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Scottish Farm Business Income Estimates 2019-2020

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Introduction

Farm business income has on average gone down since the previous year. Average income decreased 36 per cent to £25,800 from the high estimate of £40,300 the previous year.

This is a result of increased costs and decreased revenues and support payments in a number of different areas. Output value from potatoes and cereals decreased and affected some farm types more than others.

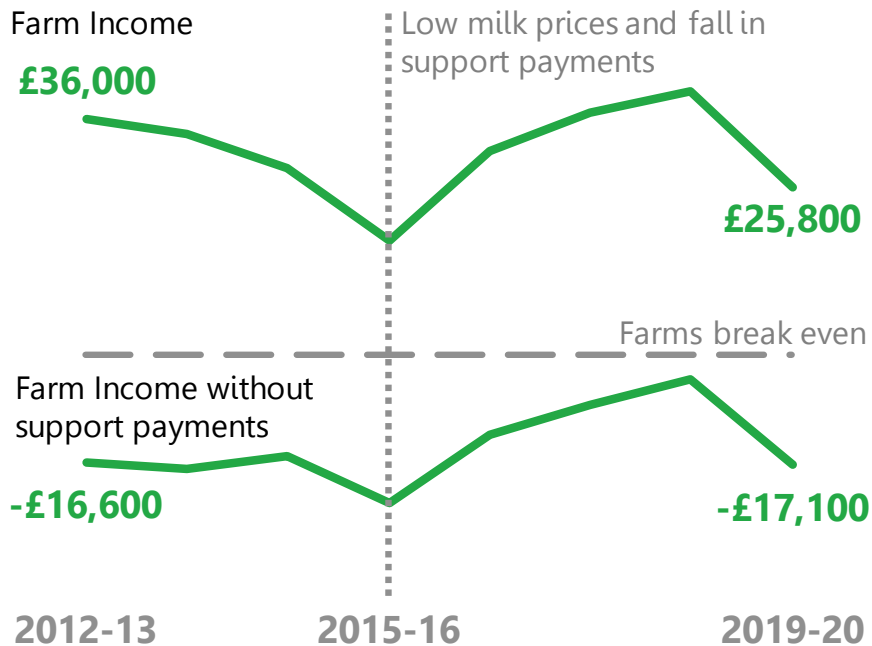
Figures in this report are based on the latest published statistics for the period 2019-20, a period where some farm activity may have been impacted by the coronavirus pandemic.

Many farm types that performed well in the previous year experienced a large drop in income in 2019-20.

Sheep farms in less favourable areas (LFA) continue to rely on support payments the most. General Cropping farms had the highest income and are less reliant on support.

Figures quoted in this report relate to changes in real terms – they take account of inflation. Farms which do not receive support payments, such as pigs, poultry and horticulture, are not included in the survey.

Farm business income decreases



The Scottish Government collects financial data from 400 to 500 farm businesses that helps us to estimate the incomes across the industry. We call this Farm Business Income (FBI). Information on the types of farms included is available on our website.

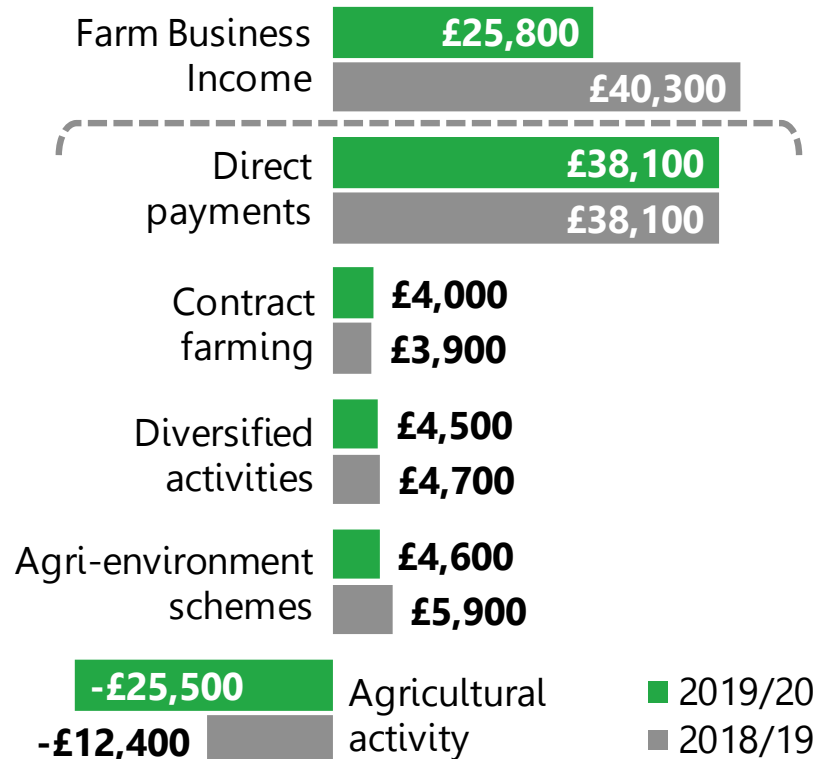
Average Farm Business Income £25,800

Farm income has decreased in the past year. Average income is estimated at £25,800, a 36 per cent decrease from the previous year.

The cost of raw materials to farms increased while the value of outputs decreased. Income from support payments and diversified activities also decreased. This combination of increased costs and decreased revenues led to the decrease in average Farm Business Income in 2019-20 to its second lowest value over the last eight years.

Support payments play an important role in farm income. The average business made a loss of around £17,100 without additional support in 2019-20.

Decreased income from agricultural activity



Farm incomes are summarised here into five main categories. Direct payments and agri-environment schemes are support payments made to farms. Contract farming is a joint venture between farmers. An example of this is machinery rings, where machinery and labour is shared between farms.

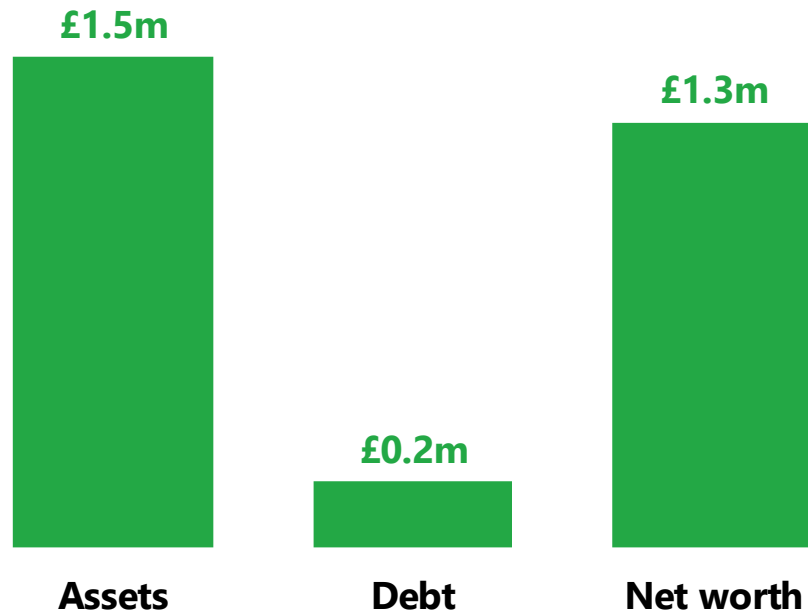
Farms on average made a loss from agricultural activity of £25,500, over twice the loss made in the previous year.

Agricultural output decreased by five per cent on average. Output value from potatoes and cereals decreased and affected some farm types more than others. Input costs also increased by two per cent overall.

Losses to the business were offset mainly by support payments. Direct payments to farmers continued to have the largest impact on overall farm income. Income from agri-environment schemes decreased 22 per cent compared to 2018-19.

Diversification and contract farming made the largest non-support payment contributions to farm business income in this year. There was a three per cent increase in income from contract farming. The income from diversified activities decreased four per cent.

The farm debt ratio increased slightly over the previous year



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

By looking at the farms assets and the debt each business holds we can calculate the overall value of the business which is called net worth.

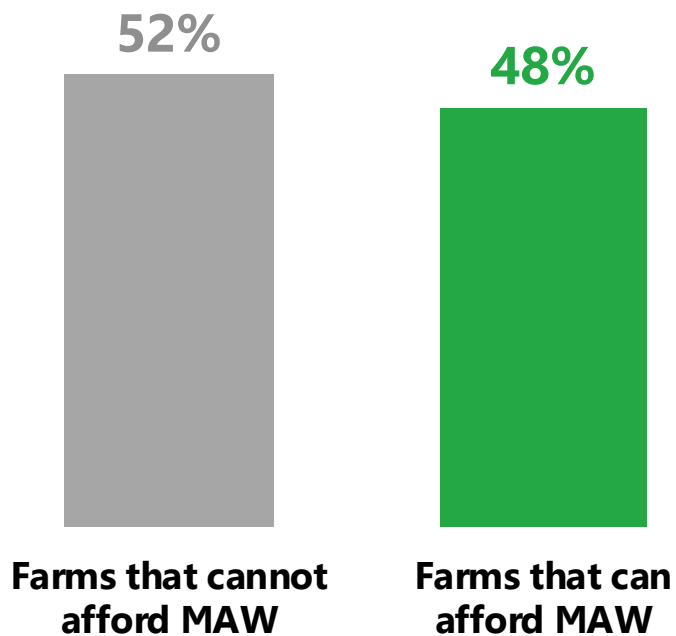
13% Average debt ratio for Scottish farms

The average farm net worth has decreased from around £1.5 million in 2014-15 to £1.3 million in 2019-20 in real terms.

The amount of assets held by farms has decreased slightly, while the amount of debt has also risen slightly. Neither shift has greatly changed the average debt ratio, which increased one percentage point compared to the previous year.

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

Fewer farmers could afford to pay themselves the minimum agricultural wage



Farm Business Income estimates the earnings of the people who will draw money from the income of the farm business, usually the owners or partners. This is called unpaid labour as they do not get paid a regular wage.

There was a decrease in the percentage of farms that could pay unpaid labour more than minimum agricultural wage (MAW) in 2019-20.

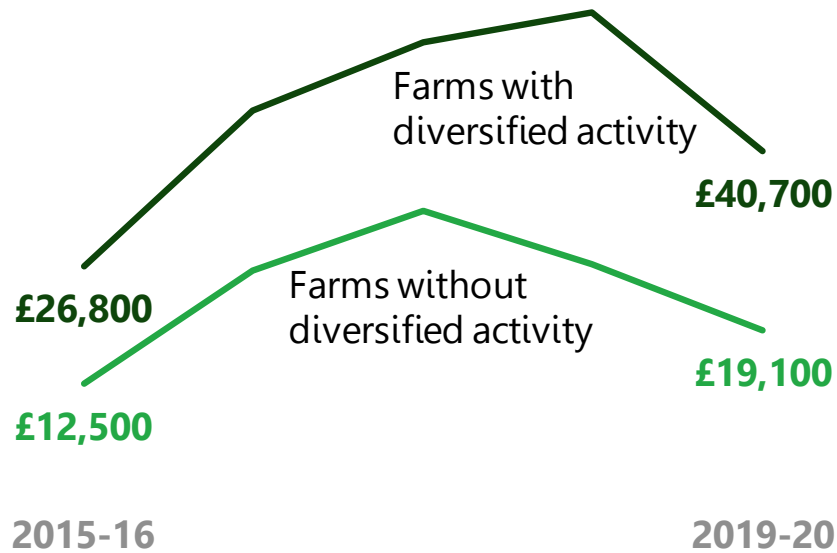
In 2019-20, 48 per cent of farms could afford to pay at least the minimum agricultural wage (MAW, £8.12 per hour) for unpaid labour. Around six per cent of farms could afford to pay unpaid labour over £40 per hour.

Farms that can afford higher wages may invest their drawings back into their business.

Around 52 per cent of farms could not afford to pay at least the MAW, with around 29 per cent unable to provide any earnings to unpaid labour from farm income.

Some farmers earn money elsewhere, for example from activities that happen off the farm. In 2019-20 the average off-farm income per full time worker was around £7,900.

Farms that diversify business activity earn more money



This chart shows the total income of farms that have diversified and those that have no diversified activities.

Around 350 farms have been providing us with their data over the last five years. This allows us to see changes in their diversified activity that generates income.

55%

Farms with diversified activity

More than half of farms have diversified activities that use farm resources to generate additional incomes to their businesses. Farms with no diversified activity on average generated £21,300 less income per annum.

Diversified activity is becoming more important. The income gap between farms with diversified activities and those without has increased over the last five years.

The most common diversified activity continues to be renting out farm buildings. Other common profitable activities that farmers are doing include micro electricity generation, wind turbines, hosting mobile telephone masts and holiday cottages.

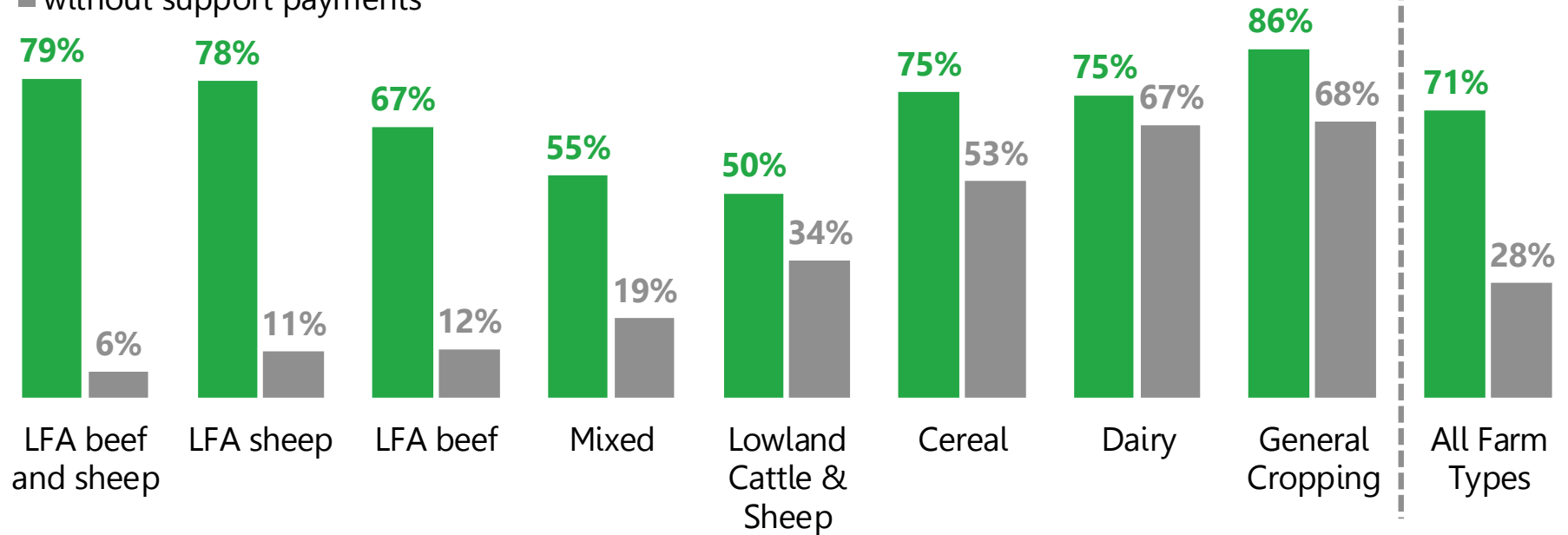
Reliance on support payments varies by farm type



Proportion of farms with farm income greater than zero

■ with support payments

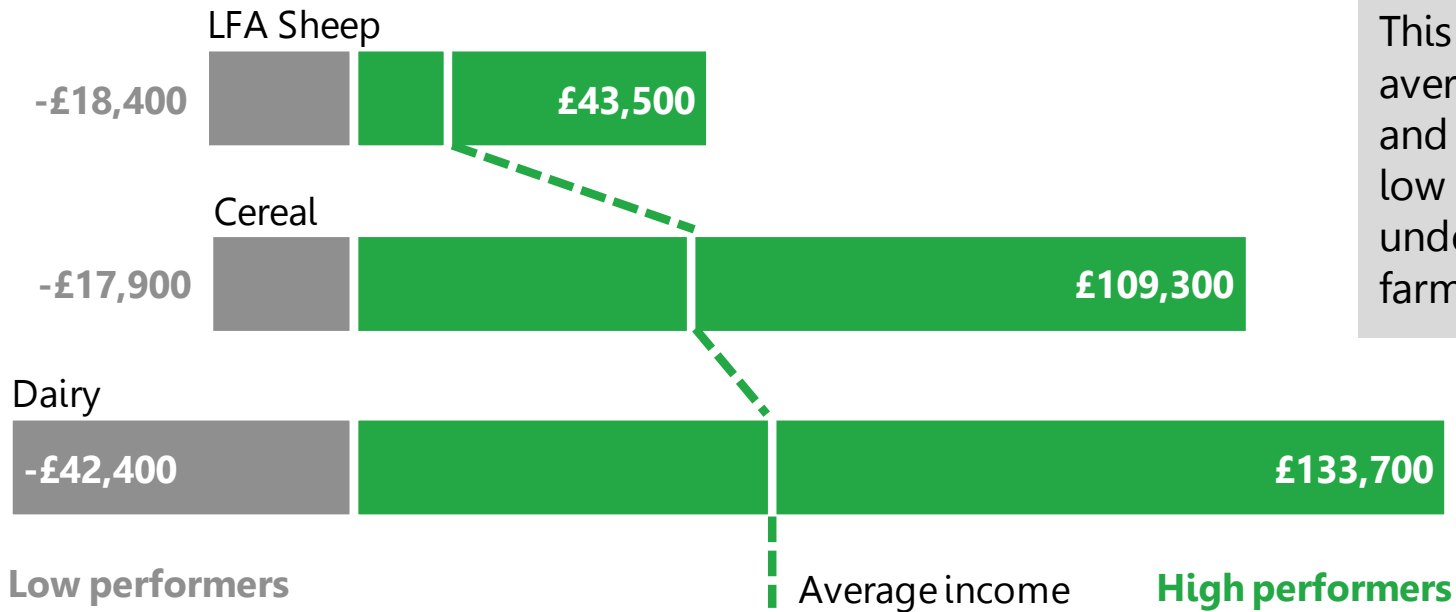
■ without support payments



Around 71% of farms made a profit in 2019-20 when support payments are included. Without support this decreases to 28% of all farms.

With support payments there is less variation in the proportion of farms with income greater than zero (breaking even) between farm types. Without support far fewer livestock farm types make any profit, especially those in less favoured areas.

Business performance varies within farm types



This chart shows the mean average income of farms and the average high and low performers to understand the spread in farm business performance.

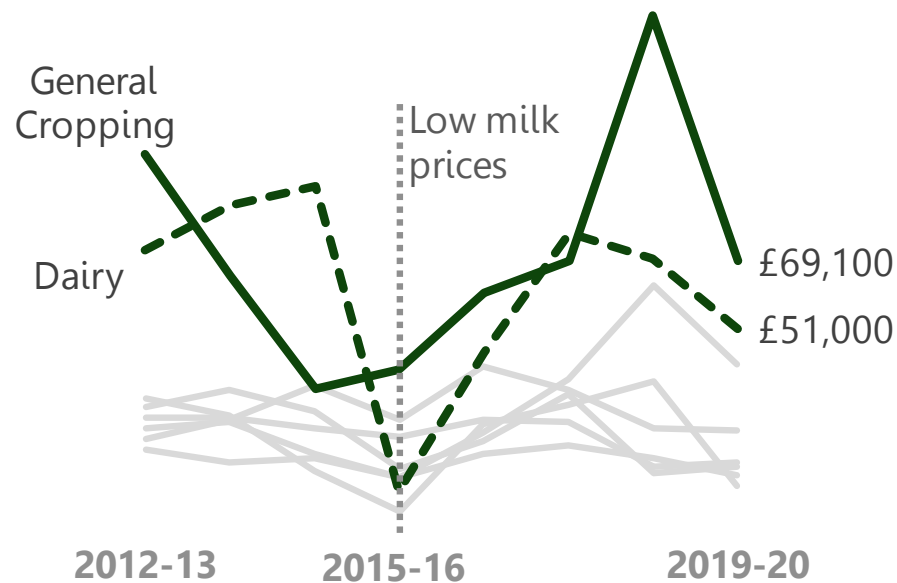
Some farms have high business incomes but others are making large losses. For example, in dairy farming, low performing farms are losing on average £42,400 while the high performers have an average income around £133,700.

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

General cropping and dairy farms incomes decrease



Grey lines show the performance of other farm types



£69,100 General cropping average income

General cropping farms had the highest average income by farm type this year. Their average income was estimated at £69,100. Dairy farms also continued to have a high average income.

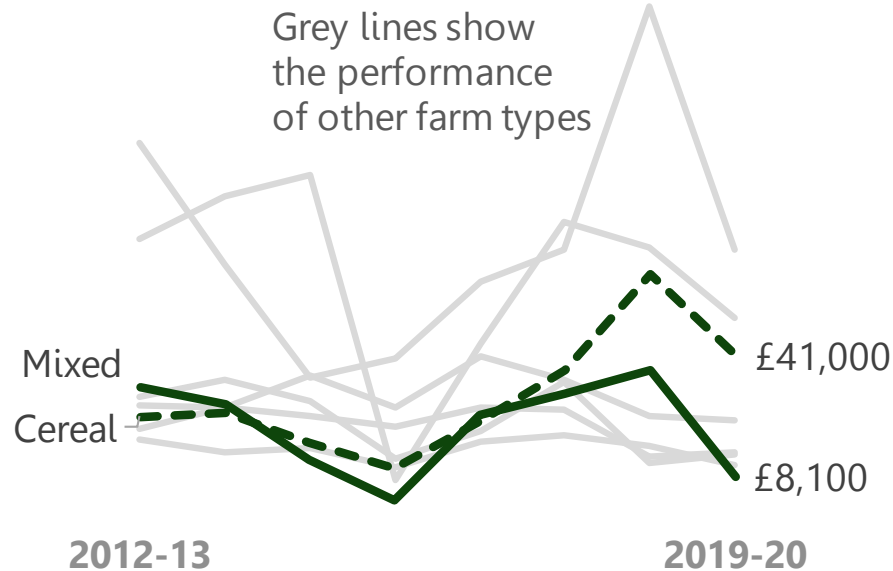
Both farm types experienced a decrease in average income in 2019-20.

These farms are sensitive to market prices and experience fluctuating performance as a result. For example, a fall in milk prices in 2015-16 resulted in the lowest average dairy income in the last eight years. Milk prices

The decrease in farm income in 2019-20 for general cropping was largely due to a decreased value from cereals and potatoes.

Dairy and general cropping farms typically have high incomes. Their performance has varied a lot in recent years. Some farms make larger incomes than average, but some will also be making a loss.

Cereal farms have performed well over the last few years



A number of farm types have been grouped together as 'mid-income', including cereal, mixed farms and combined cattle and sheep farms.

Cereal and mixed farms have a higher average income but also greater fluctuations in performance over time. Mixed farms usually engage in complimentary activities like growing crops to feed their cattle.

Mid-income farms in general performed worse this year than last year. The average income of mixed farms decreased 77 per cent to £8,100 in 2019-20.

Cereal farms have performed well over the last three years but experienced an average decrease in income to around £41,000. A 33 per cent decrease from the high of around £61,100 the previous year.

Some mid-income farm types still rely on support payments to make a profit. Cereal farms had a positive average income of around £5,700 without support.

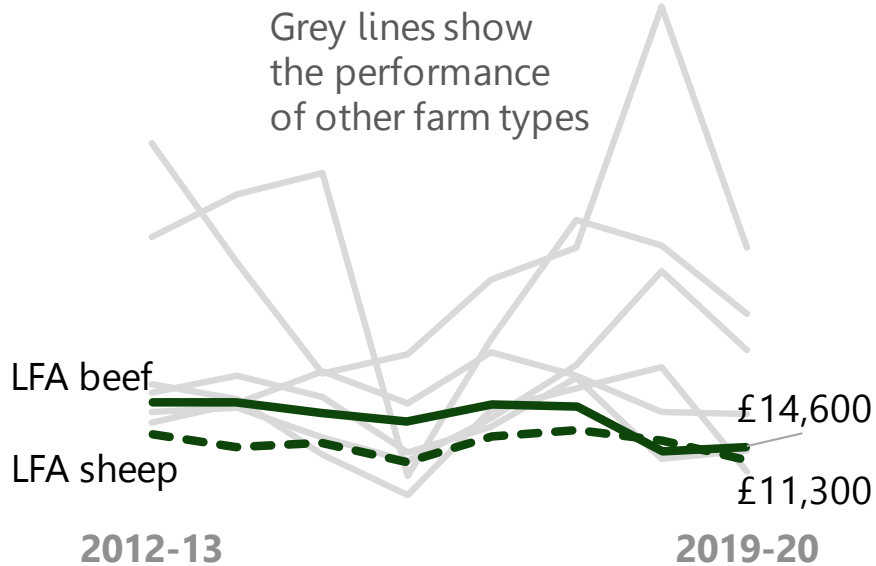
Combined cattle and sheep LFA farms received the highest average support at £56,900. Without this, these farms were making a loss of £33,500 on average.

Lowland cattle and sheep farms are also categorised as mid-income and experienced an increase in income in 2019-20.

LFA sheep farms have low incomes and rely on support



£11,300 LFA Sheep farms average income



Sheep farms and beef farms in less favoured areas (LFA) have low incomes that have been historically low compared to other farm types.

Support payments play an important role for a large number of LFA farms. For example, in 2019-20 LFA sheep farms would on average be making a loss of £37,600 without support. Only 11% of LFA sheep farms made a profit in 2019-20 without support payments.

These farms are mostly found in very remote areas. Current support payments are intended to allow farms to remain in business and be an active part of their local community.

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

Scottish Farm Business Income Estimates 2019-20

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

Diversified activities – non-agricultural activities that use farm resources

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

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

Glossary

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

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

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

Standard output – estimated worth of crops and livestock

Scottish Farm Business Income Estimates 2019-20

Data sources and more information

Data Source

Estimates of average farm business income in Scotland come from the Scottish Farm Business Survey. This is an annual survey of around 400 to 500 farms which covers the supported sectors and only includes farms with economic activity of at least £20,079. Part-time farms are not included.

The Scottish Farm Business Income (FBI) publication provides farm business level estimates of average incomes for the accounting year 2019-20, which relates to the 2019 crop year.

Comparison

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

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

Data Tables and Methodology

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

<https://www.gov.scot/isbn/9781800049185>

If you have any questions or comments about this publication, please email Jay Gillam at Jay.Gillam@gov.scot or agric.stats@gov.scot.

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