

08 January 2007

Mr Joe O'Reilly  
DARD Policy & Economics  
Room 810  
Dundonald House  
Upper Newtownards Road  
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Dear Joe

## **Consultation on Proposed Changes to Farm Income Statistical Indicators**

Further to Paul Caskie's letter of 8 November 2006 which invited comments on the above issue the Ulster Farmers' Union has considered the proposed changes and would make the following comments:

- The income situation on farms in Northern Ireland remains under tremendous pressure following the recent implementation of the 2003 CAP Reform agreement and full decoupling of production subsidies. Further political, legislative and market developments are expected to make a significant impact on farm incomes and as such it is vital that there is robust data available which can be used to monitor trends in farm business performance.
- UFU has been a consistent user of farm income data in the course of its lobbying work and recognises that there is a need to update the accuracy and transparency of the statistical indicators of farm incomes in Northern Ireland.
- Turning to the specific questions in the consultation document UFU accepts that Net Farm Income is no longer fit for purpose as the main statistical indicator of farm incomes in Northern Ireland. It is accepted that this particular indicator creates a somewhat artificial situation (with the inclusion of 'notional' charges), albeit it is one which commentators and lobbyists have become familiar in using for many years.
- As far as replacing NFI with the Farm Business Profit (FBP) indicator is concerned UFU accepts that this is a much more realistic indicator of farm incomes. There are however three specific aspects to FBP that UFU has some difficulty with:
  - The term 'profit' is one that can be easily misrepresented. UFU would prefer the term 'income' to be used instead, with the new indicator becoming Farm Business Income.
  - The exclusion of any 'unpaid' labour costs (to the farmer, spouse or family member with an entrepreneurial stake in the farm) in the calculation of FBP again gives rise for concern in the interpretation of the data. Farmers are rightly concerned that the publication of the new FBP indicator could be used improperly by some lobby groups / customers etc to weigh even further pressure on farmer returns (given the higher headline figures presented under the FBP model compared to NFI).

- Presentation of FBP data is a key factor in this whole exercise. Clearly this indicator will demonstrate a more accurate picture of the return to farmers and their families for the efforts they put into their businesses, however, as mentioned above, the potential for misrepresentation of the data remains a major focus of UFU concern. Taking the average figure of FBP for the 2004/05 year of £15517 this level of profitability provides for a very modest standard of living for the average farmer and his/her family (in the absence of other external sources of supplementary income), yet this message will be incredibly difficult to get across. UFU is in no doubt that the term profit will be misinterpreted by some as the profit to the business after all labour and entrepreneurial costs have been taken into account. For this reason it is imperative that the publication of FBP statistics come with a simple, transparent explanation of what is and is not included and that cannot be easily misrepresented. It is in connection with this potential misuse of the data that UFU would prefer all labour costs to be included in the indicator from the outset. UFU does however recognise that inclusion of all 'unpaid' labour costs in the FBP indicator will be difficult and we would suggest that as a bare minimum the published FBP figure is correlated to an average labour unit provision at farm level.
- UFU supports the continuation of Net Farm Income as a supplementary statistical measure of farm income although given the potential scope for confusion (with so many different indicators) it is our belief that it should be phased out over a reasonably short period of time.
- UFU agrees with the methodology proposed in the consultation document for the inclusion of income from diversification activities when calculating Farm Business Profit.
- Regarding the publication of supplementary measures of farm income UFU can see merit in the continuation of Cash Income (as an indicator of farm liquidity). Use of other statistical indicators such as Occupier's Net Income only adds to the confusion.
- UFU does not believe that there are any other income indicators which merit publication. Rather than publish additional income indicators it may be useful to provide income comparisons (such as with the average industrial wage) when publishing the annual data on farm incomes in Northern Ireland.

In conclusion UFU welcomes the opportunity to respond to this important consultation and would be keen to discuss this matter further once the round of UK wide consultation and consideration has been completed.

Yours sincerely



Ian Stevenson  
Policy Officer