

DARD RESPONSE TO THE CONSULTATION ON FARM INCOME STATISTICAL INDICATORS

Background

The Department of Agriculture and Rural Development published consultation documents towards the end of 2006 seeking views on the measures of farm income to be used in future statistical releases and publications. Similar consultations were conducted in Wales, Scotland and England. The Summary of Responses to these consultations were published earlier this year but without a DARD response as this had to be co-ordinated with DEFRA, SEERAD and WAG. This document sets out the DARD response for Northern Ireland and complements similar government responses in England, Scotland and Wales.

The central theme of the consultation was that the current farm level headline measure, Net Farm Income, was no longer the best measure of farm income owing to:

- its underlying tenant farm basis, despite most farms now being owner occupied
- its restriction in definition to the return to farmers and spouses alone, excluding other partners
- its consequent misalignment with the main aggregate measure of farm income, Total Income from Farming (TIFF)

The consultation documents were published on the Internet, and notifications were sent to individuals and organisations known to have an interest in the subject. By the end of the consultation period, five written responses had been received. Meetings were held with the Livestock and Meat Commission and Ulster Farmers Union to discuss the issues contained in the main consultation document in more detail.

Issues covered by the consultation

The focus of the consultation was on whether Net Farm Income was still the best headline indicator of the economic position of farm businesses and, if not, what should replace it.

Consideration was also given to revising supplementary farm income measures, as well as the treatment and definition of farm diversification activities in any replacement farm income measure.

Some of the issues raised in the consultation document had a bearing on the main aggregate income measure Total Income from Farming (TIFF) but the emphasis was more on farm level measures.

Headline farm income indicator

There was general agreement that Net Farm Income was not a suitable headline indicator, and support for the proposed new approach. However there were two main issues of concern: the omission of farmers own and other unpaid labour in the headline measure and the use of the term profit in the proposed name of the indicator – Farm Business Profit. These issues were linked in that some respondents

were concerned that failing to include an imputed value for farmer's labour would misrepresent the real level of profitability. They argued that the term 'profit' was commonly associated within limited companies where director's salaries are deducted and hence would give rise to misleading comparisons. It was nevertheless recognised that calculating an imputed value for unpaid labour was extremely difficult and it was suggested that the term 'income' be used instead. The publication of numerous indicators was considered more likely to confuse rather than clarify matters. There was support for the proposition that diversification activity should only be included within clearly defined parameters and concern that the inclusion of non-agricultural sources of income might mislead with regard to the health of core agricultural activities.

Having considered the arguments and alternative proposals, DARD (in conjunction with the relevant departments in England, Scotland and Wales) has decided to adopt the methodology proposed in the consultation document as the main farm level farm income indicator in the UK but to change its name to **Farm Business Income**. This will be presented as an average value per farm, as preferred by the majority of respondents. A back series will also be created.

Timing of introduction

Northern Ireland and the lead Departments in the other three UK countries will aim to adopt this measure from January 2008. It is hoped that a time series of at least five years will be made available to ensure future results can be understood in the context of recent income levels. For continuity purposes, we will also continue to make Net Farm Income available for an interim period.

Related issues considered

Cash Income, currently a prominent secondary indicator, will continue to be published, but Occupiers Net Income will only be available on request.

In England, Scotland and Wales consideration was given to disaggregating the component activities of the farm business into separate account centres such as agri-environment, Single Farm Payment and diversified activities. After considering the matter as part of the UK evaluation process, it was agreed that the subdivision of outputs into cost centres is potentially achievable but the separation of costs, particularly fixed costs and those associated with agri-environment schemes is difficult and needs more research. When this is completed the issue will be considered again.

Work will be undertaken at UK level on defining more precisely what activities should be included within the scope of farm diversification.

Summary of decisions and actions

- The main farm level measure of farm income will be Farm Business Income. Its definition will be as described in the consultation documents for Farm Business Profit but this name will not be used. It will be presented as an average value per farm.
- In brief, Farm Business Income represents the return to all unpaid labour (farmers, spouses and others with an entrepreneurial interest in the farm

business) and to all their capital invested in the farm business including land and farm buildings.

- Net Farm Income will continue to be published for an interim period but as a secondary measure. Occupier's Net Income will no longer be published but it will continue to be available for specific requests.
- Cash Income will be published as an important secondary measure.
- Farm level economic measures will cover the full range of activities which use farm resources, including diversification out of farming, but the definition of diversification will be made more precise.

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