

## **Business links with farming in the North-East. Farming connections – why worry?**

**By Steven Thomson, Senior Agricultural Economist & Policy Advisor**



*Article first published in Farm North East Issue No: 94 / August 2019.*

Whether Brexit occurs or not, agricultural policy is going through another evolution just now. Whether these changes are to be delivered through the EU's CAP or through post-Brexit UK/Scotland decisions is unsettled at this point, but the direction of change is pretty clear.

If Brexit occurs and the UK indeed takes control over agricultural policy there is undoubtedly a 'sales job' to be done in persuading the general public and politicians at both Westminster and Holyrood that spending public monies on agriculture remains a worthwhile exercise. We are all familiar with the discussions around the public benefits that agriculture produces for the country and how these things are increasingly coming into the minds of policy makers. However, we often forget to champion the role that farming plays in the wider rural economy – often because the evidence is anecdotal.

Ever since I was a young lad growing up in a small hotel in the central-Highlands I have consistently heard that agriculture is a lynchpin of the rural economy. Indeed, when the Scottish Government's new CAP payments IT system had glitches a few years back and payments were delayed we regularly heard of a 'black-hole' in the rural economy as the money flowing out of farming to agricultural suppliers tightened.

These payment delays came at the same time as the 2015 CAP reforms introduced major changes in how CAP monies were distributed (the move away from the historically based Single Farm Payment). With concerns that some regional economies would be badly affected from these CAP reforms and payment delays, Scottish Enterprise and the Scottish Government asked SRUC to establish an evidence base on the characteristics of non-land-based rural businesses. Our work has focused on businesses in Aberdeenshire, Tayside, the Borders and Dumfries & Galloway. Importantly, we set out to establish the nature and extent of connections between the farming, estate and forestry sectors and the wider business base in rural areas and towns.

### ***Rural Businesses in the North East***

The results of our second (2018/19) survey were recently published revealing new insights into the nature of businesses in the four study regions (*The Rural Report 2018/19* is available at [www.sruc.ac.uk/ruralbusinesssurvey](http://www.sruc.ac.uk/ruralbusinesssurvey)). We looked at business use of family labour, levels of confidence, ongoing operational challenges, perceptions of Brexit, as well as establishing how reliant businesses were on the land-based sector. In winter last year we interviewed 675 non-land-based businesses in Aberdeenshire and Tayside. We spoke to

an incredibly diverse range of business from accountants to garages to marine consultants and welders.

### *Owner Age*

One interesting finding has been that the rural business base has a similar age profile to farming in the region, with only 11% of the businesses owners, partners and directors we spoke to being under 40 years of age (it is 11% for farm businesses in the region). At the other end of the scale, nearly a third of those running businesses were over 60 years of age and 70% were over 50 years of age (36% of farmers in the region are over 65 and 64% are over 55).

### *Connections with Farming*

Overall, around 60% of the businesses surveyed in the region reported some form of business connection with the farming, forestry or estate sector. 55% of the businesses said that they had relationships with the farming sector with 25% supplying farms, 6% buying from farms, 9% both supplying and purchasing from farms, and 15% having a more indirect relationship (e.g. they may only have sporadic business dealings). 12% of all businesses surveyed were reliant on farms for more than half their business turnover, with 15% of businesses reliant on farms for 10% to 50% of their turnover.

Whilst the majority of businesses connected to farming in the region reported that changes occurring in the agriculture sector had no real impact on their business, 10% of all businesses reported that changes in agriculture had negative knock-on effects on their business (with 4% saying they had experienced major negative impacts). This helps illustrate that the fortunes of farming do indeed spread far, and can impact on a wide range of businesses across Aberdeenshire and Tayside.

## **Aberdeenshire & Tayside Rural Business Links with Farming**



### **55% of Businesses are connected to farming**

- 25% supply farms
- 6% buy from farms
- 9% both buy from & supply farms
- 15% have indirect relationship



### **12% of Businesses rely on farming for >50% of turnover**

- 15% rely on farming for 10%-50% of turnover



### **Farming changes have negatively impacted 10% of Businesses**

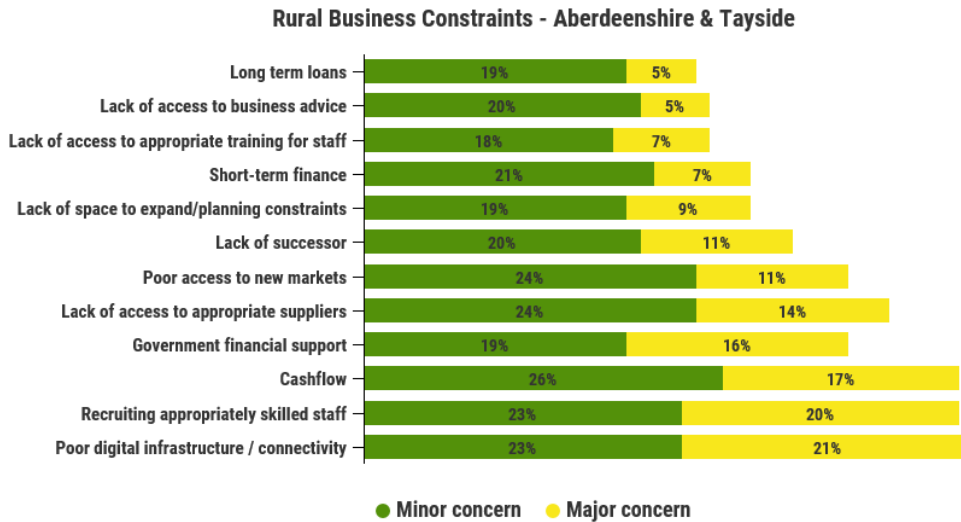
- 4% of business reported major negative impacts from recent changes on farms

### *Business Outlook*

Like farmers across the region, the wider rural business base are generally a positive bunch. Whilst 16% of those surveyed across the region expected to retire in the next 5 years, 31% of businesses were optimistic that the 5-year outlook for their business was positive, with 22% thinking it would be much the same and only 8% thinking they would be worse off (23% were uncertain).

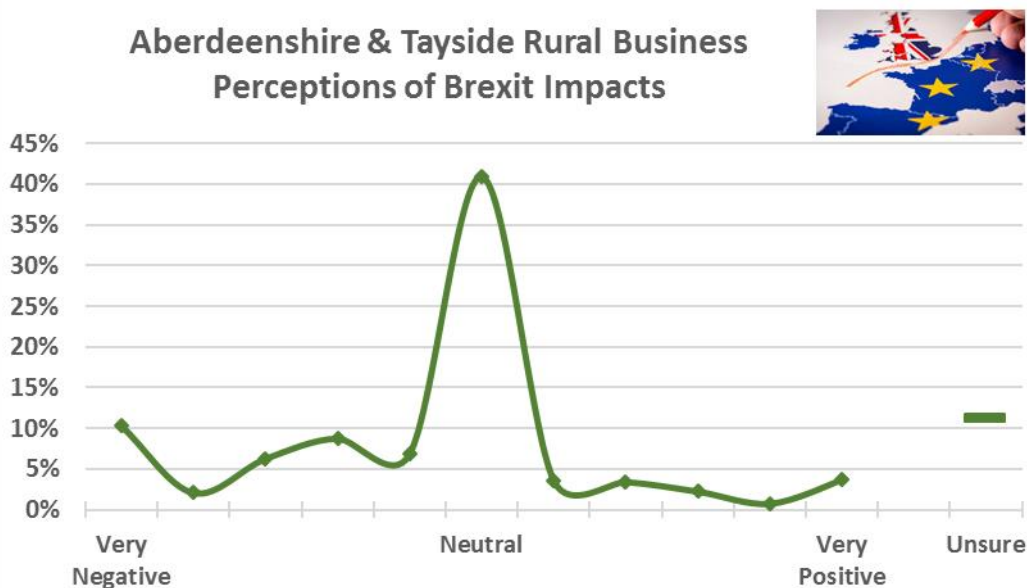
### Business Constraints

The wider rural business base in the region suffers from many of the same constraints as farming does: 44% reported digital connectivity as a concern; 43% said recruitment of appropriate staff was of concern; and 42% reported cashflow constraints on their business. Indeed, 22% of the businesses surveyed in the region had experienced staff recruitment and retention issues during 2018, and 16% of all surveyed businesses reported that a lack of appropriate candidates was the major staffing issue they faced during last year.



### Businesses and Brexit

With regard to Brexit, about 27% of the businesses thought it would negatively impact on their business, with 51% neutral about the impacts. Only 10% of the surveyed businesses in the region were optimistic about the consequences of Brexit with a further 11% unsure or unwilling to respond. Brexit uncertainty does appear to have dented business confidence in the prospects for the Scottish economy: some importers reported that they had already been adversely affected by exchange rates, whilst some exporters talked about possible trading challenges post-Brexit.



### *Where Next?*

Having completed 2 out of 3 surveys we are starting to better understand the nature of non-land-based rural businesses in the study regions. This is filling knowledge gaps for policy makers and enterprise agencies. Uniquely, the work is helping us better understand the important role that farming plays in the rural economy and beyond, as a purchaser of goods and services and as a source of products for direct household consumption or as inputs into food processors and manufacturers. Making sure the interconnectedness of the rural economy is better understood will become ever more important as politicians start to make decisions on the future of agricultural and rural support in a post-Brexit era.