Some thoughts on the NFU Diversification Report

Submitted by: Ashfords LLP
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At the end of last year, the NFU published its Diversification Report [link]. From its tagline the report seeks to consider the "latest trends, insights and analysis" to assist farmers post Brexit.

The NFU spoke to 200 farmers across the UK who have either diversified their businesses or are thinking of doing so. So the sample is relatively small, but that is not to say there aren't some interesting points to take from the analysis.

Direct farm subsidies are looking likely to decline after 2021, and so many farmers are looking for diversification projects to boast income or potentially replace the core farming business over time. Farmers will now be readily aware of the Government's agricultural reform proposals including a move away from direct subsidies towards rewards for "public goods", this is set to take effect from 2021. A fall in public financial assistance will mean additional income streams are required - for some this means diversification. A good place to start might be the interests or skills of the existing workforce or family members - farmers might consider: agri-tech contracting, holiday lets, wind farms, solar panels, events management, farm shops, raw milk dispensing, equestrian, the list goes on…

The NFU surveyed already diversified farmers and found some interesting statistics:

• 62% of farmers have diversified already (according to Defra) - that's nearly two thirds suggesting that many British farmers are taking an agile approach to their business. A high 89% reported that diversification was a positive change for their farm.
• 19% of those surveyed received a grant when setting up a diversification project - so there may be some support available.
• 29% of diversified farms surveyed, had diversified into renewables - such environmental options might be a good choice for future Government support.
• 22% of diversified farms reported lack of time as a challenge to diversification - this is lower than you might expect, given the time pressures of running a core farming business alone.
• Regarding profitability, 35% of farmers reported a return on profit within 0-1 years, however 19% reported that they had not yet returned a profit. Good news that over a third of those surveyed appeared to return a profit quickly, although a surprising number are yet to see a return. The report does not explain however how recently the farmers surveyed had diversified, this is important because a very recent change is unlikely to yield a profit straight away.
• A total of 25% reported that they are looking to further extend diversified business post-Brexit, which anecdotally is not surprising in circumstances where a subsidy revolution appears on the horizon.

The NFU also spoke to non-diversified farms:

• Only 19% of those surveyed will probably or definitely diversify in the future. This is surprisingly low, but those farmers may be looking at other income streams. It may also be that those farmers do not take into account income streams closely connected to the farming business such as seasonal contracting.

• Of those thinking of diversifying, the most popular options were: caravan/camping site (27%), other

holiday accommodation (20%) and renewables (20%). Perhaps relatively low start-up costs connected with caravan/camping sites might the draw for this particular option.

With farmers being warned by Environment Secretary Michael Gove (at the Oxford Farming Conference in January 2019) that they face "considerable turbulence" in the event of a no-deal Brexit, you may (quite reasonably) be thinking of suspending or cancelling your farm diversification plans. The NFU Diversification Report indicates that diversified businesses are looking to increase or develop diversification further post-Brexit. The Report does not confirm whether that question assumes that the UK will negotiate a Brexit deal, but that assumption may have been in the minds of those responding. In any event, we suspect that a cut in subsidies or at least substantial reform in that area, will have been firmly in the minds of those questioned.

Brexit is only one factor to consider when you are thinking of diversifying. Others include: contracts, employment issues, commercial business arrangements (companies/partnerships), health & safety, data protection, inheritance, and when it all goes wrong, resolving matters commercially and quickly. Need some professional legal support? Ashfords has a team of specialist agriculture lawyers across all disciplines.

We are always interested in meeting our agricultural contacts on farm to see what you are doing to innovate your business and how we can help you. Please get in touch.

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