PART I THE SURVEY RESULTS

CHAPTER 1: THE 1999/2000 SURVEY

1.0 Key Findings of the 1999/2000 Survey

- **The average net farm income per hectare fell by 35 per cent to £85**
- **Miscellaneous farm income exceeded net farm income on the average farm**
- **Record yields of winter wheat, winter barley and sugar beet were recorded**
- **Farms with potatoes, sugar beet or milk production experienced especially reduced incomes**
- **Since 1995, the average net farm income has fallen by 79 per cent**

1.1 About the Survey

The Cambridge University survey of farming in the Eastern counties was initiated in 1925 and the Farm Business Survey, as we now know it, was introduced in 1936. In this report, for the harvest year 1999 and for the accounting year up to the end of April 2000, information was collected from 383 farms.

The study includes the counties of Bedfordshire, Cambridgeshire, Essex, Hertfordshire, South Lincolnshire, Norfolk and Suffolk. The Farm Business Survey excludes the smallest farm businesses. Output is estimated on the basis of standard gross margins and farms are included if they are deemed to provide full time employment for one or more people. The land area represented totals 1.6 million hectares of farmed land and includes 30 per cent of the area of wheat and 60 per cent of the area of sugar beet grown in England and Wales.

This Report on Farming in the Eastern counties is intended to be of interest and value to managers, policy makers and economic researchers. One established use of the report is as a source of comparison on financial measures of farm performance. Benchmarks are presented for a range of farm types classified variously by product mix, farm locality and income level. The detailed tables in Appendix 4 are a unique source of reference for farmers, their advisors, and for those concerned with the financing and supply of agriculture and with dealings in land. The data on output, detailed costs and gross margins by enterprise are useful inputs to planning, budgeting and evaluation.

1.2 Presentation of Results

The results are presented by farm type and district. Definitions of these classifications are given in Appendices 1.3 and 1.4 respectively. Unless stated otherwise, un-weighted sample means are given. For results spanning several years, all historic data in tables or figures, and descriptions in the text, are stated in real terms at 1999 values. Machinery has been depreciated using the replacement value method. The term ‘upland’ in this report refers to farms which are outside the fen districts. The results for horticultural businesses are published in a separate report.

1.3 Business Performance Summary

In the Eastern counties in 1999/2000, the average net farm income fell to £85 per hectare or £22,000 per farm. As Figure 1.1 shows, it was the fourth lowest return since the start of this data series in 1945. The strong pound was the main contributor to this result and gross output fell by 11 per cent compared to the previous year due to lower sale values of potatoes, sugar beet and milk. Expenditure on variable costs, labour and machinery purchases was reduced. The results for 1998/1999 and 1999/2000 by farm type are shown in Figure 1.2.

Figure 1.1 Net Farm Income in the Eastern Counties 1945 to 1999

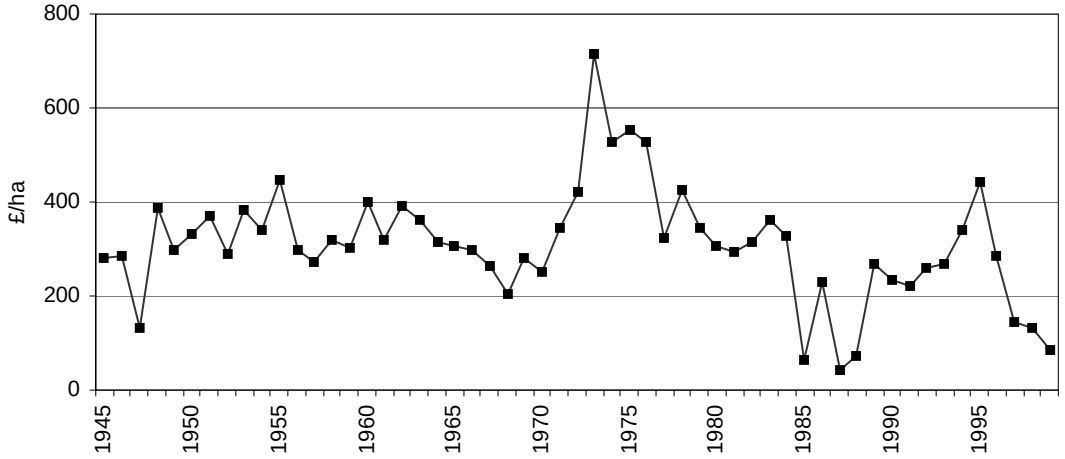
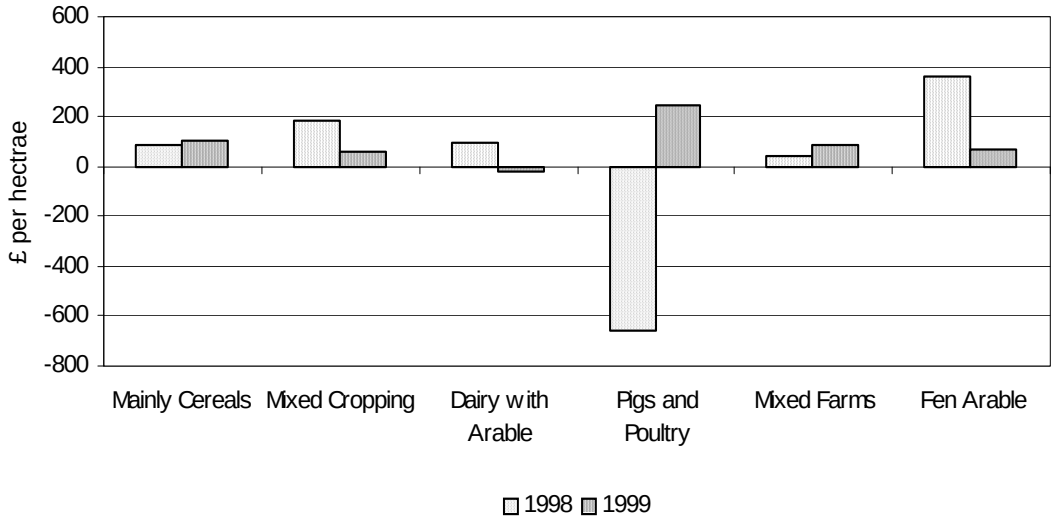


Figure 1.2 Net Farm Income per Hectare by Farm Type 1998/1999 and 1999/2000



Record yields of winter wheat and winter barley, combined with savings on variable costs, mitigated the effect of reduced output on Mainly Cereals farms which showed some improvement in performance in 1999/2000. The reduced prices of potatoes, sugar beet and milk directly impacted the performance of Mixed Cropping, Dairy and Arable and Fen Arable farms. Improved pork and beef prices raised the performance of Pig and Poultry and Mixed Farms.

As a function of the improved wider economy, and greater attention from farmers, miscellaneous farm income increased to an average of £92 per hectare and exceeded the net farm income.

The survey reveals a lag between the reduction in revenue and the implementation of cost saving measures. The greatest cost savings were made on farms without potatoes. These farms did not benefit from the temporary improvement in potato prices in 1998 and have experienced consistently declining revenue since 1995.

For most farm types, there was a reduction in the value of assets employed in the business. In particular, fixed assets reduced due to non-replacement of machinery. Long and short term borrowing reduced on all but the smallest farms due to the introduction of private capital and reduced finance to fund machinery purchases. There were consequential reductions in interest payments in the year.

1.4 Crop and Livestock Performance

Table 1.1 provides a comparison of crop and livestock gross margins from 1994 to 1999 in real terms. By any measure of agronomic performance, 1999 can be regarded as an outstanding year for crop production. Record mean yields of winter wheat of 9.1 tonnes per hectare and winter barley of 6.6 tonnes per hectare coincided with reductions in the use of variable inputs. Four components of the exceptional performance of combinable crops in 1999 can be identified. These were the consistent availability of moisture for crop development, improved use of plant breeding and fungicide technology, low fertiliser prices and financial pressure to reduce costs.

The year also saw a record mean yield of sugar beet of 55 tonnes per hectare achieved with less expenditure on variable costs. However, the additional tonnage translated into oversupply of low value C quota beet.

Table 1.1 Comparison of Real Gross Margin per Hectare for Harvest Years 1994 to 1999

	1994	1995	1996	1997	1998	1999
			£ per hectare			
Winter wheat	760	898	730	592	611	669
Winter barley	632	803	627	549	512	573
Spring barley	588	761	491	516	554	486
Oilseed rape	583	724	825	721	563	639
Peas (combined)	592	691	621	577	430	573
Beans	599	589	549	601	470	567
Set-aside	292	300	281	282	282	290
Sugar Beet	1101	1138	1027	916	930	820
Potatoes	5449	4266	1005	2074	5233	1453
			£ per head			
Dairy	921	970	858	868	783	658
Beef (grazed)	215	210	181	167	173	228
Sheep	42	43	41	29	40	38

A larger area of potatoes was grown than in 1998 and at the highest recorded variable cost per hectare in this survey. Much of the crop was of poor quality due to the wet conditions in the late summer and early autumn of 1999 and unsuitable for long term storage. The crop was sold onto an oversupplied market and suffered the greatest year-on-year reduction in gross margin recorded in this survey.

Pig and beef enterprise margins recovered due more to cost control than an increase in output. Milk prices fell and reduced dairy gross margins to their lowest level since 1987.

1.5 Factors Outside Management Control

The value of sterling remains the most significant determinant of farm income and the persistently high value of sterling against the euro in 1999 continued to drive down commodity prices. In 1999 the agrimonetary compensation measures ensured that area payments were not reduced in the survey. However, there was no similar arrangement to protect commodity prices.

The result of the increase in set-aside rate was to remove 4.2 per cent of the survey area from production with a consequent reduction in contribution to net farm income.

Energy prices rose by four per cent on farms in the Eastern counties. Potato growers facing a sharp reduction in the value of their product paid higher rents in 1999.

1.6 Factors Within Management Control

The greatest cost savings were made on the farms which had suffered a prolonged reduction in net farm income. This suggests that difficult decisions and changes in farm policy were made but only as a result of persistent pressure. In the cases of Mainly Cereals, Pig and Poultry and Mixed Farms, these cost savings resulted in an improvement in their net farm income in 1999/2000.

Labour was the main cost to be reduced in 1999. The survey shows that productivity continued to improve but wage rates increased. An overall cost saving in paid labour of six per cent was made. The reduction in labour has been experienced at every level. The number of farmers, family members, employed labour and casual labour all reduced in 1999 following the trend of an overall reduction in labour.

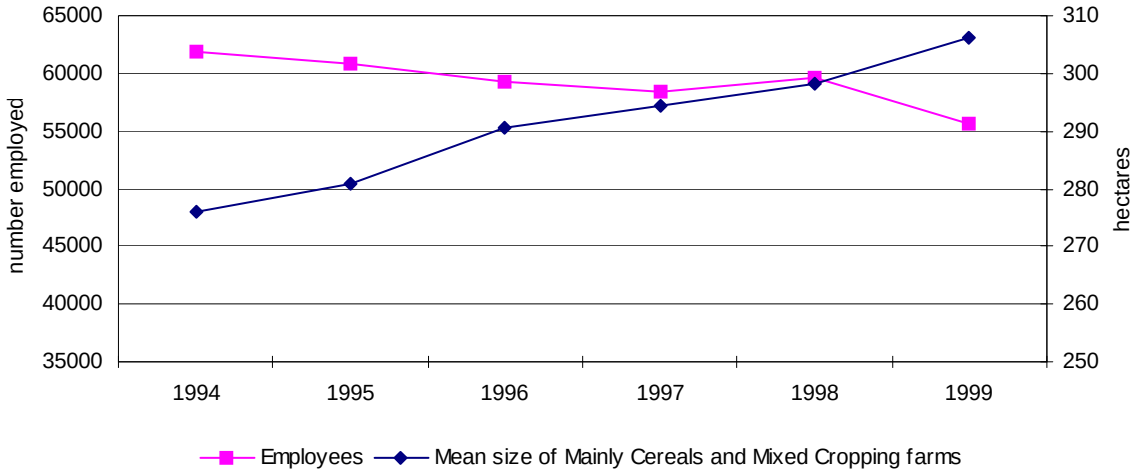
A 6.5 per cent reduction in depreciation was recorded in the survey due mainly to non-replacement of machinery. Higher incomes in the mid 1990s gave opportunities for machinery replacement and, for many farms, this has reduced the pressure for investment in machinery in the late 1990s.

The survey has revealed a sharp increase in the use of contractors for general tasks. Expenditure on unallocated contract increased by 20 per cent to average £28 per hectare. This cost includes contract farming agreements and whole-farm contract arrangements.

1.7 Farm Size

There has been a long-term trend to increased farm size in a response to technical improvement. The advent of set-aside in 1993 may have been another driver towards increased farm size by encouraging producers to replace lost productive area. Farm expansion, labour reduction and purchase of fewer but larger machines can be expected to continue. Farm expansion continues to give rise to a larger number of mixed tenure farms at the expense of wholly owned or wholly rented farms.

Figure 1.3 Average Farm Size and Workforce Employed in the Eastern Counties, 1994 to 1999



Source of workforce data: MAFF

Figure 1.3 shows the expansion of the average size of Mainly Cereals and Mixed Cropping farms in the survey and the reduction in the total workforce, comprising farmers and all categories of employed staff, in the Eastern counties. The mean holding size of all holdings is rather smaller than the sizes of the farm types shown here.
But larger farm size does not imply a higher standard of farming. As consistently seen in the past, there is no clear trend between net farm income and farm size. However, the smaller farms earned consistently lower levels of management and investment income after the deduction of farmers' own labour.

The attention to detail required to join the top ten group of farms may be more easily provided on a smaller area of land but larger farms are often more able to buy in specialised monitoring and advice services. Against that, economies of scale are achieved when machinery and other resources can be spread over a larger area of land.

However, in the environment of reduced margins, the smallest farms have particularly suffered in 1999. The smallest Mixed Cropping, Dairy and Arable and Pig and Poultry farms increased their borrowing and generated very poor returns in 1999.

1.8 Risk Factors

For most farms, 1999 was a very disappointing year in terms of financial performance. A small weakening of the value of sterling would have resulted in higher commodity prices and therefore to larger net farm incomes. However, there were a number of favourable influences on farm businesses which might easily be overlooked.

Area payments were about 11 per cent lower than in 1998. However the combination of area payments and agrimonetary compensation was 2.5 per cent higher than the area aid in 1998.

If they had been exposed to higher interest rates, many businesses in the survey would have been unable to meet higher interest payments without erosion of capital.

Exceptional crop yields were recorded in 1999. The main reason was due to climate and therefore unlikely to be repeated.

No management input was needed to manage price fluctuations. Price volatility will undoubtedly increase with increasing exposure to the variability of world markets. As a result, more management time and financial reasons will need to be employed in order to manage risk.