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Mr Joe O'Reilly
Department of Agriculture and Rural Development
Policy and Economics
Room 810
Dundonald House
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Dear Mr O'Reilly

Consultation on Proposed Changes to Farm Income Statistical Indicators

Question 1 *Do you agree that Net Farm Income is no longer fit for purpose as the main statistical indicator of farm income in Northern Ireland and should be replaced?*

Yes. Net Farm Income is no longer the most appropriate measure of farming income in Northern Ireland. It is calculated by deducting notional land rental values that are not actually incurred by farmers and does not include returns to those involved in the business beyond the farmer and spouse. This is not, therefore, a sound basis on which to base farm policy and other decisions.

Question 2 *Is Farm Business Profit an acceptable replacement for Net Farm Income in Northern Ireland?*

Yes. The arguments made in the discussion paper broadly are valid. Farm Business Profit is consistent with measures of farming income normally used in micro economic analysis and with measures of profit in other sectors of the economy. This change should, therefore, more easily facilitate comparisons, for example, between the profitability of the farm and non-farm sectors.

Question 3 *Should Net Farm Income continue to be available as a supplementary statistical measure of farm income?*

Yes. It is important to be able to make consistent longitudinal comparisons. Consistent time series of farm income data are an important resource to researchers and policy makers. However, this and other measures that appear from time to time in official publications should be used selectively and with care. The plethora of farm income measures currently in use can be very confusing, even for the more informed readers. To some extent this is a matter of presentation but is nevertheless important.

Question 4 *Do you agree with the proposal to include diversification activity in the new farm income measure only when it involves the entrepreneurial use of dedicated farm resources (i.e. land, buildings and machinery) in non-farm activities and the costs incurred are financially inseparable from the main farming business?*

Yes. It is logical that all farm resources deployed in non-farming economic activity should have their returns included in the Farm Business Profit measure. Without this inclusion, returns to a portion of the farm resources are ignored and the full value of income generated by these resources will not be accurately recorded. The issues raised in this question, however, are less straightforward than those in Questions 1 – 3. The commentary on the DEFRA definition in paragraph 8.3 of the notes uses the term “*dedicated*” and concludes that, “*labour can be excluded...as it is not a dedicated resource*”. There is scope for debate, however, about the validity of this conclusion in certain situations where farm labour may be used entrepreneurially in non-farm activities. It is recognised, of course, that in survey-based estimations of farm income, trade-offs may have to be made between what is desirable and what is practical.

Question 5 *Do you support the proposal to continue publishing Cash Income and/or Occupier’s Net Income as supplementary measures of farm income?*

A measure of cash returns has it uses in identifying the liquidity of the farm business. Profitability does not guarantee a satisfactory cash flow, or the survival of a farm business. Occupier’s Net Income is probably less important although researchers and policy makers may find it to be the appropriate measure of farming income in a particular policy setting. The plethora of farm income measures in use can be very confusing, even for the more informed readers. They should be used more selectively with the particular needs of readers in mind.

Question 6 *Are there other income indicators which you think should be published?*

Yes. In view of the increasing diversification of farm labour towards non-farm activities there is a need to measure and publish an agreed definition of farm household income. This would help to dispel some of the reservations expressed in the response to question 4. Without an estimate of farm household income and its sources it will become increasingly difficult to generate robust evidence to inform future farm and rural policies. It is recognised that the Farm Business Survey may not be the most appropriate vehicle for collecting the required data.

Yours sincerely,



Professor John Davis
Head of Agricultural and Food Economics