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Is there a future for the small family farm in the UK?

Executive Summary





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Introduction

For the purposes of this research, we consider a small farm to be a farm that needs the labour input of up to two people, or to use technical language, a standard labour requirement of two full time labour equivalents. This notion of a one to two-person farm, we feel, best captures the small family farm that characterises the sector we are interested in. The definition of family farming is even more elusive than 'small farm'. We use it because in a common-sense way most people know what they mean by a family farm. The extent of the decline of use of hired labour in agriculture is such that many farm businesses are family farms in terms of being family owned businesses worked both managerially and largely operationally by family members. The majority of small farms are family farms in these terms, but not all family farms are small.

The merits or otherwise of small family farms have not been so keenly debated in the UK in recent years as was once the case, and this is reflected in a relatively modest recent literature on the influence of farm size and the positive or negative aspects of small farming. Nevertheless, advocates of small family farms regard their contribution as distinct and worthy of support. One of the main purposes of this report is to examine the extent to which these claims for the virtues of small or family farming can be justified and, if a case can indeed be made for their continued role in UK agriculture, what might be done to improve their viability and resilience. It is very clear, as illustrated in this report, that the current challenges facing agriculture as a whole and, we would argue, small farms in particular, are very grave.

We set out to explore the future for small family farms with the following specific objectives:

- 1)** To identify the extent and pace of change in the number of small farms and to consider the drivers of change.
- 2)** To provide insights into the types of farming that may be supplanting traditional small farms.
- 3)** To identify the characteristics of small farms and what they contribute to agriculture, the rural economy and the countryside, including the positive role small farms might play in responding to contemporary global challenges associated with food security and climate change; and how their decline might impact on food production and environmental management.
- 4)** To identify ways in which policies and market mechanisms might be adjusted to increase the viability of small farming.
- 5)** To consider ways in which small farmers might improve performance and viability including consideration of efficiency, added value, diversification, co-operation, and succession.
- 6)** To make recommendations.

The research on which this report is based took place between November 2015 and May 2016, and relied for the most part on the use of research completed or already underway, as well as the use of existing data sets to throw light on the small farm question. This combination of methods and sources comprised a literature review; specially commissioned analysis of Farm Business Survey Data; analysis of a 2016 postal survey of 1,251 farmers in South West England (The SW Farm Survey); a detailed case study of land occupancy change in a single West Country parish since 1941; key interviews with seven agricultural sector experts; a workshop attended by 17 farmers and other experts, held in May 2016; and 21 responses to a call for evidence. Taken together, we argue that the evidence from this range of sources presents a compelling and rigorous case.

The small family farm over time

When observing recent changes in the number of farms (small or otherwise) it is easy to forget that the apparent constant process of farm size change is actually a fairly recent phenomena and that until the 1950s and 60s farm size was relatively stable. Data supplied by Defra from the annual June Survey indicated that since the beginning of the century small and very small farms have experienced a much steeper decline in numbers compared to their larger counterparts. However, such 'official' statistics give an incomplete story and obscure the extent and pace of change. For instance, they may under-estimate the number of very small or micro holdings which fall below the June Survey radar. Conversely the number of active farmers may be exaggerated when, for tax reasons, many farmers appear in the June Survey as active businesses when in reality they are no longer actively farming. Moreover, the June Survey fails to identify a range of 'unconventional' occupancy arrangements. The collective impact of this may be to over-estimate the number of active small farms whilst under-estimating the number of large farms.

We examined some of these issues through a detailed case study of a single West Country parish spanning a period of 75 years and this revealed a complex pattern of change with the consolidation of land in the hands of large farmers and the number of farms declining by a half; alongside some new farm formations and fragmentation of land holdings. This confirms earlier work which emphasised the stability of family farms as the main institutional units in the countryside at the same time as ever more complex land occupancy and management arrangements and a greater diversity of ways of 'being a farmer'. Data from the SW Farm Survey also points to the longevity of farming families, alongside considerable farm business change in recent years. On average, farming families in the survey have been farming either the same farm or in the general vicinity for 105 years. Only 8% were new entrants in the strictest sense of being the first member of their family to enter farming and who had not personally farmed anywhere else.

Small family farms, like any others, are subject to a wide range of influences on their behaviour including powerful economic, policy and regulatory drivers as well as internal farm family or farm household drivers of change, and while it would appear unlikely that there are any specific, unique small farm drivers of change, there may be a specific small farm dimension or response. A considerable body of evidence suggests that family events and processes such as births, marriage, ageing, succession and retirement can trigger change and restructuring in agricultural businesses. In terms of small family farms, there is a well-known association between small farm size and a lack of a successor which will make it harder for the older generation to step back if there is no one else to do the work.

Broadly speaking, farmers face two business choices in order to cope with declining economic fortunes: either to focus on a farming solution or to redeploy resources away from agricultural production. In reality, it may be a combination of the two or farmers may vacillate between the two courses of action with periods of off-farm work generating income interspersed with a focus on the farm. There are, of course, two further options open to farmers. First, they may cease farming, either entirely through selling up the farm or by letting their land. Or secondly, they might tighten the belt and continue business as usual. One of our interviewees highlighted the role of the Basic Payment Scheme in facilitating the latter option.

Looking to the future, evidence from the SW Farm Survey suggests that for a significant proportion of operators of small farms, the near future will see them retiring or otherwise leaving agriculture. It is entirely appropriate in many instances that this should be so. Life decisions have to be made

and people retire from work. What is of concern to us is whether the ranks of these small farms can be replenished by active and economically vibrant new small farms or whether, as seems more likely unless current trends are modified or reversed, their land and property is taken up by a combination of expanding large farms and residential life-style purchasers.

The distinctive contribution of small farms

Advocates of the small family farm make a strong case for the positive contribution that such farms make to rural life and the countryside. Although evidence is uneven, as suppliers of local food and labour, often deploying a deliberate strategy of connecting with consumers, small farms are well placed to contribute to their communities.

Evidence from the SW Farm Survey suggests that small family farms support a greater density of employment, employing more workers per unit area than larger farms. Submissions to the call for evidence identified that because of the challenges faced by small farms they have to do things differently and have a strong motivation to innovate.

The social dimension of the role of farms ranges from creating employment, helping to sustain rural services and community institutions, through to the personal benefits of working on a small scale farm and even contributing to the national character. Whilst the stakeholder workshop identified manifold contributions of small farmers playing a community role such as on Parish Councils and removing fallen trees, the evidence available from previous studies identifies a more recent withdrawal of farmers from the community. Such lack of social interaction then affects farmers' propensity to establish new enterprises as well as having an effect on their well-being.

Small farmers are more likely than their larger counterparts to see farming as essential to the local community and contributions to the call for evidence provided many examples of their support to local social capital. The available empirical evidence suggests however, that the contribution of small farms to the environment is more complex. Contributors made the case for their farming in an environmentally friendly manner and while small farms only manage a small proportion of the land, they do play a fundamental role in the collective provision of rural environmental services, although small farms appear to be less equipped than larger ones to meet the challenges of soil and water quality management.

For the most part, the evidence suggests that the relationship between farm size and environmental value, community connections and so on is highly complex rather than clear cut. There is a complex interplay of size, farm type, attitudes and behaviour and in favourable conditions this interplay can result in a very positive role for small farms.

In addition to highlighting the benefits of small farms, proponents point to the consequences of a decline in the number of such farms. The loss of small farms, it is argued, is associated with fewer people on the land and fewer to play formal or informal roles in communities. Further declines in the number of small farms could mean fewer local suppliers of food and other services. The environmental implications would depend very much on what replaces small farms and it would be just as dangerous to assume that all large farms are environmentally damaging as it would to assume that all small farms are environmentally beneficial. Ultimately, rather than privileging one set of farm structures over another it is a question of maintaining a diversity of farm size structures. And it is this diversity that is now under threat.

The economics of small farms

Drawing on analysis of Farm Business Survey (FBS) data commissioned specifically for this research, as well as other sources, we examined the underlying economic circumstances of small farms and explored the factors that are associated with successful small farm businesses. The FBS analysis is based upon data from 2,418 farms from the 2014/15 (the most recently available data) England and Wales Farm Business Survey. The data were weighted drawing upon the standard FBS weights in order to produce national (England and Wales) estimates.

The combination of FBS data and analysis of the SW Farm Survey provides valuable insights into the contemporary economics of small farms and, importantly, helps highlight the heterogeneity of the small farm sector. Regardless of size the most resilient and successful farm businesses run profitable agricultural enterprises as well as gaining higher than average income from agri-environmental payments and diversification, whilst relying least in proportional terms on the Single Farm Payment (now Basic Payment Scheme). In other words, profitable and successful farm businesses are good at everything they do.

Small farms, in general, are associated with more modest Farm Business Income (FBI). However, this is often supplemented by other income from off the farm (both earned and transfer payments). FBS evidence also indicates that small farms are associated with a favourable return on capital. This, combined with an equally favourable debt to asset ratio, suggests that there is a platform from which to maintain a sustainable business or expand.

The infamous agricultural treadmill means that ever larger volumes of outputs are needed for farm businesses just to stand still in net income terms. As a group, both small and medium sized farms make a loss on their agricultural account, with small farms being dependent on income sources other than those derived from the sale of crops and livestock. For small mixed farms in particular, agri-environmental payments make a substantial contribution to overall BI and proportionally, the contribution of diversification income to overall FBI is higher for smaller farms. On top of this it is notable that the Single Farm Payment contributes over 100% of FBI on small mixed farms, highlighting how vulnerable they could be to a significant reduction, or even loss, of this payment.

Other contributing factors are the relationship between the age of the farmer and size of the business relative to its performance, and the likelihood of a successor being in place, with small farmers being the least likely to have a nominated successor. This is identified as arguably one of the largest risks for the future viability of family farms. It is however worth noting that the relationship between farm size and succession is complex as some small farms are essentially retirement holdings where a successor would not be expected.

Of course, not all operators of small farms will wish to expand. The heterogeneity apparent throughout the analysis presented in our report reflects a variety of different types of small family farm ranging from what may be considered 'main living' small farms through to 'lifestyle' and 'retirement' holdings. Some, with little or no debt and owning their own land, may be content to 'absorb' adverse changes in the economics of agriculture by adopting an ever more frugal lifestyle or supplementing with income from elsewhere. Others will need to adopt various strategies to capture a greater share of the value of the farm's output and/or achieve scale effects by collaborating with other farmers for example, via labour and/or machinery sharing.

Improving the resilience of the small farm

Before considering the implications of this research for improving the resilience of small farms, it is important to recognise that there is not necessarily a future for all small family farms. Powerful economic forces are continuing to drive change in farm size structures and there is a limit to which they can be resisted in the absence of fundamental change in global economic systems. As we have seen, the term 'small family farm' is really just a shorthand way of describing a spectrum of potentially very different farming, business and family situations, ranging from retirement holdings, 'lifestyle' farms, part-time farms, main living farms and so on. This heterogeneity in the small farm sector is likely to be reflected in a range of different futures for different farms. It also means that some small farms may be more in need of assistance than others and that different approaches might be needed for different sub-sectors of the small farm population.

We make a number of recommendations drawn from the evidence we have received, the reading we have undertaken during the course of this research project and, collectively, the many decades we have spent thinking and researching about these issues. In some cases, the development of more detailed and specific recommendations will require the additional input of specialists in order to take our thinking further, especially in areas that have been beyond the resourcing and timeframe of this research. As a general comment, we would also argue that we are not particularly well served by detailed, robust contemporary research on many of the issues facing the small farm.

Where appropriate (i.e. recognising that not all farms will want or need to change) improvements to **farm management and performance** are essential for enhancing the resilience of the small farm (or any farm). To be successful farmers require a wide range of different life-skills and aptitudes. A successful farmer has to have business acumen in terms of financial management (attention to costs and margins) as well as technical knowledge and know-how (agronomy, husbandry, mechanical skills), market knowledge, and social/emotional/familial intelligence and awareness. If this seems to be a tall order, we need to remember that these are the attributes to run a successful farm business. Even more skills may be required to run a diversified business combining farming and other activities.

There is a need for an improved understanding and analysis as to why some farmers are so much more successful than others. The data are largely associational. In other words, we know the farmer characteristics that are associated with good performance but we know far less about the causal mechanisms or how these various variables interact with each other. There is a need to build on this to promote improved business performance. This will require advice and facilitation and not just in the usual areas of agronomy, livestock genetics and so on but also recognising the fundamental strengths and challenges of the family business model and addressing issues of succession and retirement planning. Awareness of these issues has improved but awareness is not enough and there is little evidence that clear and unambiguous retirement and succession planning is a common feature of the agricultural sector. Generally, there is a need to upskill the agricultural sector as a whole through the provision of targeted and coordinated advice and training. Farmers should not just be passive recipients in all of this but can and should play an active role, building on the success of various skills and mentoring programmes.

Shortening the **supply chain** and gaining a larger share of the value of the end product is one route for improving the economic resilience of small family farms. Small farms are at a disadvantage both as purchasers of inputs (less able to negotiate bulk discounts) and as sellers (some buyers will not want to deal with small volumes). Collaboration between farmers offers one way to gain a scale

effect but our evidence suggests that the operators of small farms are currently the least likely to be involved in collaborative activities.

Concerns have long been expressed regarding the 'closed shop' nature of agriculture and the barriers of access to land for new entrants as well as the interconnected issues of an ageing farm population and succession planning (or more often the lack of it). Steps need to be taken to encourage **new blood** into agriculture. Ideally this should be a combination of younger successors and genuine new entrants. Farming families should be encouraged to see succession planning as an investment in the future of their business and family. Initiatives to encourage succession and retirement planning should be encouraged and supported. It is vital that anyone engaged in offering succession planning advice understands that successful succession involves much more than the transfer of tangible assets. The transfer of intangible assets and delegation of managerial control are essential for successful succession, as is retirement planning. Succession is not simply a tax accounting and legal issue. It can involve complex psychology; changing roles within the business, family and community and can test interpersonal relationships. As such, it requires advisers and facilitators who are aware of these issues and who can help families steer a clear course through the succession process. In instances where farming families do not have a familial successor, incentives for share farming agreements and longer term FBTs could offer routes for new entrants as well as some modest progression opportunities. Larger estates could play a leading role here, offering a small proportion of their land on favourable terms to new entrants.

Recommendations

Recommendations for farmers and farm businesses to become more resilient

- 1)** Adopt lifelong learning through regularly accessing advice, support and information to help inform business decisions.
 - 2)** Develop good management and technical skills to assist with the effective day-to-day management of a successful farm business.
 - 3)** Develop and implement a plan for succession and/or retirement from farming.
 - 4)** Collaborate with other farmers and supply chain partners, including developing local networks, peer support relationships and business opportunities.
 - 5)** If appropriate and after full market research and business advice, introduce new enterprises to diversify farm business income.
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Recommendations for the agricultural sector to support small family farms

- 6)** The formation of a task force to carry out further examination of variable performance in agriculture with the aim of providing further evidence on the causes of variable farm business performance and the factors that help improve performance.
 - 7)** Develop a concordat between the various professional bodies who give advice to farmers with a view to developing a common protocol for cross-referral and communication strategy about the range of advice and support available.
 - 8)** The Farming Help Charities in conjunction with The Prince's Countryside Fund and other helping agencies should identify and equip individuals within farming areas to act as 'catalysts', guiding farmers to the information and support they need and assisting them in this process.
 - 9)** Catalysts should be encouraged to establish a 'good farming neighbours' system to allow farmer to farmer peer group support, learning from other mentoring schemes.
 - 10)** Rural estates should encourage the creation of opportunities for new farm businesses by investing in the provision of new housing for existing tenants to facilitate new entrants.
 - 11)** Rural estates should be encouraged to take a lead in assisting new entrants through either Farm Business Tenancies or share farming arrangements.
 - 12)** Rural estates should be encouraged to raise the minimum term for Farm Business Tenancies to 10 years to help strengthen farm businesses and encourage longer-term planning and investment with a view to policy change.
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Recommendations for policy makers

- 13)** Utilise a more flexible approach to encourage new entrants into farming through share farming arrangements and Farm Business Tenancies.
 - 14)** Consideration should be given in planning policies to allow farmers of retirement age to build a retirement house when they agree to facilitate new entrants through Farm Business Tenancies, share farming or land purchase.
 - 15)** Greater investment through rural development funding into farming entrance schemes such as Fresh Start Academies and the Fresh Start Land Enterprise matching service.
 - 16)** Discussions should be held to establish what opportunities can be addressed through adjustments to tax reliefs currently available with the specific need to attract new entrants into farming.
 - 17)** Promoters of Short Supply Chains and added value (such as social enterprises, local authorities and rural development schemes) should make engagement with small family farmers a strategic priority.
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A report to The Prince's Countryside Fund

June 2016

About The Prince's Countryside Fund

Established by HRH The Prince of Wales in 2010, The Prince's Countryside Fund aims to enhance the prospects of family farm businesses and the quality of rural life. We believe that the British countryside is our most valuable natural asset and its contribution to our everyday life cannot be underestimated.

To help support and secure the future of the countryside we:

- Provide more than £1.5m each year in grant funding to projects across the UK thanks to support from our partners, events and donations
- Celebrate and promote the value of the countryside
- Lead projects to strengthen farm businesses, such as The Prince's Dairy Initiative
- Commission research into issues affecting farming families and rural communities
- Bring together individuals and businesses to help tackle current challenges
- Help communities in crisis through our Emergency Fund

To find out more and download the full report please visit

www.princescountrysidefund.org.uk/research

About The Land, Environment Economics and Policy Institute

The Land, Environment, Economics and Policy Institute (LEEP) at the University of Exeter aims to develop knowledge and understanding to inform governments, businesses and communities about how land and the environment are managed and used; the policies that affect this; the impact upon people, and how policy should be better designed, appraised and evaluated. The breadth and depth of our perspectives on the relationship between land, society, the economy and environment, gives LEEP a unique perspective, combining insights about how these interact at a macro-level with in-depth understanding of how policies affect individual businesses, farms and households.

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