends in agricultural incomes: evidence from the Farm Business Survey

Each year the government produces national estimates of net farm income and cash income from UK farm businesses, based on the Farm Business Survey in England and its equivalent in the other three countries. These surveys are based on a stratified random sample of farm businesses, with the individual farm results weighted to produce representative figures for the individual countries and UK. A summary of the most recent results is given in the statistical appendix to this report.

It's important to understand the conventional measures of economic performance in agriculture: Net farm income (NFI) is the reward to the farmer and spouse for their own manual labour and management together with a return on the tenant type capital they have invested within the business (i.e. excluding capital tied up in land and buildings which is regarded as landlord-type capital). Cash income however, is a closer reflection of the cash position of a business and represents the funds available for business re-investment, capital repayments and private drawings and investments. As an indicator of performance it goes some way to

explaining how some farm types, such as Lowland grazing livestock, manage to survive when their NFIs are so consistently low. Further details on both indicators are given in the statistical appendix.

The regional FBS results

It should be noted first that it is not possible to produce reliable estimates of farm incomes at county level by using the Devon FBS sample alone, since the sample size is too small. However, the regional results *are* reliable and can be taken as a good representation of the county level performance of the sector. Note that detailed results can be found at: www.farmbusinesssurvey.co.uk

The Farm Business Survey weighted income measures covering the South West Government Office regions are given in Tables 7 and 8. The 2005/06 UK provisional income changes have been applied to the SWGOR figures. The NFI figures indicate that dairy incomes are higher in the South West, possibly a reflection of herd sizes, but probably the better climatic conditions for grass production (20% of the holdings in Devon and SWGOR are dairy against 13% nationally), while lowland and LFA Cattle and Sheep are lower, probably as a result of the generally smaller farms. Cereals and mixed farm incomes are much in line with the national projections, as is the 'all types' estimate. Cash income projections are generally slightly lower than the national expectations with the exception of dairy cash income (Table 8).

Overall, the 'all farm types' picture is one of little change, with a mean weighted income just one per cent higher than in 2003/04. Since this is below the level of inflation, this represents a slight fall in real incomes, of course. Within the main farm types, the lowland livestock (Cattle and sheep, lowland) group had the largest drop in income in 2004/05, closely followed by cereal/general cropping farms. Dairy incomes rose 10 per cent with higher milk production, and lower milk quota leasing costs, as the risk of exceeding production were lower, although the milk price remained weak throughout this period. Cash incomes are seen to have declined on most farm types, and for 'all farms'.

Table 7 Net Farm Income by Farm Type for the South West Government Office Region

| | 2003/04 | 2004/5 | Estimated | % change | |
|-------------------------|---------|---------|-----------|----------|---------|
| | | | 2005/06 | 3-4/4-5 | 4-5/5-6 |
| Cereals | £21,341 | £16,503 | £12,130 | -23 | -27 |
| Dairy | £27,084 | £30,961 | £33,964 | 14 | 10 |
| Cattle & Sheep, LFA | £10,195 | £9,784 | £10,156 | -4 | 4 |
| Cattle & Sheep, lowland | £5,022 | £3,379 | £2,230 | -33 | -34 |
| Mixed | £19,765 | £14,121 | £17,171 | -29 | 22 |
| All Types | 21,458 | 17,083 | 17,185 | -20 | 1 |

General cropping, pigs, poultry excluded as too few observations in the sample to give reliable estimates

Table 8 Cash Income by Farm Type for South West Government Office Region

| | 2003/04 | 2004/5 | Estimated | % change | |
|-------------------------|---------|---------|-----------|----------|---------|
| | | | 2005/06 | 3-4/4-5 | 4-5/5-6 |
| Cereals | £47,003 | £44,738 | £37,490 | -5 | -16 |
| Dairy | £45,072 | £46,829 | £50,388 | 4 | 8 |
| Cattle & Sheep, LFA | £21,471 | £23,799 | £22,038 | 11 | -7 |
| Cattle & Sheep, lowland | £14,466 | £15,744 | £14,736 | 9 | -6 |
| Mixed | £37,689 | £37,054 | £38,277 | -2 | 3 |
| All Types | £37,054 | £34,223 | £32,649 | -8 | -5 |

General cropping, pigs, poultry excluded as too few observations in the sample to give reliable estimates

Trends in farm viability: evidence from the Exeter FBS database

Detailed methodology

As previously discussed, cash income gives a better picture of the overall financial position of a business than net farm income in that it reflects the cash position excluding imputed items. This income is then used for re-investment, capital repayments and private drawings. Drawing on detailed analysis of farms within the Exeter sample of farm with the Farm Business Survey it is possible to establish how the cash income was used within the business.

The following tables are based on an identical un-weighted sample of farms within each farm type, that show no major changes in farming activities between the two years and so reflect a better longer term investment pattern. The

estimated percentage changes to net farm income and cash income have been applied, and assumptions made that capital re-investment will remain at 2004/05 levels, and private drawings will increase by 3 per cent.

Capital re-investment traditionally falls into three types: reinvestment in land and buildings, production quotas and machinery. Land and buildings tend to be purchased on an infrequent basis, and often subject to long term planning, while production quota activity follows with the expansion or contraction of an enterprise and the prevailing unit purchase or leasing prices. Machinery re-investment however is more of an on-going process of maintaining business infrastructure. Whilst within an individual business machinery reinvestment may fluctuate wildly from year to year due for instance to the purchase of a tractor, as a group of farms a more even level of investment would be expected. Moreover, to maintain the groups overall machinery quality, re-investment would match or exceed the depreciation charge. Consequently those farm types where depreciation is greater than machinery investment show a level of dis-investment. For these estimates the two year averages for machinery and other capital purchases have been used. The cereal and general cropping farm types have been amalgamated for these calculations, the estimated changes in income based on the proportion of the farm types within the region.

Results by farm type group

Cereal and general cropping farms (Table 9)

Cereal incomes are expected to fall in 2005/06, due to the drop in commodity prices and increase in fertilizer and fuel costs, and whilst general cropping farms will see the same changes in prices and costs, they will benefit from the Single Payment Scheme where they grow previously non area aided crops.

For the combined Cereal and general cropping group, incomes fall in both 2004/05 and 2005/06 (table 11), with a cash income of £43,893 in 2004/05. Capital re-investment fell sharply in 2004/05 with a reduction on machinery re-investment and a net reduction in other capital assets. Private drawings were little changed. Therefore a fund surplus of £5,401 remained in 2004/05, with a slightly higher surplus in 2003/04. These surpluses would then have been available for debt reduction or off farm investment.

The change in other capital assets reflects some restructuring within the group with investment in buildings in 2003/04, and sales of land in 2004/05. Machinery re-investment in both years is similar to depreciation, suggesting this group of farms will remain in arable production. However the income estimates for 2005/06 are downwards, and if the average capital expenditure is followed, these farms will have a funding deficit of £8,000.

Table 9 Cereal and general cropping farms (£ per farm)

| | 2003/04 | 2004/05 | 2005/06 estimate |
|-----------------------------------|---------|---------|------------------|
| Net Farm Income (excl. BLSA) | 30,873 | 13,358 | 10,419 |
| Add: Imputed items - rental value | 14,390 | 14,872 | |
| - unpaid labour | 6,428 | 7,060 | |
| Less: Interest charges | 3,689 | 3,332 | |
| landlord type expenses | 639 | 768 | |
| Net Profit after Interest | 47,363 | 31,190 | |
| Add: Depreciation | 14,256 | 13,645 | |
| Less: Valuation change | 3,567 | 942 | |
| Cash income | 58,052 | 43,893 | 37,309 |
| Machinery | 17,472 | 13,854 | 15,663 |
| Land, buildings, quotas | 6,253 | -2,154 | 2,050 |
| Net capital re-investment | 23,725 | 11,700 | 17,713 |
| Net private drawings | 27,084 | 26,792 | 27,596 |
| Farm net fund flow | 7,243 | 5,401 | -8,000 |

Dairy farms (Table 10)

Dairy farm income measures fell in 2004/05, but are anticipated to improve in 2005/06. Much of this is due to the introduction of the Single Payment Scheme. Milk and livestock output are expected to be broadly similar, with machinery running costs and fertilizer costs increasing, but being offset by savings on feed costs.

These farms have been maintaining their machinery investment, and in 2003/04 made considerable investments in land and quota. This pattern was reversed in 2004/05, when building investment was maintained, but there was a dis-investment in milk quota, perhaps taking the opportunity to cash in on the asset value of quota as it fell. This reduction in capital expenditure meant that a farm fund surplus was present in 2004/05 which wasn't true in 2003/04, and with average re-investment in 2005/06 a small surplus remains, but is unlikely to be sufficient to meet capital loan repayments, and therefore net liabilities will increase.

Table 10 Dairy farms (£ per farm)

| | 2003/04 | 2004/05 | 2005/06 estimate |
|-----------------------------------|---------|---------|------------------|
| Net Farm Income (excl. BLSA) | 29,680 | 29,566 | 32,434 |
| Add: Imputed items - rental value | 15,524 | 15,941 | |
| - unpaid labour | 5,009 | 4,479 | |
| Less: Interest charges | 6,316 | 7,255 | |
| landlord type expenses | 402 | 320 | |
| Net Profit after Interest | 43,495 | 42,411 | |
| Add: Depreciation | 8,714 | 9,173 | |
| Less: Valuation change | 2,993 | 4,130 | |
| Cash income | 49,216 | 47,454 | 51,061 |
| Machinery | 10,811 | 8,424 | 9,618 |
| Land, buildings, quotas | 12,839 | 2,857 | 7,848 |
| Net capital re-investment | 23,650 | 11,281 | 17,466 |
| Net private drawings | 27,586 | 32,262 | 33,230 |
| Farm net fund flow | -2,020 | 3,911 | 365 |

Cattle and Sheep (LFA) (Table 11)

Livestock prices and numbers are expected to have fallen for these farms, with the ending of the coupled support system, although the Single Payment Scheme is expected to boost income. Fertiliser and fuel costs will have risen, while feed costs will have dropped.

These farms will have seen a drop in net farm income in 2004/05, and a small recovery in 2005/06, whilst the reverse is true of cash income, although the changes are small. These farms invested more heavily in machinery in 2003/04, and are steadily adding to their land and buildings, although quota activity will have ceased with the ending of Suckler Cow and Sheep Annual Premium Schemes.

This group of farms have, however, run at a farm fund deficit for the past two years, and a projected a larger shortfall if previous investment patterns have been followed in 2005/06. Consequently, they will need to reduce investment or

reduce net private drawings to reduce the potential deficit and avoid increasing liabilities.

Table 11 Cattle and Sheep (LFA) (£ per farm)

| | 2003/04 | 2004/05 | 2005/06 estimate |
|-----------------------------------|---------|---------|------------------|
| Net Farm Income (excl. BLSA) | 13,877 | 12,109 | 12,569 |
| Add: Imputed items - rental value | 8,640 | 9,130 | |
| - unpaid labour | 5,381 | 5,300 | |
| Less: Interest charges | 2,115 | 2,693 | |
| landlord type expenses | 208 | 208 | |
| Net Profit after Interest | 25,575 | 23,638 | |
| Add: Depreciation | 7,110 | 7,171 | |
| Less: Valuation change | 2,536 | -1,435 | |
| Cash income | 30,149 | 32,244 | 29,858 |
| Machinery | 11,215 | 6,782 | 8,999 |
| Land, buildings, quotas | 3,191 | 5,361 | 4,276 |
| Net capital re-investment | 14,406 | 12,143 | 13,275 |
| Net private drawings | 18,425 | 25,853 | 26,629 |
| Farm net fund flow | -2,682 | -5,752 | -10,046 |

Cattle and Sheep (Lowland) (Table 12)

Livestock prices and numbers are also expected to have fallen on these farms, but the Single Payment Scheme is not expected to effect output. Like the other farm groups, fuel and fertilizer prices will have risen and feed costs fallen. These farms have traditionally had low net farm incomes as a result of the imputed elements of a rental value on primarily owner occupied farms.

Whilst machinery re-investment remains in line with depreciation, other capital purchases have fluctuated. Buildings investment has been £5,000 for each of the years. Ex-milk producers sold remaining milk quota in 2003/04 as its capital value fell. These farms also have failed to produce a farm fund surplus for the two years and are projected to experience a deficit again in 2005/06 if existing capital and private drawing trends continue.

Private drawings are already the lowest of the four groups and they offset some of these costs further by introducing private funds from outside the business

Table 12 Cattle and Sheep (Lowland) (£ per farm)

| | 2003/04 | 2004/05 | 2005/06 estimate |
|-----------------------------------|---------|---------|------------------|
| Net Farm Income (excl. BLSA) | 8,773 | 7,260 | 4,792 |
| Add: Imputed items - rental value | 10,406 | 11,494 | |
| - unpaid labour | 3,690 | 3,534 | |
| Less: Interest charges | 2,257 | 2,662 | |
| landlord type expenses | 249 | 228 | |
| Net Profit after Interest | 20,363 | 19,398 | |
| Add: Depreciation | 6,641 | 6,399 | |
| Less: Valuation change | 3,045 | 2,023 | |
| Cash income | 23,959 | 23,774 | 22,252 |
| Machinery | 8,209 | 5,981 | 7,095 |
| Land, buildings, quotas | 3,488 | 6,243 | 4,866 |
| Net capital re-investment | 11,697 | 12,224 | 11,961 |
| Net private drawings | 14,216 | 14,121 | 14,545 |
| Farm net fund flow | -1,954 | -2,571 | -4,254 |

3 Trends in farm income at the level of Devon Districts

although the Devon FBS sample alone is too small to produce reliable estimates of farm incomes, farm incomes can be modelled by applying FBS results to the Districts of Devon using DEFRA census data. Using this approach the agricultural income for farm types for the year of 2004/05 is illustrated in Figure 1, whilst Figure 2 presents the projected farm incomes for the year 2005/06. In these years, the aggregate district totals of farm income from cereal, dairy, lowland and LFA farm are based on a sample from the FBS in Devon that are compared across the two periods to enable projected values to be robustly calculated. The NFI of mixed farms, because of unreliability within its sample, is estimated from regional figures in conjunction with data derived from the Farm Management Handbook (Centre for Rural Research, 2006).

Overall, farming income in Devon for 2004/05 generated £76 million and is expected to increase a further 2% in 2005/06 (See Table 13). Compared to the base year period reported in Lobley and Butler's (2004) *The Impact of the CAP reform on Devon's Agriculture* this represents a 25% improvement in agricultural fortunes¹. Partly, this reflects a recovery in the NFI of dairy farms over the base year period. Indeed, as Figure 1 illustrates, dairy farming generates over half the farming income in Torridge, East Devon and Mid Devon and makes significant contributions to other Districts. The projected farm income data for Dairying in Devon will further boost the aggregate NFI in these districts in 2005/2006 (see Figure 2 and Table 14) and as such these areas are expected to perform relatively better than those where dairy farming is less prominent. Therefore, as Table 14 shows, farm types that are reliant on growing cereals or rearing cattle and sheep in LFA are likely to have reduced incomes in 2005/06. These will particularly impact on the farming incomes in the districts of Teignbridge and West Devon where these losses will translate into a reduction of aggregate NFI. In other areas, the losses from cereal and LFA farming will be mitigated by increases in the income of other farm types.

Table 13 Net farm incomes at district level (£m)

| District | Average NFI over the base years (2001-2003) | NFI in 2004/05 | Projected NFI in 2005/06 | % Change from 2004/05 to 2005/06 |
|--------------|---|----------------|--------------------------|----------------------------------|
| East Devon | 10.49 | 12.00 | 12.90 | 7 |
| Exeter | 0.04 | 0.04 | 0.03 | -15 |
| Mid Devon | 10.17 | 12.67 | 13.51 | 7 |
| North Devon | 9.78 | 11.93 | 11.91 | 0 |
| South Hams | 6.59 | 9.27 | 9.62 | 4 |
| Teignbridge | 4.28 | 5.05 | 4.89 | -3 |
| Torridge | 12.16 | 15.58 | 16.54 | 6 |
| West Devon | 7.40 | 9.67 | 9.39 | -3 |
| Total | 60.91 | 76.21 | 78.79 | 3 |

¹ This should **only** be used illustratively as the samples are not directly comparable.

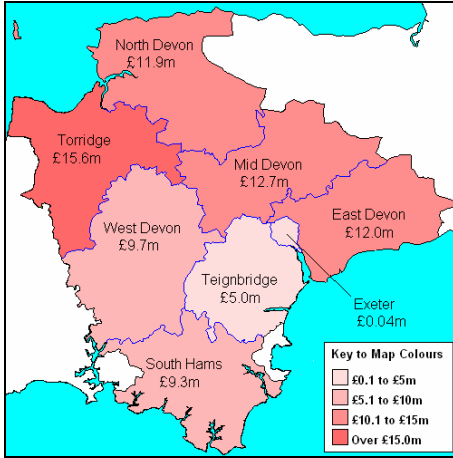
Table 14 Aggregated net farm incomes by farm type in Devon (£m)

| Farm Type | NFI in 2004/05 | Projected NFI in 2005/06 | % Change from 2004/05 to 2005/06 |
|--------------------------|-----------------------|---------------------------------|---|
| Cereal | 5.05 | 3.69 | -27 |
| Dairy | 40.29 | 44.32 | 10 |
| Lowland Cattle and Sheep | 7.73 | 8.04 | 4 |
| LFA Cattle and Sheep | 6.58 | 4.34 | -34 |
| Mixed* | 7.98 | 9.74 | 22 |
| Pigs* | 0.82 | 0.83 | 1 |
| Poultry* | 7.76 | 7.84 | 1 |
| Total | 76.21 | 78.79 | 3 |

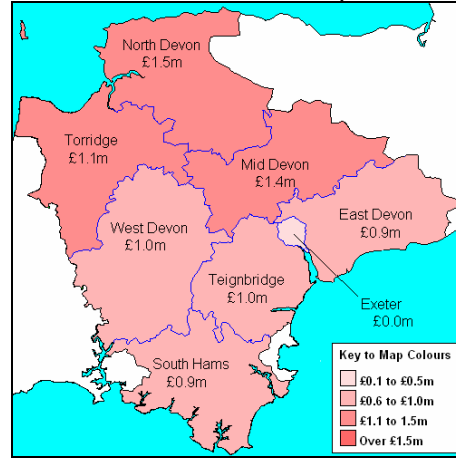
*Note: The NFI of Pigs and poultry, which are not mapped, are included in the total for all farms. Furthermore, because of insufficient sample size, national Farm Business Survey data is used for these two farm types.

Figure 1 NFI for farm types at the level of Devon Districts for the year 2004/05

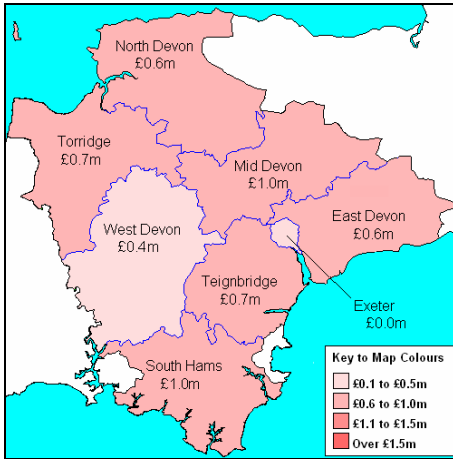
All farms



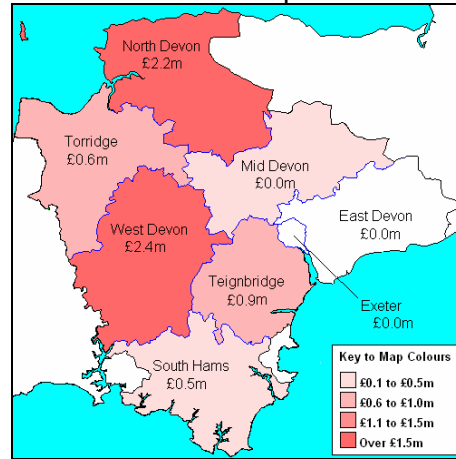
Lowland Cattle and Sheep



Cereal



LFA Cattle and Sheep



Dairy



Mixed

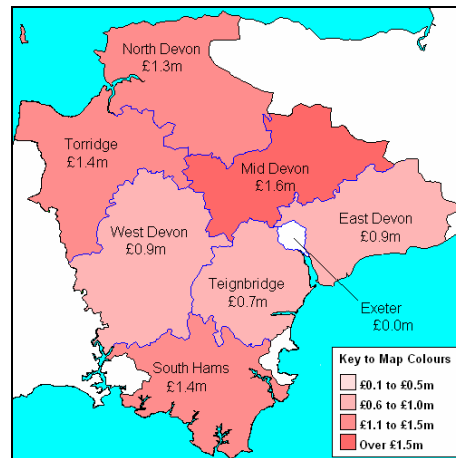
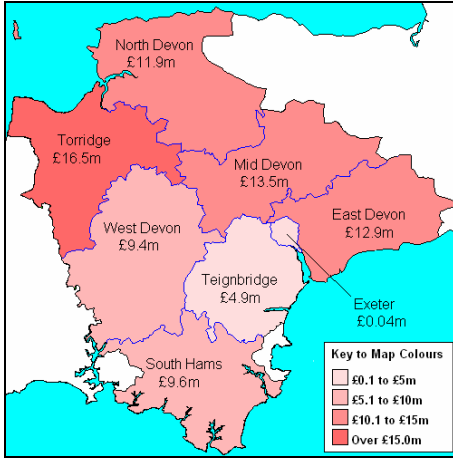
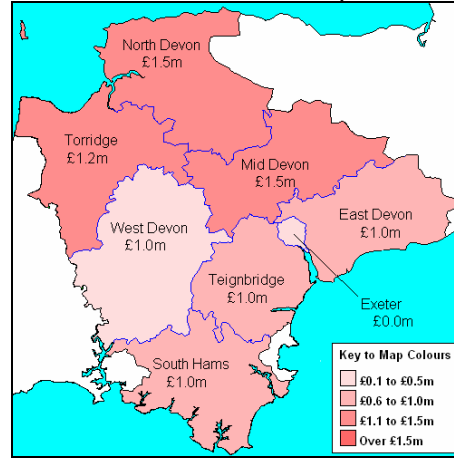


Figure 2 NFI for farm types at the level of Devon Districts projected for 2005/06

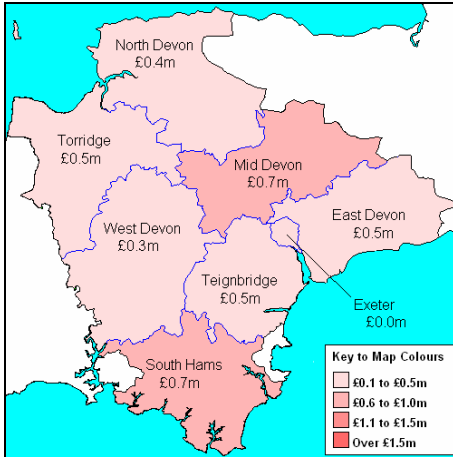
All farms



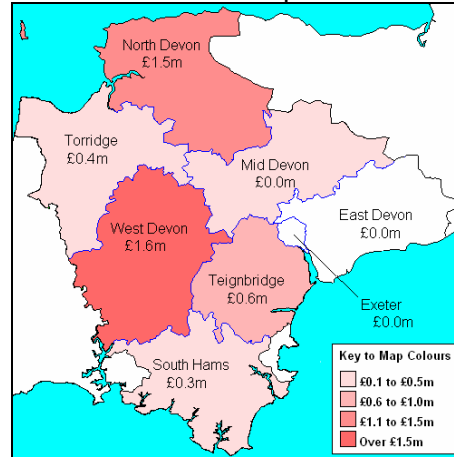
Lowland Cattle and Sheep



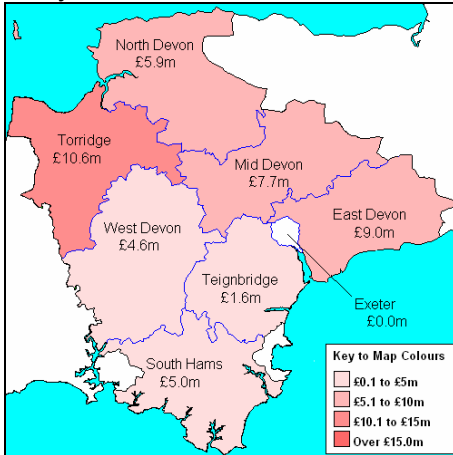
Cereal



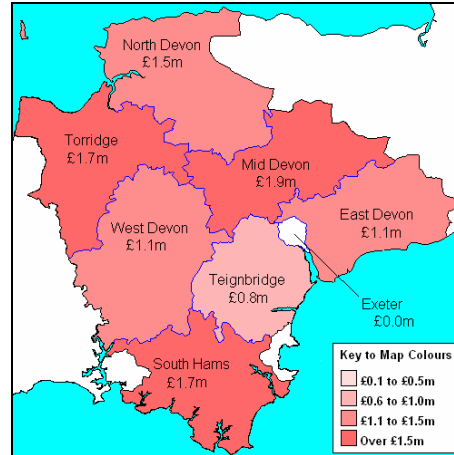
LFA Cattle and Sheep



Dairy



Mixed



References

Centre for Rural Research (2006) *Farm Management Handbook 2005*, Centre for Rural Research, University of Exeter.

Lobley, M. and Butler, A. (2004) *The Impact of the CAP reform on Devon's Agriculture*, Final Report to Devon County Council, Centre for Rural Research, University of Exeter.

Abbreviations

FBS Farm Business Survey

LFA Less Favoured Areas

NFI Net Farm Income

Statistical appendix

Appendix 1 Trends in agricultural incomes: evidence from the national Farm Business Survey

Each year the Agricultural Departments of the United Kingdom produce estimates of net farm income and cash income from businesses with the UK, based on the Farm Business Surveys conducted in England, Wales and Northern Ireland and the Farm Accounts Survey in Scotland. These Surveys are based on a random sample of farm businesses, with the individual farm results weighted to produce representative figures for the individual countries and UK.

Net farm income (Table A1) is the reward to the farmer and spouse for their own manual labour and management and the return on tenant type capital invested within the business. As a measure it treats all businesses as non borrowed tenants and therefore excluded interest payments, but includes an imputed figure for the rental value of the farm. In addition a charge is made for the uses of unpaid labour, and therefore all farms are comparable under the same conditions.

Cash income (Table A2) however, is a closer reflection of the cash position of a business, as it excludes the imputed item of unpaid labour and rental value and includes interest payments. The measure also excludes machinery depreciation and trading valuation change, and so represents the cash generated by the business in the trading year, with a further adjustment for the difference between opening and closing creditors and debtors. Cash income is therefore the funds available for business re-investment, capital repayments and private drawings and investments, and goes some way to explaining how some farm types such as Lowland grazing livestock manage to survive when their net farm incomes are so consistently low.

Within the main farm types, cereal and general cropping farms had the largest drop in income in 2004/05, largely associated with the drop in grain price, following its unexpected leap in 2003/04. The grazing livestock sector showed little change with prices fairly static, while dairy incomes rose with higher milk production, and lower milk quota leasing costs, as the risk of exceeding production were lower, although milk price remain weak.

The estimates for 2005/06 include provision for the Single Payment Scheme, which will be included within the current accounting year, but as yet have not been received. In addition the exact levels of the Single Payment Scheme are speculative, and will vary across individual farms and between farm types. However, across all farm types provisional net farm income for 2005/06 is little changed.

Further information on the results of the national Farm Business Survey can be found at two websites as follows:

www.farmbusinesssurvey.co.uk

and

www.statitics.defra.gov.uk/esg/statnot/account.pdf

Table A1 UK Agriculture: Net Farm Income by Type of Farm

| Farm Type | 1998/99 | 1999/00 | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | Annual Change | % 05- 06/04-05 |
|------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|------------------|----------------------|
| Net Farm Income | | | | (a) | | | | (prov) | | |
| Cereals | 7500 | 13600 | 6900 | 5000 | 11000 | 33500 | 13600 | 10000 | -26.5% | |
| General cropping | 22500 | 5900 | 15600 | 14200 | 11700 | 50800 | 26400 | 28500 | 8.0% | |
| Dairy | 10900 | 9000 | 14300 | 28200 | 14200 | 21100 | 23700 | 26000 | 9.7% | |
| Grazing livestock (lowland) | 300 | 600 | -200 | 1300 | 6700 | 7100 | 5300 | 3500 | -34.0% | |
| Grazing livestock (LFA) | 3300 | 2400 | 3200 | 5800 | 13000 | 14300 | 13000 | 13500 | 3.8% | |
| Specialist pigs | -40000 | -10911 | 37600 | 20000 | 23500 | 32100 | 25100 | 30500 | 21.5% | |
| Specialist poultry | 22800 | 5000 | 26300 | 22100 | 83500 | 49900 | 89700 | 73000 | -18.6% | |
| Mixed | 2100 | 5800 | 7700 | 5300 | 10400 | 22600 | 14800 | 18000 | 21.6% | |
| ALL TYPES (Including Horticulture) | 8500 | 6600 | 8700 | 13000 | 13700 | 23900 | 17900 | 18000 | 0.6% | |

Full time farms only

(a) Excluding farms subjected to compulsory FMD cull

Table A2 UK Agriculture: Cash Income by Type of Farm

| Farm Type | 1998/99 | 1999/00 | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | Annual Change 05-06/04-05 | % |
|------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------------------------|---|
| | | | | (a) | | | | (prov) | | |
| Cereals | 42800 | 47200 | 37200 | 35900 | 42300 | 60600 | 51300 | 43000 | -16.2% | |
| General cropping | 66900 | 50500 | 52800 | 56100 | 51400 | 81400 | 71100 | 65500 | -7.9% | |
| Dairy | 31600 | 28700 | 29500 | 46500 | 31900 | 41100 | 44600 | 48000 | 7.6% | |
| Grazing livestock (lowland) | 12800 | 12600 | 12300 | 13100 | 17100 | 16600 | 17100 | 16000 | -6.4% | |
| Grazing livestock (LFA) | 19600 | 16200 | 17000 | 19400 | 24200 | 25900 | 27000 | 25000 | -7.4% | |
| Specialist pigs | -5300 | 17600 | 46600 | 43900 | 36900 | 45100 | 46400 | 49000 | 5.6% | |
| Specialist poultry | 50400 | 22500 | 39300 | 41300 | 96500 | 63300 | 103400 | 86000 | -16.8% | |
| Mixed | 35000 | 31300 | 32400 | 32600 | 28300 | 39800 | 39700 | 41000 | 3.3% | |
| ALL TYPES (Including Horticulture) | 32000 | 28800 | 28300 | 34400 | 33000 | 41900 | 40900 | 39000 | -4.6% | |

Full time farms only

(a) Excluding farms subjected to compulsory FMD cull