

DIVERSIFICATION REPORT



Insights and analysis to help UK farmers explore opportunities for the future



NFU Mutual
FARM INSURANCE

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WELCOME TO NFU MUTUAL'S 2021 DIVERSIFICATION REPORT



Chris Walsh,
Farm Insurance
Specialist,
NFU Mutual

For a lesson in how to adapt to changing circumstances and reinvent business models, look no further than UK farmers.

In an effort to boost their incomes and make sure that their farms remain sustainable, they've proven remarkably inventive. Many have diversified into an array of activities, from glamping to festivals, to secure dog walking sites and selling their own home-grown products direct to consumers.

While not all farmers have moved beyond their core farming activities, for those that have, new income streams are helping them secure their business and add resilience during uncertain times, such as those we face today.

There are many ways to diversify a farm. How you go about it depends on the interests and skills available within the family or workforce. Other factors include location and access to customers. Of course, it also depends on the opportunities available, such as current demand for rural accommodation from a growing band of staycationers.

The number of farmers who diversify beyond traditional activities is likely to increase post-Brexit, following significant changes to agricultural support. Expect to see a boom in the provision of farm accommodation and hospitality in the coming months and years, as farmers offer

the public an alternative to travelling overseas; to see some of the beautiful sights we have in the UK, whether that's a week away in the Highlands or a weekend down on the Cornish Coast.

Throughout this report, you'll find first-hand accounts from customers who have experienced the opportunities and challenges associated with setting up a new venture. In addition, NFU Mutual has spoken to more than 1,600 customers from across the UK who have already taken the leap and set up a diversification business or are considering their future business direction. You can see the results on page 3.

It's never easy. When I speak to farmers about their diversification, it's clear how much planning, skill and passion is needed to make it work. As some farms are already aware, welcoming the public onto your land can introduce new risks. Whatever type of new venture you're contemplating, consider your insurance needs, tax implications and risk management from the start to make sure the relevant regulations are met.

Whatever stage of your diversification journey, as the UK's leading rural insurer, NFU Mutual understands the risks and needs of customers entering new markets and is there to support you.

SURVEY FINDINGS

Farmers up and down the country are looking at new ways to boost profitability and make their farms sustainable for the future.

In April 2021, we asked 1,652 farmers across the UK about their diversification experiences and plans. Over one third (37%) told us they – or a third party – were already using their land for non-farming activities.

Keen to attract holidaymakers who want a slice of rural break, holiday accommodation – including caravans, campsites and B&Bs – was the most popular source of diversification, on 12% of farms.

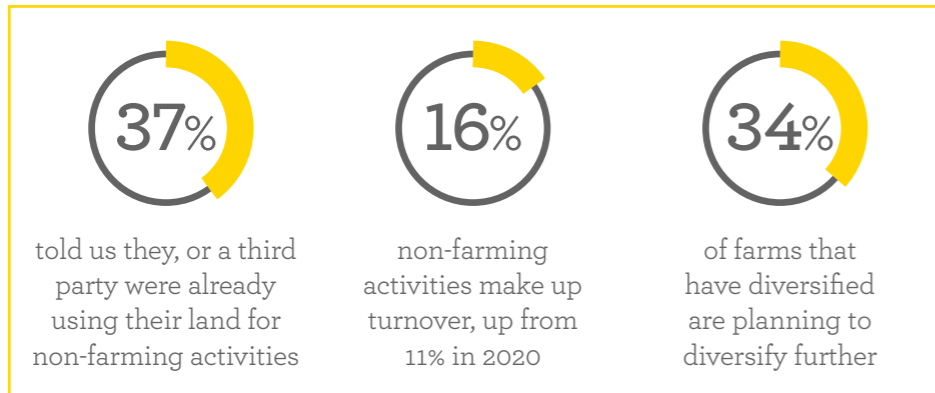
Renewables, livery and equestrian, and farm shops were also popular ways to add a new income source, beyond traditional farming.

The extent to which these non-farming activities contribute towards total business turnover varies hugely. But, on average, it contributes 16%, up from 11% in 2020.

On the other hand, many farms have stuck to their core business. For those that haven't diversified, it may be because they've decided traditional farming is the best use of their skills and land. Others said they had stuck to traditional farming because they felt they were too old to try something new.

For some, it's only a matter of time before they seek new revenue streams. Of those farms that haven't yet diversified in our survey, 11% say they're likely to do so in the next five years.

Of farms that have already diversified, 34% said they planned to diversify further, while 46% said the amount of diversification activity would remain as it is. A small number, 5%, said they were planning to decrease their non-farming activity (the remaining 14% were unable to say).



CREATING A RURAL RETREAT



John Maddy,
Founding Board
Member, Canopy

At a time of high demand for staycations, John Maddy from Canopy, the association for the Glamping and Camping industry, offers some guidance for farms looking to offer rural getaways.

Holidaymakers have once again fallen in love with the idea of staying within their own shores.

After some very tough months for camping and glamping, it's now back in high demand. In particular, many people want to stay in rural locations that are off-the-beaten-track – the type that farms offer in spades.

So, how do farmers and landowners capitalise on this big opportunity? Here at Canopy, we work with NFU Mutual to guide businesses through both the rough and the smooth of rolling out a new business venture. We do this through industry specific training, support, qualifications, accreditation, auditing and consultancy.

Through our experience we've learnt some essential lessons that can help any landowners or farmers looking to start out in the sector.

We would suggest:

- Do your homework and research what is right for you. Don't do this on your own work with a supplier, including an insurer, who is interested in a longer-term relationship.
- Remember, less is more. Look longer term and start small so you can concentrate on what's important, namely quality, customer service and experience. That way, you can learn the ropes and identify any pain points early on.
- Keep up to date with government advice and follow Canopy's guidance. Now, more than ever, safety standards are an essential operational consideration and cleanliness will be even higher on your guests' agenda.
- Always consider the environment. Environmental sustainability has never been more important for glamping and camping guests so make sure to factor it into the whole process.

Crucially, your new business needs to complement your existing one – it should always work with, rather than against, the farm. If you're interested into diversifying into glamping and camping, then in partnership with NFU Mutual we can help you make that a reality.

AN ISLAND FARM PLAYING TO ITS STRENGTHS

**TOM HONEYMAN BROWN,
TAPNELL FARM**

In under a decade, Tapnell Farm on the Isle of Wight has been transformed from a dairy operation into a family-friendly destination for tourists and locals alike.

Considering how to expand beyond dairy farming, they realised the farm would be a beautiful place for guests to stay. “As well as tourism on the island, we benefit from our setting: we’re on top of a hill, with 360 views of the sea all round, and great local beaches”, says Tom Honeyman Brown, partner at the farm.

So, starting in 2012, they rented out a large manor house on the farm for guests to stay in. They then spotted an opportunity with the rise in popularity of glamping and began offering luxury safari tents for guests to stay in on site. The accommodation proved successful and guests can now also choose from eco pods, wood cabins, modulogs, meadow domes and farm cottages.

Tom and family soon realised there was an opportunity to keep their guests entertained while staying on the land. So, to complement their accommodation, they opened

a restaurant, followed by a play barn, and then a farm park for families to enjoy during their stay. Conscious that they would benefit from diversifying even further, last summer the family added an aqua park too. They now also offer outward bound activities such as axe throwing, and more.

The family has always wanted to appeal to both islanders and tourists, Tom explains: “If you rely entirely on tourists, then you become a tourist business model and shut throughout winter. We want to offer year-round jobs on the island.”

Tapnell Farm’s diversification has been the result of extensive planning. “Plan like mad and the end result will be better”, says Tom, adding: “Do your research, and talk to people who’ve done it before, as well as experts like NFU Mutual, who can provide invaluable advice.”

In addition, diversification has always involved playing to the farm’s strengths. For Tom, this includes involving his three children in making decisions. “We have the perfect focus group at home, which we’ve used to design something we know they enjoy. It’s great fun”.



KEEP IT SIMPLE AND SHOWCASE LOCAL PRODUCE

CLARE DUSTOW, COLWITH FARM SHOP

Colwith Farm Shop was originally just a small, simple cabin with an honesty box, on the Dustow family-run potato farm in mid Cornwall.

It worked well for several years, providing a simple way for customers to drive in, pick up a bag of potatoes, and leave what they owed. But come 2020, the Dustows were struggling to meet demand. They added a self-serve till system, but this soon became impractical. So, they expanded to create a shop inside a converted shipping container, fully staffed and operating seven days a week.

The expansion has proven a big success. “While we’re in a popular tourist area, we also benefit from a lot of local support, particularly as we were so helpful to locals through the pandemic” says Clare Dustow, who manages the farm with her husband Chris, the fifth generation of Dustows to farm at Colwith.

Visitors appreciate its wide range of products from local producers. One of the shop’s best sellers are frozen pasties, made with Colwith Farm potatoes. Other local fare sold in the shop includes meat, fresh bakery items daily, as well as Cornish cheeses and locally made treats – not to mention the popular potato-based vodka and gin made by Clare’s brother-in-law at the distillery next door to the farm.

Clare says: “For us, the whole ethos is to work with our farming friends and farming neighbours. Supporting Local. We’re lucky to have many fine producers on our doorstep in Cornwall.”

The Dustows have also expanded to add features such as click and collect and are soon to sell bespoke hampers online. Their efforts have been rewarded by being named a runner-up in the Rising Star category of the Farm Retail Association’s Farm Retail Awards 2021.

The retail operation has evolved gradually, growing to meet demand. While it has been hard work, says Clare, “You don’t have to spend millions – keep it simple. It is about good quality local produce.”

She adds: “It has helped that NFU Mutual have been brilliant with our additional insurance for our new shop, sorting it with little hassle, meaning we can get on with growing our business”.

Social media, particularly posting regular photos of their farming operations, has been an important way to raise awareness of the farm shop. Clare says: “People love to see where food comes from. We’ve got provenance and a story to tell.”



Farm Shop Employee, Emily

To help support our farming customers, we’ve partnered with the Farm Retail Association (FRA); who champion the best UK farm shops and farmers’ markets. Through their work they’re inspiring people and businesses to grow and sell local produce.



Here are their top tips for farmers looking to start a farm shop:

- Act now. There is a massive appetite among consumers for ‘farm to fork’, so now is the time to take advantage of this demand
- Do your research and have a plan. Visit nearby farm shops and think about who your customers would be
- Be yourselves – having a personality and a strong identity is really important
- Future proof your business with a larger planning permission than you need to start with
- Trust yourselves – your instincts are usually right!



CHAMPIONING SUSTAINABLE FARMING AND FOOD

IAN WILKINSON, COTSWOLD SEEDS LTD

When Ian and Celene Wilkinson bought the 107-acre Honeydale Farm in the Cotswolds in 2013, they did so with diversification in mind.

Ian says: “The farm needed re-thinking. Half was arable monoculture, half was unimproved grassland. There had been little investment and the buildings were not fit for purpose. We wanted to change everything”.

Specifically, this meant building on his experience as MD of local business Cotswold Seeds, sharing knowledge and expertise to improve soil, animal health and human health. “We wanted to extend that work with a demonstration farm – a place to transfer knowledge and inspire people in these challenging times”, Ian reflects.

The result was the creation of FarmED, a not-for-profit organisation which provides learning spaces and events to help people on the path to sustainable farming and food systems.

A broad spectrum of visitors, including farmers, foodies and researchers come to FarmED for demos, food and advice.

They take part in a varied calendar of events covering topics ranging from regenerative soil health, to produce tastings and dinners.

If you’re looking to start a new business venture on your land, Ian suggests thinking hard about exactly who you’re trying to attract to your farm. He says: “You need to carefully identify your audience. We knew we wanted to specifically attract audiences including new entrants to farming and people who wouldn’t normally go to farms.”

Starting FarmED was a bold step for the Wilkinsons. “We didn’t know if people would use it, it hadn’t been done before,” says Ian. He explains that diversifying a farm is a learning experience: “You have to feel your way, and speak to the right people, such as NFU Mutual.”

He adds: “You can have business plans, and a clear mission statement from day one, but at the end of the day, the market will tell you something different and you have to adapt your offer. It will change. But of course, farmers are really good at that.”

TAX IMPLICATIONS FOR YOUR DIVERSIFICATION VENTURE



Sean McCann,
Chartered Financial
Planner,
NFU Mutual

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 £5.3 billion in 2020/21, a figure that has doubled in the last 10 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.

FINANCIAL FUTURE

Diversification could be one of the options you consider 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 52% of farmers have a formal succession plan in place while only 33% of farmers have reviewed or updated it in recent years.

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.

For more information on
planning for your future search
NFU Mutual Farm Handover





BRINGING YOUR DIVERSIFICATION PLANS TO LIFE

We hope this report, and in particular the stories of successful farm diversifications, will inspire you and help you on your own diversification journey.

Taking the leap beyond farming can be daunting, and is not without its risks, but you're not alone. It's essential to lean on others for advice and expertise, right from the beginning.

So, whether you're just starting to expand beyond your normal farming activities, or have already ventured into new business lines, come and talk to our experts.

You might not realise that NFU Mutual too has diversified since it was started by farmers, for farmers, back in 1910. We now provide a diverse range of insurance covers and additional services to suit the varying demands of farmers. While no two diversifications are the same, popular approaches like holiday lets and farm shops bring people onto farms, meaning that robust insurance and risk management is a must.

Speak to your local NFU Mutual agency or visit [nfumutual.co.uk](https://www.nfumutual.co.uk) to ensure you have the right cover in place.

LET'S START TALKING

To see how we can help with your diversification journey, contact your local agency or search **NFU Mutual Diversification**.



CHECK OUT OUR 'AHEAD OF THE FIELD' PODCAST SERIES

We've launched a series of podcasts featuring farmers discussing key topics such as diversification, the rising importance of agri-contracting and farm finances.

You can listen to our '**Ahead of the field**' podcast series on your smart-phone by searching for '**NFU Mutual**' in your podcast app.



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