DIVERSIFICATION REPORT

The latest trends, insights and analysis to help UK farmers explore opportunities for the future
Like many other farmers, our family farming business diversified before the term was used to describe adding value, capturing markets, developing employment or utilising existing assets.

Over 100 years ago, we began selling the milk produced on the farm and while we no longer produce or retail milk, we have remained diversified as a business over all that time. Retailing milk has always been an obvious diversification for dairy farmers. A century ago, before the advent of proper food supply ‘chill chains’, consumers were offered warm milk from the morning milking or cool milk from the previous afternoon milking. Delivered by horse and cart around our local town of Crieff, milk was originally decanted into containers (usually small cans) provided by the householders themselves. Society has so much to re-learn and in this report you’ll see how two dairy farms are adding value to their product – from a small-scale vending machine with reusable bottles to a purpose-built kefir plant.

Today, as well as running a mixed beef and arable farm, we now have some solar panels, cottage lets, holiday accommodation, a share in a Visitor Centre and Garden Centre, as well as commercial property lets.

Diversified income streams can help some farmers secure the business and add resilience during uncertain times, while providing others with an opportunity to really optimise their assets and unlock entrepreneurial skills within the family.

Although NFU Mutual’s research shows the majority of farmers who diversified found it a success, diversification isn’t for everybody and it has to work with, rather than against, the farm.

As the leading rural insurer protecting three quarters of UK farms and thousands of rural businesses, NFU Mutual understands the risks and needs of customers entering new markets and is there to support with the diversification journey.
The next decade will see significant changes in agriculture across the UK. With shifts in the way farming is funded and the markets that we serve ahead, many farmers are looking at new ways to boost profitability and make their farms sustainable.

For some farms, diversification could be the answer. This means using your farm’s assets, such as its land, buildings or machinery, to develop a new business activity. Diversification ventures usually set out to provide additional revenue and can complement the agricultural activity or may even, over time, replace it.

Research carried out by NFU Mutual, following the December 2019 General Election, found that nearly half of the farmers surveyed were planning to set up or expand a diversification on their farm. The main driver was to support farm income (40%) and a quarter wanted to create opportunities for family members.

Over the next few pages, you’ll find research and insight into diversification, as well as first-hand accounts from those who have experienced the opportunities and challenges associated with setting up a new venture. This report also includes expert views on important factors such as funding, insurance, health and safety and tax status.

What’s become clear from the many farmers we have spoken to about their diversification enterprises, is that it requires research, skills, planning and a real passion to make it work.

BEFORE YOU START

• Do you have the skills, resources and commitment to make it work or would it be a distraction from the core farm business?
• Have you fully reviewed your farm business and identified strengths and areas where you can add value to your existing model?
• What are your assets – from land, location, buildings and finance to people and skills – and have you realised their full potential?
• What market and demand is there for your diversification venture?
• What makes your farm unique and sets you apart from the competition?
• Have you asked the experts for advice? For example, speak to insurers at the planning stage to ensure you understand the risks and have the right level of cover to meet your needs.

Since 2016, The Prince’s Countryside Fund has been helping farming families to adapt to change through The Prince’s Farm Resilience Programme.

Through free group workshops and one-to-one sessions, we have assisted nearly 1,000 farms.

Research showed that four in five of the farm businesses taking part in the programme did not make a profit from their farming activity alone.

Diversification, off-farm income and other income streams, were critical to survival. Through the programme, farms can understand which of their enterprises are making a profit so they can invest in these – and alleviate their dependency on direct farm payments.

The programme has provided clear evidence of change in those who have taken part. Three quarters of farmers have attended to their succession plan and nine in ten are better at understanding their costs and communicating as a family.

The workshops continue to evolve. Our Managing Your Farmed Environment workshop breaks down high-level thinking into farmer-friendly language, introducing metrics for evaluation of so-called public goods, allowing businesses to prepare for new ELM schemes.

Small farms are unique in being able to provide environmental benefits – they are guardians of water, nature, carbon sequestration and heritage landscapes and 91% agree that contributing to natural and social capital is a priority.

It is vital to remember, whilst working with smaller farm businesses, that what is at stake is far more than the bottom line. These farms, and the families who live and work on them, are cornerstones of village life. Maintaining a diversity of farm size is critical to protecting Britain’s lauded landscapes. They punch above their weight in employing others and their multiplier effect on the local rural economy is substantial. Moreover, they produce the high-quality food that consumers demand – whether that be fruit and vegetables, or livestock on otherwise unproductive land.
Faced with an unsustainable future as a dairy farm, the Scott-Park family capitalised on its location on the shore of Loch Lomond, to establish a successful accommodation and leisure diversification enterprise.

Realising that the fourth generation of the family could be the last at Portnellan without major change, 28-year-old Chris Scott-Park dipped his toe into tourism with a venture providing speedboat tours of the loch.

Convinced that tourism could secure the farm’s future, Chris and his father, David, also started converting buildings and the farmhouse to provide high quality holiday accommodation, while building up a grass-fed beef herd. Since then, they’ve added farm tours, kayak hire and paddleboard hire to their operation.

Their efforts have made Portnellan one of the Loch's top tourist destinations, as well as remaining a family farm with an organic beef herd.

Chris, who already had experience of operating speedboats, obtained the qualifications needed to run a commercial enterprise.

“My grandfather was a little bit sceptical about power boats – he was more of a sailing man really. But he was actually my first charter,” said Chris.

“Obviously boats are not cheap and I was lucky that my parents were able to loan me some money until it generated an income. And since then it’s paid for itself.

“It’s something I really do enjoy doing – I’ve taken my passion for Loch Lomond and boating and turned it into a business.

“When planning the long-term future of Portnellan, we looked at the assets we had – the landscape, our land and buildings and even the farmhouse. We met the National Park, the NFU and NFU Mutual and through that I created a whole farm business plan.

“We’ve really built it ourselves, just through the website and by using channels like Facebook, Instagram and TripAdvisor to help people find out about us.”

Today Portnellan’s farming enterprise is a 110-head organic beef herd. The grass-fed herd are bred from Aberdeen Angus or Shorthorn bulls for easy calving.

“Most of the people who come and stay here are really interested to find out what’s going on in the farm. It’s perhaps the first opportunity they’ve had to get out and be close to cattle.”

Chris’s top tips for tourism diversifications:

• Make use of what you’ve got, for example, an old shed or unused building
• Take advantage of your location. Are you in a tourist area? Do you have walking or cycle paths going past your front door or are you just off a main road that’s going to bring people to you?
• Don’t be afraid of competition but try to look for ways to be different.

To hear Chris’s full story, download the Portnellan edition of the Ahead of the Field podcast – just search for “NFU Mutual” in your podcast app.
Naomi Hansford runs Quantock Lakes wedding venue alongside her brothers and parents. The Jeanes family have farmed at Inwood Farm, Nether Stowey, for over 100 years. For three generations, the farm operated a conventional dairy and arable model but in recent years it became challenging, so the family looked at ways to diversify.

“We started with commercial tenants, including an agricultural machinery dealership, a veterinary practice, electrical contractor and a farm shop café. We also moved from growing cereals to energy crops which feed a local anaerobic digester,” explains Naomi.

The seed of the wedding and events business was sown eleven years ago when the family had the foresight to dig a couple of lakes with the stunning Quantock Hills as the backdrop.

“We hosted charity events and then weddings from a marquee attached to the original Rustic Barn. The original bar was made from my grandfather’s old work bench and, as far as possible, we utilised materials we could source from the farm to transform the barn into a beautiful venue space.

“The next step was the creation of the Quantock Barn, a bespoke build combining old and new, featuring the impressive oak bar handcrafted by my brothers. With the ability to host bigger weddings came the demand for accommodation to support it. Converting the old stone farm buildings into accommodation set around a courtyard was a key turning point.

“We saw significant growth in bookings and as a family we agreed that one of us should head up the wedding business.”

Naomi came on board full-time, bringing her prior experience heading up digital marketing for Clarks and managing events for various brands including Red Bull. Diversification has helped the family combine their skill sets working together as a team but more importantly it has enabled all three siblings to have a clear role. Naomi’s brother Ian manages arable and farm maintenance while Andrew leads the commercial arm including lettings and a caravan site.

Naomi says, “If we hadn’t been on this wedding journey, I wouldn’t have been able to come back to the family business.

“The business has evolved significantly over the years and we often say if we’d built it all in one go, we’d have made numerous mistakes.

“It hasn’t been an easy journey. There was a period of time when we didn’t make a profit but as our journey to diversify has been a gradual one, we reaped confidence from successes and we stuck to our vision.

“One of the most challenging decisions we made as a family was to sell the dairy herd in 2015 but it gave us an opportunity to invest in building the next phase of our accommodation.

“My advice is to make the most of what you have. Look at your assets and play to the strengths of the people you have around you.”

A quarter of farmers plan to diversify to create opportunities for family members. (Source: NFU Mutual Research)
EMMA LEDBURY, NORTH COTSWOLDS DAIRY COMPANY

Pete and Emma Ledbury have run their farm in Warwickshire since 2014, renting around 170 acres from the local authority. In April 2019, they opened the North Cotswolds Dairy Company, having spent just under a year converting their old tank room into a creamery.

“We decided to diversify into selling our milk direct. We wanted to get a better work-life balance while adding value to our existing produce and encouraging the local community to reconnect with the source of their food.

“The milk vending machine allowed us to do this, inviting the public onto the farm to purchase milk. They can see the cows out grazing as they come down the lane and the milking parlour when they pull up. We also chose to offer reusable glass bottles to the growing number of customers who want environmentally-friendly packaging.

“Our children are a great help – they sweep out the shop area, date the milkshakes, feed the calves and collect the eggs from the hens. We are positive that the hard work will pay off. It’s relatively early days, but we can already see the financial value as the diversification tops up our milk cheque each month.

“Setting up the dairy business wasn’t plain sailing – we made mistakes, we changed our minds, we went over budget and we opened six months later than expected.

“We spent a lot of time researching diversification options. My advice would be to start by finding out as much as you can from businesses running similar diversifications.”

IAN BUXTON, DIRECTOR OF YORVALE

Fossfield farm, run by Ian and Lesley Buxton, is home to York’s only real dairy ice-cream, Yorvale. Since featuring in our 2018 diversification report, Yorvale has invested in a Kefir plant to allow them to double production.

Kefir is a cultured, fermented milk drink, rich in good bacteria, essential amino acids and B vitamins. “I think the key to a successful diversification is developing your business in response to a market trend – in our case, the growing demand for healthy milk and ice-cream alternatives,” says Ian.

“We started with Kefir three years ago, it extended into Kefir ice-cream and we are now on the point of launching non-dairy options.

“With a third of our sales coming from the Kefir line, new product development accounts for a large proportion of our income. In times of uncertainty, it’s easy to delay making business decisions. But from experience, if you are satisfying a customer need and have a well-though out route to market, you’re giving yourself the best chance of a successful diversification.”

Producing premium products is one of the ways dairy businesses are withstanding changes and price volatility. Ultimately, it’s important to diversify into goods that make the most commercial sense for your herd.

Rebecca Davidson, Rural Affairs Specialist, NFU Mutual
THE RHUG ESTATE

The Rhug Estate near Llangollen is well-known in Wales for its farm shop, bistro, takeaway and newly added drive-thru, as well as its world-class organic meat.

Lord Newborough, who inherited the 12,500-acre estate in 1998, transformed it into a diverse organic farming, retailing, wholesaling and green energy business.

“I regard the organic conversion as diversification,” explains Lord Newborough. “At that time, I decided to be a niche player on the world market. It took two years to make the transition and then in 2002, we started to retail fresh meat and cooked food and things went really well, so we added a farm shop and the rest followed on.

“A big part of our success is the Rhug Estate brand. Every farmer who decides to diversify ought to think about their story and create a brand because that’s ultimately what your customers buy into.”

When recession hit in 2008 and organic meat became a harder sell, the farm established export markets in Singapore and Hong Kong and also opened a store in Borough Market as a London shop window for the farm’s award-winning meat.

“Diversification still gives me a big buzz. The plans don’t stop! We’re now working on the launch of a natural and organic range of cosmetic products that we plan to retail at home and export abroad from May 2020.”

Lord Newborough explains, “The skincare range builds on our healthy and natural brand, using wild foraged and organic ingredients found on the estate. We also hope to grow our 120-person workforce as part of the venture, creating new jobs in this area of north Wales.”

THE PRESENT TREE

Catherine Cunningham runs a sheep farm in the heart of Co Antrim with her conservationist husband, Andrew. They are the 13th generation of Andrew’s family to farm here. In 2013, Catherine launched The Present Tree, an online shop specialising in beautifully-wrapped tree gifts.

Catherine came up with the idea after completing a business course run by Northern Ireland’s Department of Agriculture and Rural Development.

“It certainly seems to be working. The Present Tree has sold over 50,000 tree gifts and has ambitious plans for the future. “Our vision is naturally to be the Interflora for trees.”

“Listening to our customers has been integral to our success. We want our customers to have a great online experience, just as if they are walking into a real shop. Integrity and outstanding customer service is at the heart of everything we do.”

To hear Lord Newborough and Catherine’s full story, download the Rhug Estate and Present Tree editions of the Ahead of the Field podcast—just search for “NFU Mutual” in your podcast app.
Hugh Loxton, a third-generation farmer from Taunton, Somerset, has diversified half of his land into growing a biofuel crop.

Also known as Elephant Grass, Miscanthus is an energy crop harvested annually to produce biomass for animal bedding, fuel and composites. Using virtually no chemicals or artificial fertilisers, it benefits from the use of waste water and stores atmospheric carbon dioxide.

Hugh's diversification journey started on returning to the family farm, “I needed to find alternative sources of income to support the farm and create a role for myself.”

Hugh started agricultural contracting using existing farm machinery. Family interest in the environment also led to the digging of a six-acre lake in 1985 which is now a mature conservation site and wildlife reserve.

“Our agronomist had seen Miscanthus grown as an experimental crop and we felt it was time to go commercial, so I joined 30 local farmers growing for the biomass industry and heating plants, as well as multiplying the rhizomes needed for crop expansion.”

During this time Hugh also developed an automatic planting machine, which he continues to export globally.

Although the original Miscanthus company grew quickly, changes in EU energy funding and temporary removal of UK planting grants resulted in the group losing two seasons of sales and the company folded.

“With 600 acres primarily intended for Miscanthus rhizome production, the farm now had a potential financial risk. I continued the contracting, grew feed for dairy farmers, and expanded my engineering.”

“With half of the farm still in Miscanthus, we persevered and I now work within the Miscanthus Nurseries cooperative shareholders group which markets rhizome and cane and multiplies new higher yield varieties. The company is continuously evaluating new end-uses, typically ranging from energy, to manufacturing and construction.”

“I feel positive about the future as Miscanthus has numerous opportunities and is a low input, fast growing crop with huge CO2 sequestration benefits. The important thing now is to build up different end uses, like any crop, so that you can balance the risk.”

Passionate belief in your business is essential to build a successful diversification, says Essex contract farmer, Tom Bradshaw.

While studying agriculture and business at university, brothers, Tom and Stuart, 19 and 21, used their newly-acquired skills to put together a detailed proposal to contract farm a neighbour’s land.

“Our first year was a disaster. Crop yields were well below forecast and wheat was £30 a tonne down. “It showed what can go wrong despite the best-laid plans and costings – but with determination, and the support of a very understanding landlord and bank manager, we were able to carry on.”

Lessons learned, Tom, Stuart and their father, David, expanded the business carefully and bought second-hand kit with low depreciation to protect the business in lean years. With this formula, the business began to flourish.

As the business grew, money was invested in more modern machinery. “After one harvest, when the second combine broke down repeatedly, we decided we couldn’t face that stress or expense again. We now have all of our tractors on five-year leases – with maintenance included,” Tom explained.

Today the family’s whole contract farming business, Proagri Ltd, is run by Tom and his father, David. It continues to complement the family’s own 80-hectare farm near Colchester.

So, what’s next? “We’ve actually found our sweet spot. If we were to expand further, we would need an extra sprayer, more staff and a lot more land to make the business sustainable.”

“Contract farming requires a different set of skills and business approach to running your own farm. You are providing a professional service to a highly-capitalised business with very tight margins and high risks. Honesty and transparency are absolutely central to our success.”
Long Valley Yurts started in Cumbria in 2008. It offers Yurt holidays across the Lake District and Peak District National Parks through partnerships with existing farms, campsites and landowners looking to diversify or extend their existing offering.

Every year there are more and more people looking to join the glamping community by creating new sites for their guests.

"Whilst glamping has revolutionised the holiday market, one of the key challenges it continues to face is a lack of specific compliance and standards guidance from legislative bodies," says John Maddy.

"Coming from a health and safety background, we created a ‘belt and braces’ mentality in our business and found some of our management practices were being adopted by the whole industry."

In 2020, John and his business partner are launching a trade organisation to lead and represent the industry in a safe and sustainable way. Called CANOPY – The Association for the Camping and Glamping industry – it will offer consultancy, auditing and accreditation as well as industry-specific qualifications in health and safety and operational management.

John says, "The organisation is there to provide a security blanket to new and current providers, manufacturers and suppliers to the industry."

John’s top tips for glamping diversifications:

- Ensure your risk assessments and health & safety policy underpin the foundations of your business
- It’s all about the systems to make your time more efficient
- Choose the best quality products that will stand the test of time and maintain quality for the whole year or season
- Attract, engage and retain the best people
- Keep standards high throughout the season – consistent quality of service is key
Not only can diversification open up new sources of revenue, it can also offer business opportunities to younger members of the family. However, before making any changes, it’s important to consider the inheritance tax (IHT) implications, to ensure your family don’t end up with a large and unexpected tax bill in the future.

Inheritance tax earned the government £5.4 billion in 2018/19, a figure that has doubled in the last eight years.

Many family farms benefit from Agricultural Property Relief (APR) and Business Property Relief (BPR), which can reduce or eliminate IHT on farming and other business assets.

A key requirement in securing APR is that the land or buildings must be occupied for agriculture, so converting farm buildings and letting them out for non-agricultural use, such as workshops, storage units or residential letting, will normally mean that APR is lost.

In order to get BPR, the land or buildings must normally be used for trading rather than investment purposes. Diversifications that involve collecting rent with minimal management or provision of services, are likely to be treated as investments and so less likely to qualify for BPR.

Getting the structure of the diversified business right can help preserve valuable IHT reliefs.

SUCCESSION PLANNING

Diversification can offer options when it comes to planning how best to hand the family farm on to the next generation. Having a succession plan in place not only allows for a smoother transition, it can play a big part in securing the future of the family business, but the latest research commissioned by NFU Mutual suggests just 16% of farmers have a formal succession plan in place.

There is no ‘right’ answer when it comes to succession – each family’s situation will be different. The key things are to plan early (the earlier you plan the more options you have), involve the family and take advice to ensure that you and your family don’t pay more tax than you need to.

With the proposed new Agriculture Bill expected to pass into legislation this year, there will be plenty of opportunities for farms to take advantage of the “public money for public goods” focus.

Direct payments to farmers will be phased out progressively, with the biggest reductions applied to the highest payment bands, and payments also delinked from any requirement to farm.

There will be funds available to help increase productivity, for improved animal welfare and for environmental management. The UK Shared Prosperity Fund will look to support the rural economy, and Countryside Stewardship agreements will be available for application in the first few years of the seven-year agricultural transition period between 2021 to 2028. The planned new Environmental Land Management (ELM) scheme will start in 2024.

Diversification at the start of a new decade therefore continues to offer a number of good opportunities to stem the tide of falling farm incomes and bring extra resilience to farm and rural businesses.

The following two grants are running in 2020 which offer funding of 40%-100% against eligible costs, where applicable.

COUNTRYSIDE STEWARDSHIP SCHEME

Funding is available for farmers, woodland owners, foresters and land managers to make environmental improvements. Applications must be made by 31st July for agreements starting 1st January 2021, although Woodland Creation grants are open for application all year round.

Capital items are offered at 100% funding with a £50,000 maximum threshold for standalone capital grants, but with no maximum limit for works submitted as part of a five-year Mid-Tier agreement alongside land management revenue options.

The Woodland Carbon Guarantee also provides the option of selling captured carbon dioxide from woodland planting in the form of verified carbon credits.

COUNTRYSIDE PRODUCTIVITY SCHEME SMALL GRANTS

This scheme provides funding for farmers to purchase equipment to improve productivity, supporting investment for specific pieces of agricultural equipment. Grants of between £3,000 to £12,000 are available, with Defra confirming a third application funding round in Autumn 2020.
THE UK’S LEADING RURAL INSURER

NFU Mutual offers a wide range of insurance for farms, homes and businesses, as well as life, pensions and investment products. These products and services are delivered through the agency network, as well as through a direct sales and service centre. With over 300 offices located in rural towns and villages throughout the UK, NFU Mutual has become part of the fabric of rural life and remains committed to serving the needs of people who visit, live or work in the countryside. NFU Mutual is proud to deliver more than simply insurance. Tackling rural crime, making farming safer, supporting rural initiatives across the UK and helping to look after the environment are just some of the ways we do that.

For more information or to download a copy of this report visit:

nfumutual.co.uk/diversification

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