AGRICULTURAL BUSINESS SKILLS TRAINING - SAMPLE

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February 2015

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MORNING AGENDA

9.00	UK Agriculture - An Outline
10.10	Enterprise Size
10.30	Coffee
10.45	Farm Structures
11.45	Agricultural Policy
12.30	Lunch
1.15	Afternoon Session

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UK AGRICULTURE QUIZ

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UK AGRICULTURE: AN OUTLINE

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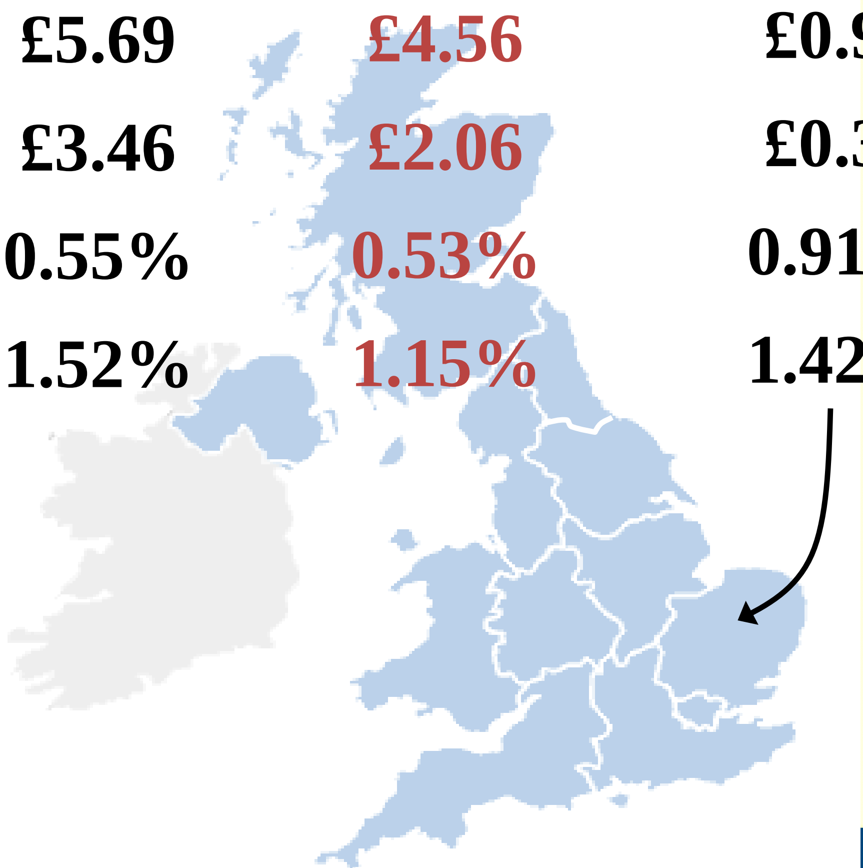
FARMING IN THE ECONOMY

2011	UK	England	East Anglia	
Area - *m Ha*	17.17	8.92	1.38	*7%*④
Output - *£bn*	£23.65	£17.79	£3.41	*11%*④
TIFF① - *£bn*	£5.69	£4.56	£0.97	*12%*④
Support - *£bn*	£3.46	£2.06	£0.33	*8%*④
% GVA②③	0.55%	0.53%	0.91%	
% Employment③	1.52%	1.15%	1.42%	



① Total Income from Farming = farm profit
② Gross Value Added
③ 2010 figures
④ % of UK total
Source: DEFRA / Andersons

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UK AGRICULTURE

- **Farmland covers around 17.3 million hectares; around 70% of the total UK area**
- **Around 36% is arable (croppable) land with 64% grassland**
- **Approx. 100,000 SPS Claimants in England**
- **56,000 businesses in Farm Business Survey (output >€25k)**
- **Andersons Commercial Business Estimates**
  - Cereals and Roots 12-14,000 (>100ha)
  - Dairy 6-7,000 (>100cows) around 12,000 in total
  - Beef and Sheep 8-9,000 (100 cows, 650 ewes or combination)
  - Pigs and Poultry 1,500-2,500 businesses

Source: DEFRA / Andersons

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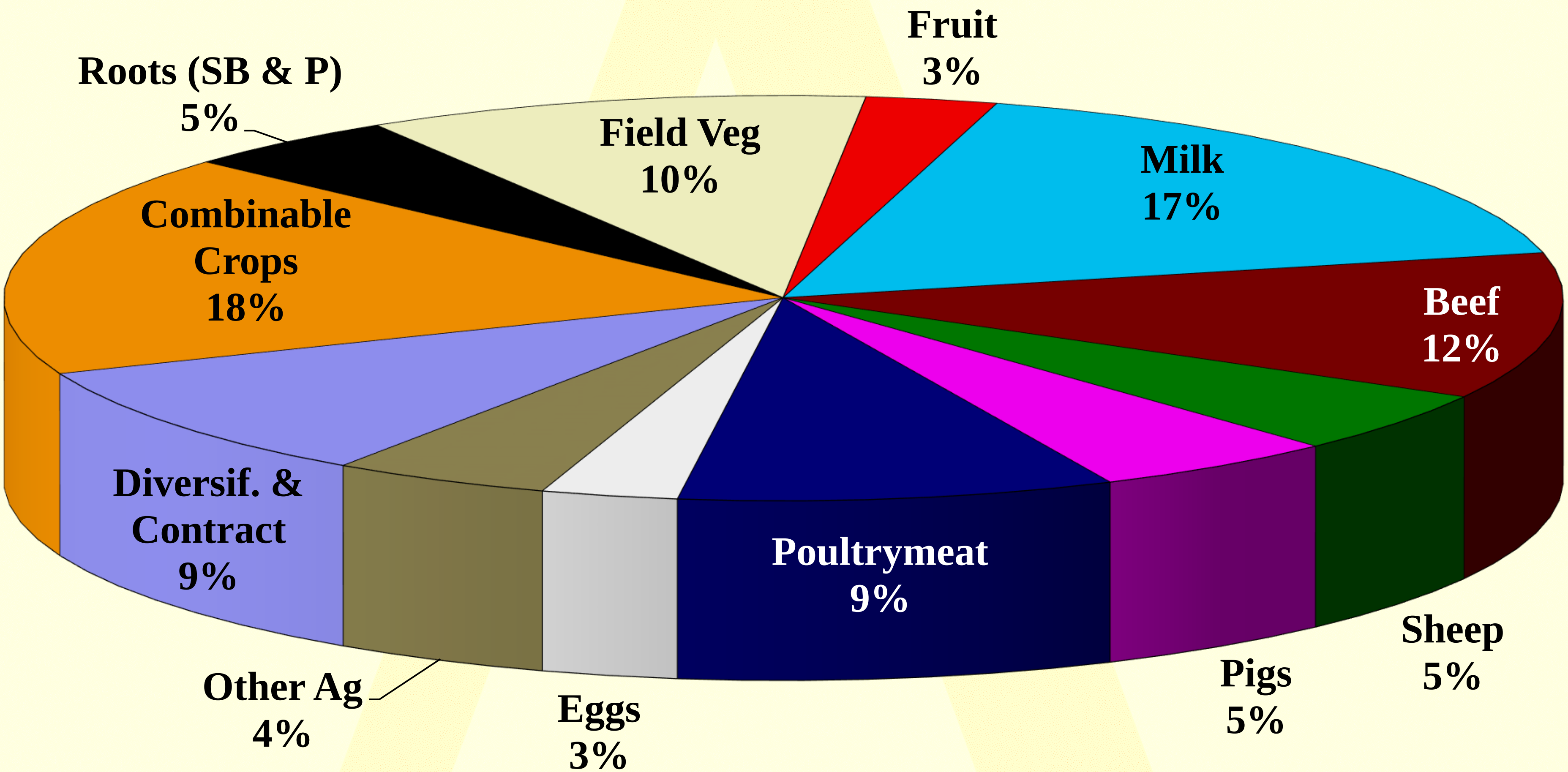
UK SECTOR OUTPUT

5 Year Averages - 2009 to 2013



Source: DEFRA

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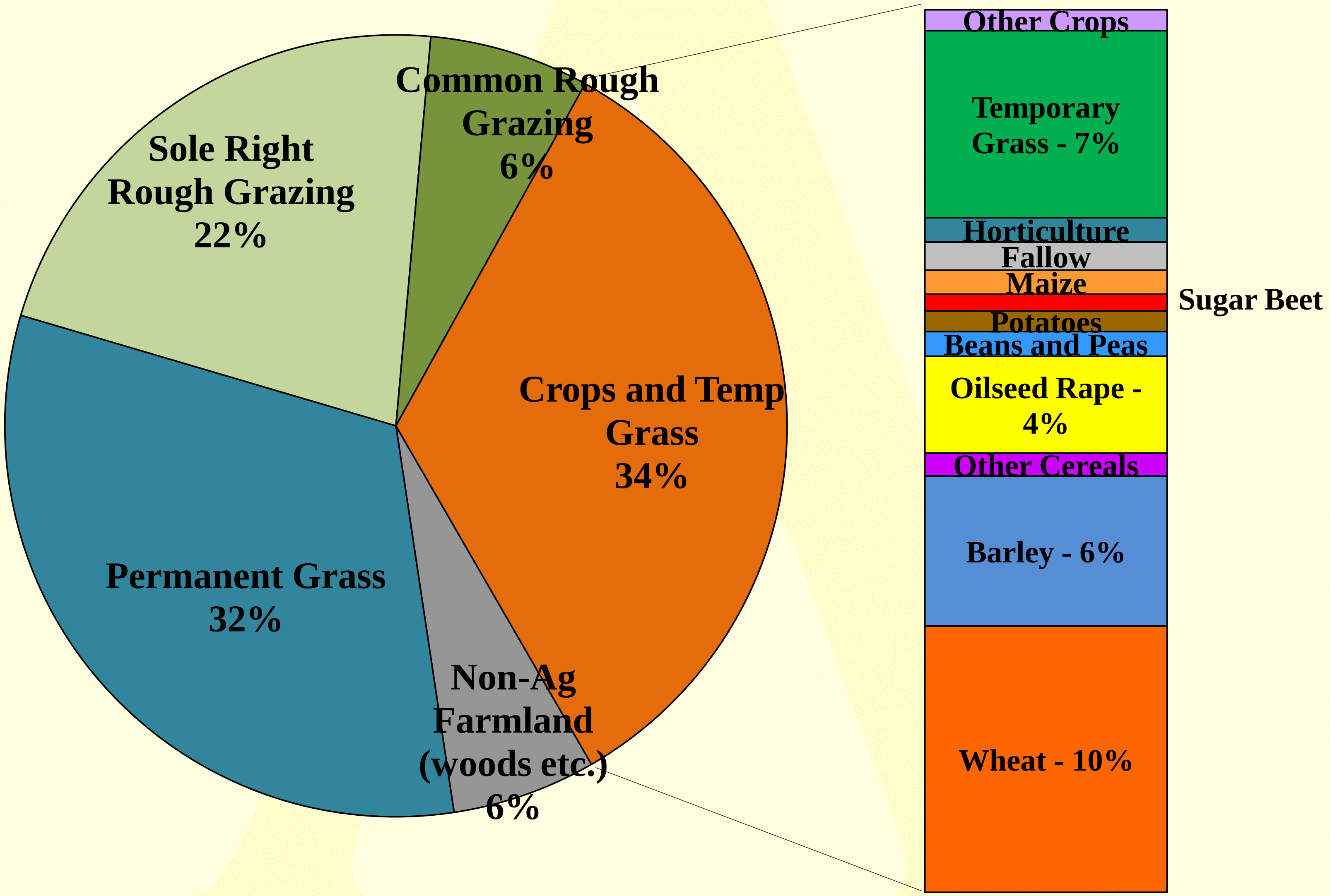
CROP AREAS

UK Average Areas - 2009 to 2013



Source: DEFRA

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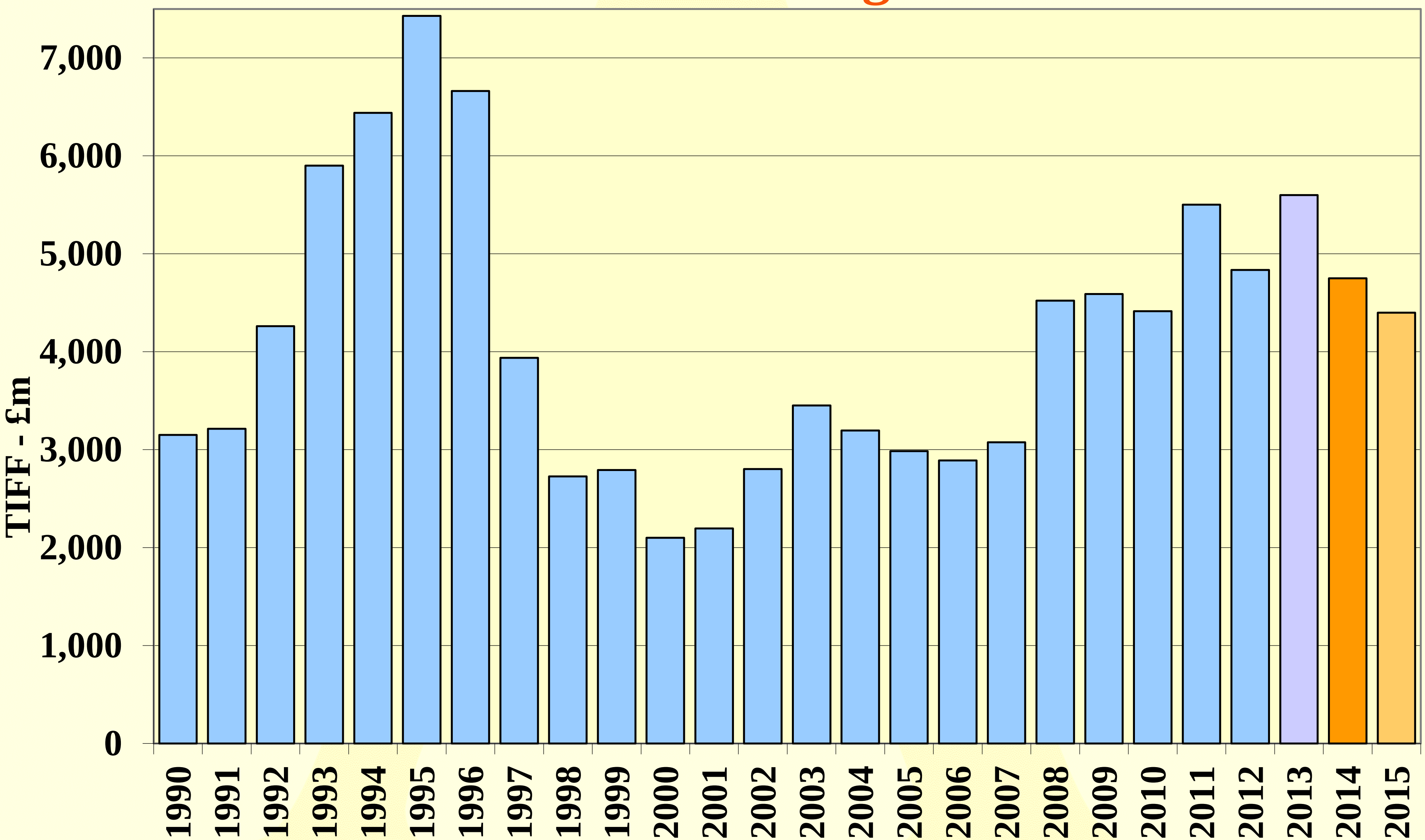
FARM PROFITABILITY

Total Income From Farming – 1990 to 2015



Source: DEFRA / Andersons

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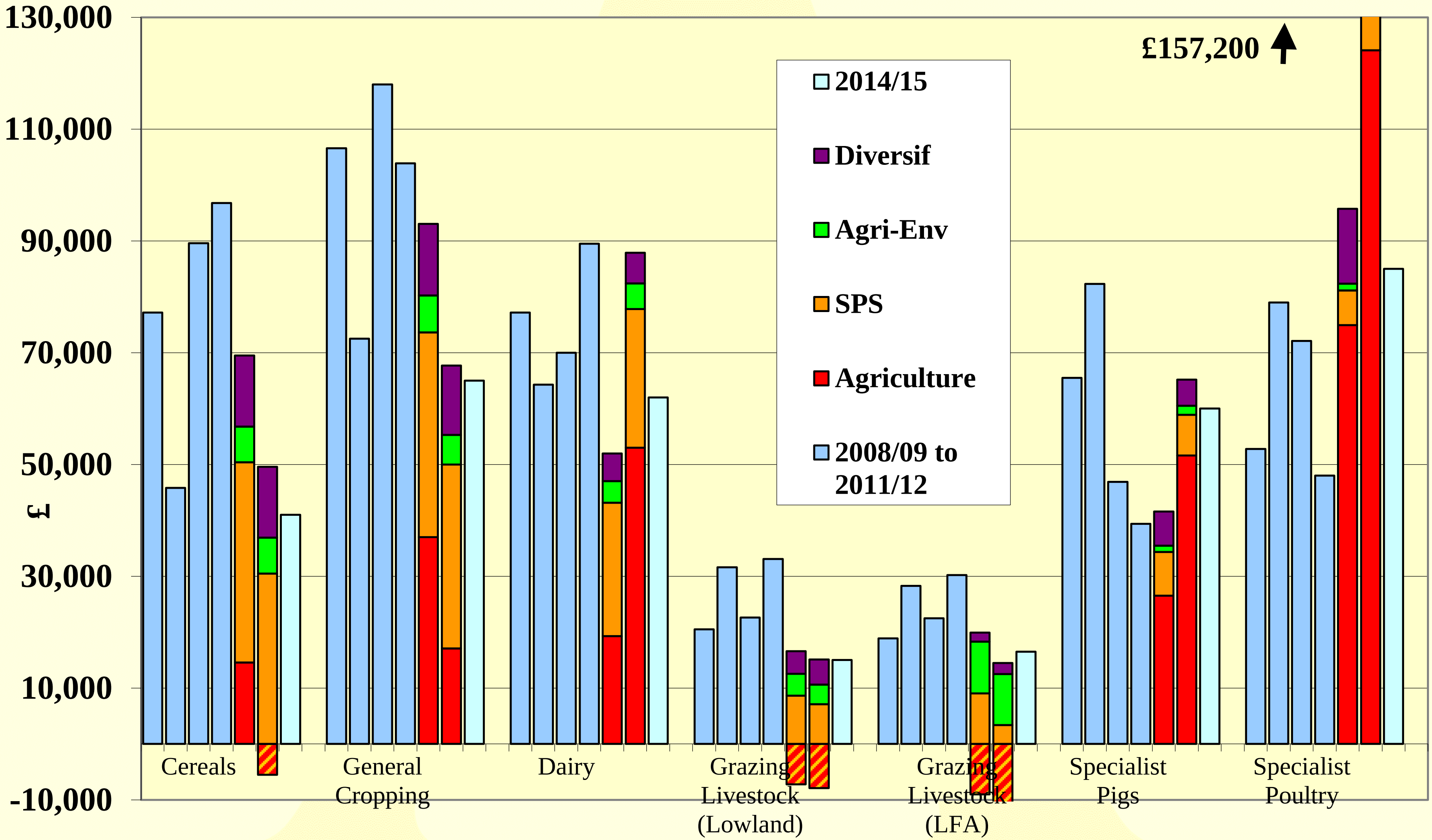
SECTOR PROFITABILITY

Farm Business Income, England – 2008/09 to 2014/15



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PROPORTIONAL ANALYSIS

£m	2012	%	Target %	2007 %	
Total Output	25,598*	100	100	18,055	100%
Direct Costs	9,031	35	30-35	5,995	33%
Labour	2,373	9	12-15	2,004	11%
Power & Mach	4,582	18	15-17	2,975	16%
Overheads & Admin	1,785	7	3-4	1,464	8%
Property	2,376	9	3-4	2,017	11%
Rent & Interest	748	3	12-15	845	5%
TIFF (Profit)	4,702	18	15-19	2,755	15%

* Includes £1,012 of non-farming income

Adjustments: TIFF labour does not include proprietors' manual labour; (up to £4,300m?)
Full rental charge might be £3,000m. Would be offsetting reduction in interest (mortgage costs) and property (landlords repairs).

Source: DEFRA / Andersons

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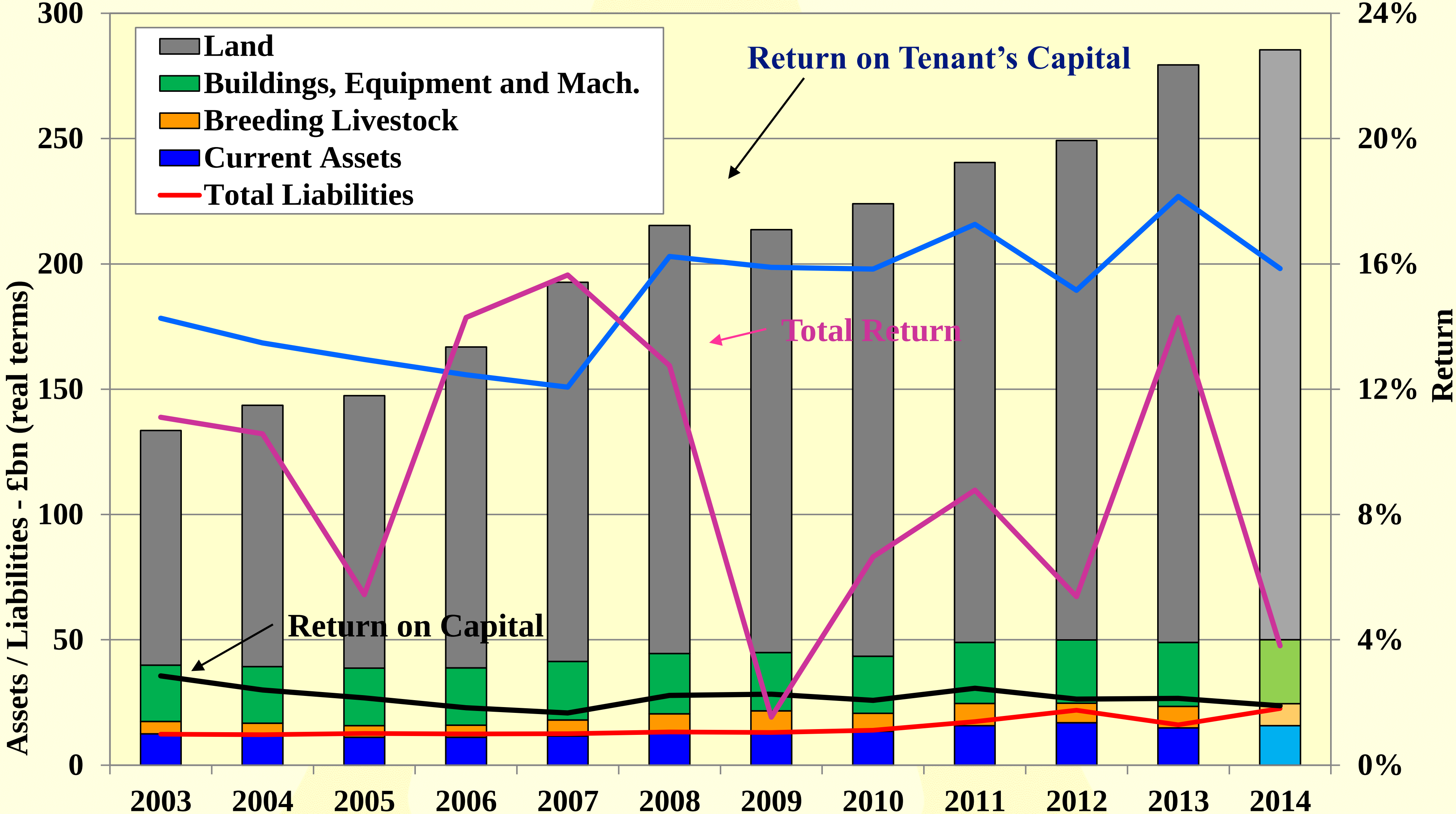
UK FARM BALANCE SHEET

Assets, Liabilities and Return on Capital – 2003 to 2014



Source: DEFRA / Andersons

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ENTERPRISE SIZE

ENTERPRISE SIZE

Combinable Crops and Roots

	Cereals		General Cropping	
	Ha	Acres	Ha	Acres
Average Farm Size 2012	199	492	210	519

Enterprise Size (2011)	All		*Farms >15 Ha Crop*	
	Ha	Acres	Ha	Acres
Wheat	58	143	75	185
Oilseed Rape	47	116	51	126
Sugar Beet	24	59	34*	84

* Farms with over 10 hectares of sugar beet

Source: Farm Business Survey / DEFRA

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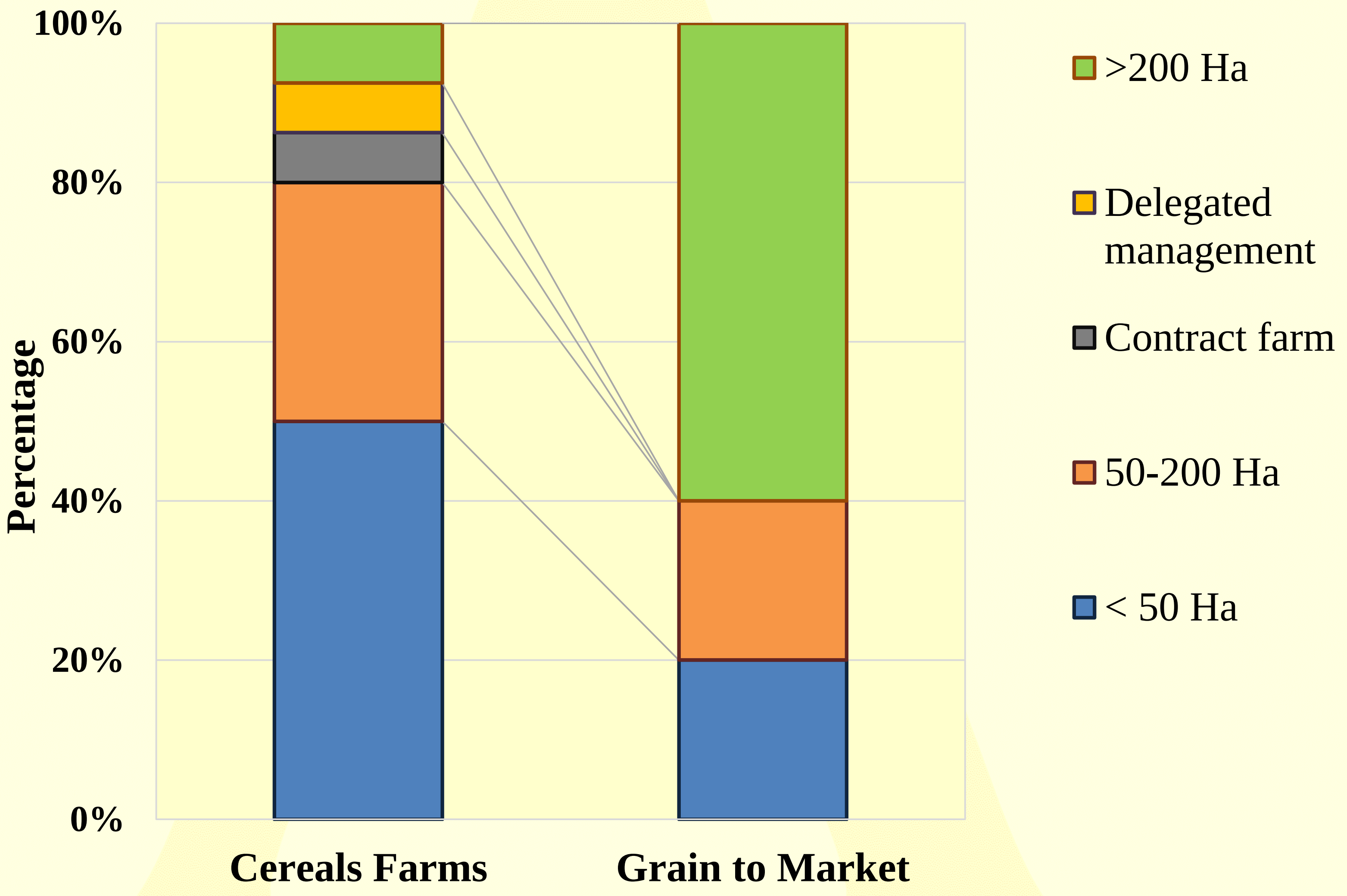
WHO IS PRODUCING WHAT?

Estimate of Cereals Output by Category



Source: The Andersons Centre

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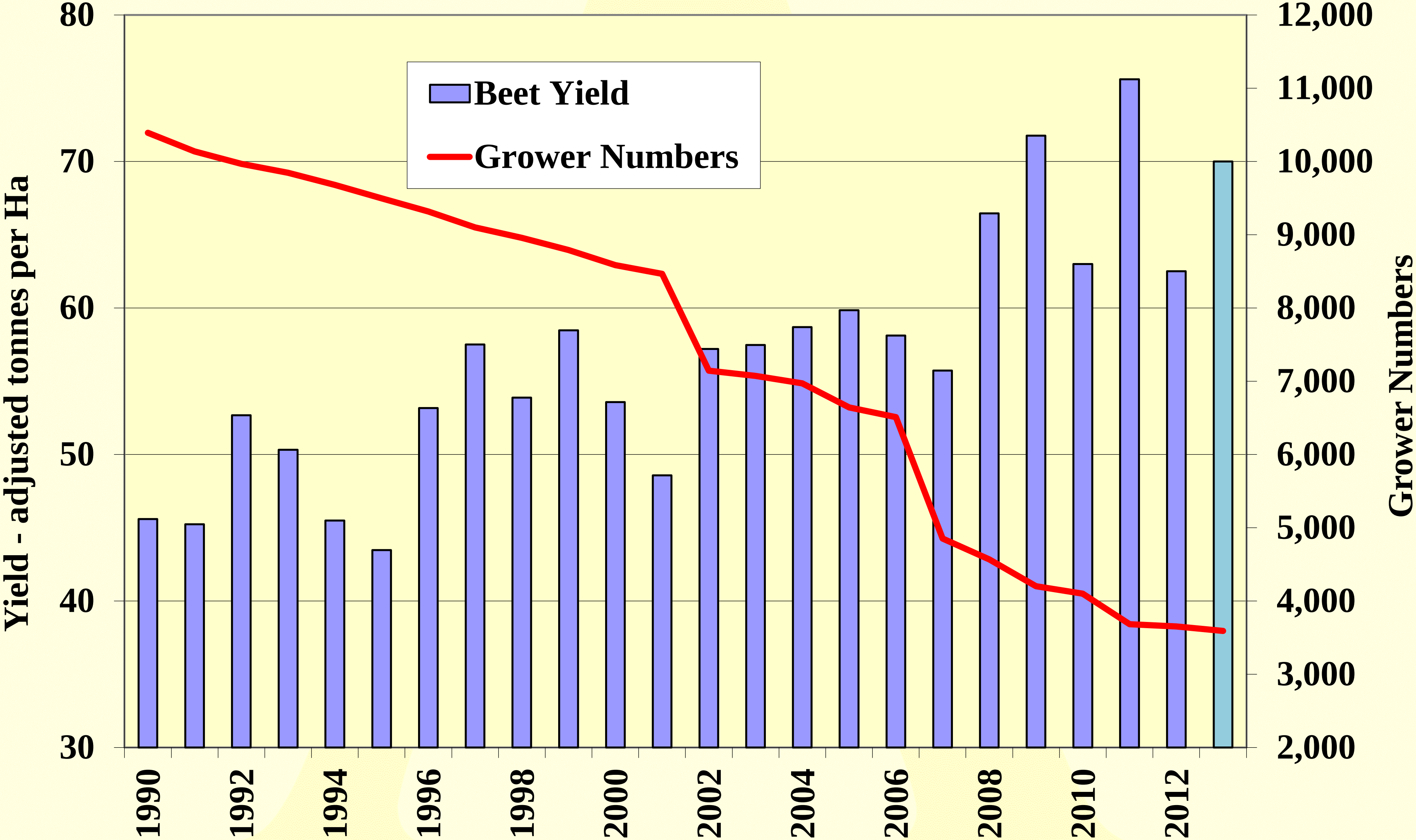
SUGAR RESTRUCTURING

Sugarbeet Industry Yields and Growers 1990 -2013



Source: British Sugar / Andersons

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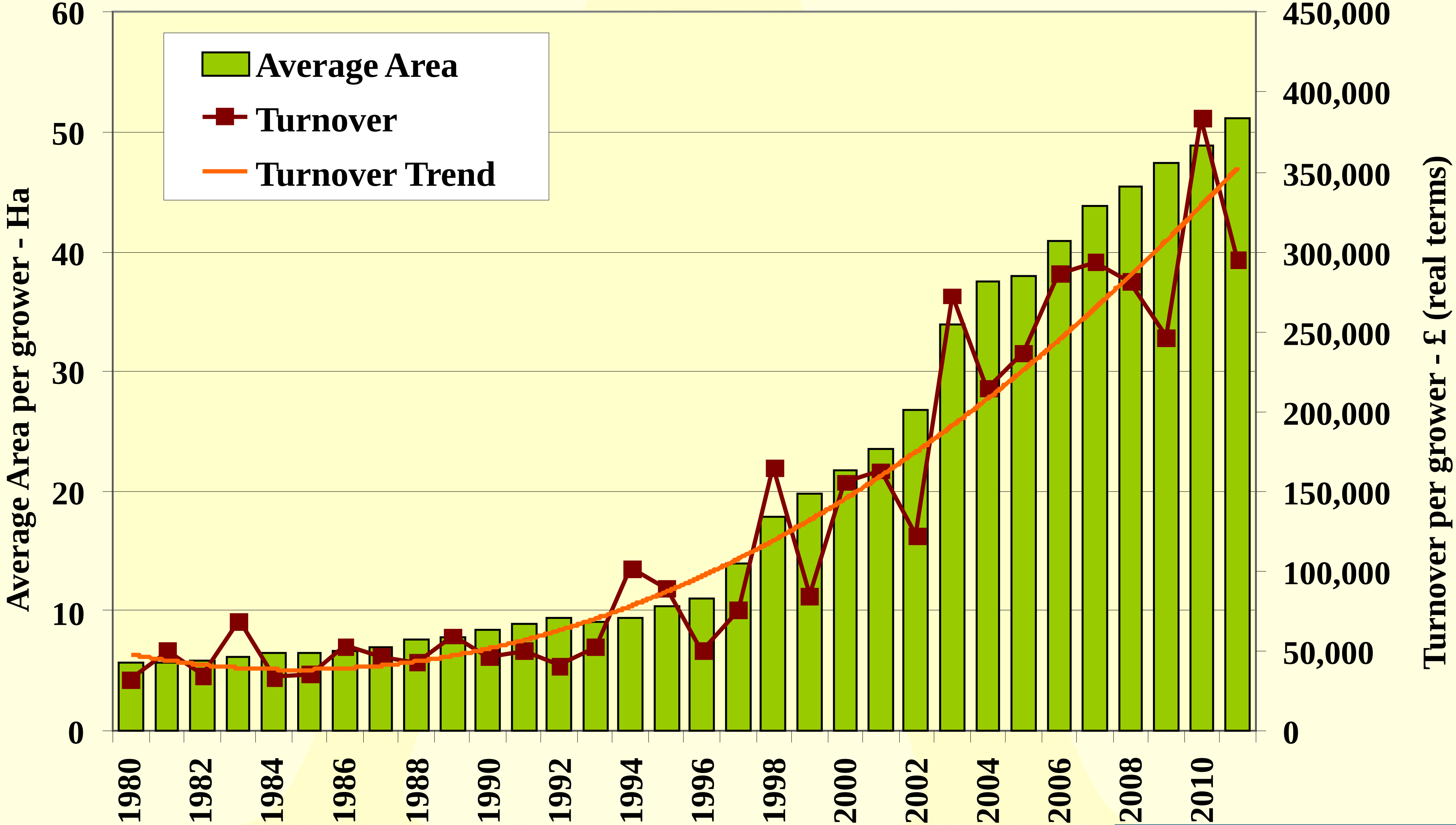
POTATO RESTRUCTURING

Grower Area and Average Turnover – 1980 to 2011



Source: Potato Council / Andersons

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FARM STRUCTURES

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LAND OCCUPATION

full control	↑	**Owner-occupied; in-hand farming**
		Owner-occupied; contractors used
		Contract Farming
shared control		**Share Farming / Equity Partnerships**
		Cropping Licences
		Tenancy; Farm Business Tenancy (FBT)
little control	↓	**Tenancy; Agricultural Holdings Act (AHA)**

- **Many farm businesses will have a mix of arrangements**

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TYPES OF LAND OCCUPATION

1. Owner-Occupation

- **Dominant form of farming in UK since end of WW1**
- **Profits high as land purchase cost often repaid years ago**
  - but low return on capital if value of land asset included
- **Now difficult to grow businesses through this route**
  - lack of land for sale
  - high cost (£10,000 per acre) - high mortgage payments
- **Field operations often outsourced to contractors**

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TYPES OF LAND OCCUPATION

2. Contract Farming

- **Developed since 1970's to circumvent tenancy restrictions**
  - also taxation advantages (Income and Inheritance) for farmer
  - farmer must be seen to be actively involved
  - farmer remains the 'occupier' of land – subsidy claims etc.
- **Farmer provides land and buildings**
  - receives a fixed 'basic return' (rent equivalent) + % profit share
- **Contractor provides labour, machinery and management**
  - receives a fixed 'basic fee' + large % profit share
- **Farmer released from day-to-day management whilst still being a 'farmer' – working capital released**
- **Contractor can grow his/her business**

TYPES OF LAND OCCUPATION

3. Share Farming (Equity Partnerships)

- **All operating costs and returns shared on agreed %s**
  - businesses remain separate under share farming – split invoices
  - equity partnership is new business
- **Less common in the UK than other arrangements**
  - mostly in livestock situations
  - administration can be complex; businesses become intertwined

4. Cropping Licence

- **Licence to grow a crop on somebody else's land**
- **Responsible for crop but not technically land occupant**
  - issues with subsidy claims and liability
- **Used in certain sectors**

TYPES OF LAND OCCUPATION

5. Tenancies

- **Grants the tenant 'exclusive occupation' of the land**
  - they are the occupier – make subsidy claims on it etc.
- **All tenancies since 1995 are Farm Business Tenancies (FBT)**
  - tend to be 3-5 years (but can be longer)
  - rents set by open market £200 per acre+
- **Agricultural Holding s Act (AHA) 1986 applied previously**
  - rents based on a 'formula' – lower than FBTs
  - security of tenure for tenant (+ 2 successions) = v. long-term
- **Tenancies provide a low-risk income for landowners**
- **Low-capital way for others to expand**
  - but uneconomic rents often paid by tenants

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JOINT VENTURES

- **Many opportunities and are becoming more popular:-**
  - contract farming, share farming, equity partnerships, labour & machinery sharing

Benefits

- **Specialisation, technical management**
- **Scale + / or efficiency**
- **Business growth, new entrants**
- **Reduced working capital burden**
- **Succession solution**
- **Tax benefits (APR / BPR)**

Barriers

- **Finding partners**
- **Not knowing how they work**
- **Scepticism that it is unfair**
- **Change is required**
- **Unwilling to share control**

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EXERCISE – FARM STRUCTURES

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AGRICULTURAL POLICY

HISTORY OF THE CAP

1957 ~ Treaty of Rome, Common Market Creation

1958 ~ Stresa, Food Production at all costs, guaranteed farmer income

1968 ~ Mansholt Plan ~ Improve Efficiency (*Failed*)

1970's ~ Agrimoney Green Pound, Farmer Income Protection

1980's ~ Food Mountains

1984 ~ Restrictions ~ Milk Quota

1988 ~ Financial restrictions on subsidies

1992 ~ McSharry ~ Set-Aside, Headage & Area Payments (GATT Talks)

1999 ~ Agenda 2000 ~ 2 Pillars of CAP (Enlargement)

2005 ~ Fischler ~ Decoupling & Cross Compliance (WTO)

2015 ~ Ciolos ~ Greening (Financial)

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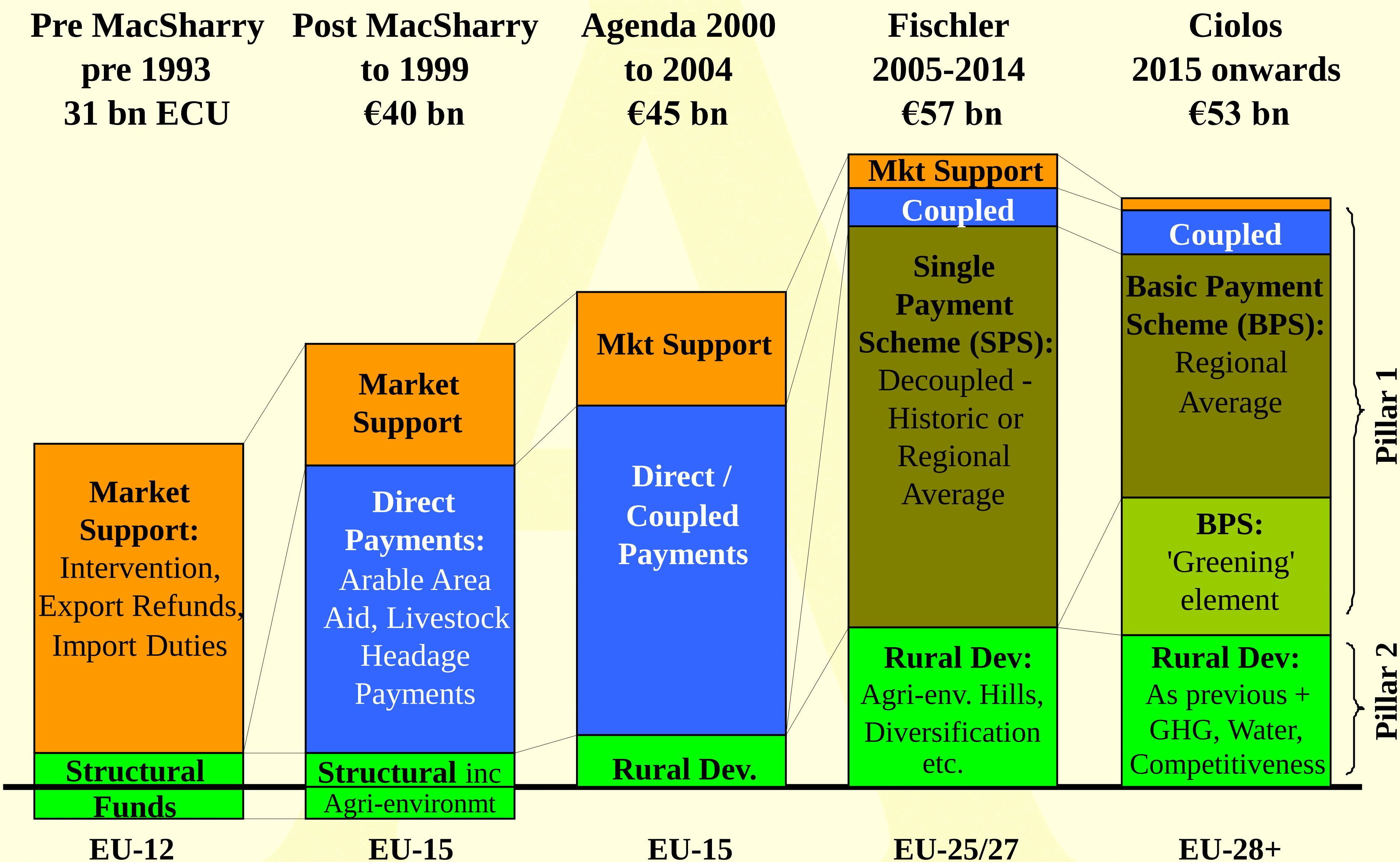
EVOLUTION OF THE CAP



BASIC PAYMENT SCHEME ~ 1

- **Single Payment to become ‘Basic Payment Scheme’ (BPS)**
- **Move to a ‘regional’ payment basis**
  - already done in England
  - Scotland and Wales need to change (including defining regions)
- **System still based on entitlements**
  - England to ‘roll-over’ existing allocation
  - new grant in Scotland & Wales – based on 2015 land occupation
- **Basic Payment is the bedrock, then top-ups**
  - ‘Greening’ payment taking 30% of funds
  - Young Farmers Scheme (<40 years old) – 2% of funds
  - coupled payments in Scot (13%), no other top-ups used in GB
- **Changes in minimum claim size -** (5 Ha E & W; 3 Ha Scot)

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BASIC PAYMENT SCHEME ~ 2

- **Limit on the amount of aid that claimants can receive**
  - degressivity/capping – 5% over €150,000; 30% Greening exempt
  - optional higher rates; Wales has an absolute cap at €300,000
- **Restrictions on recipients (active farmer)**
  - ‘negative list’ and minimum activity levels on some land types
  - All claims with more than 36 Ha will be ‘active farmers’
- **New Online application process for 2015 (online only)**
  - issues on rural broadband, farmer IT skills and roll-out

Biggest farm level effects:

1. **Less money – BPS v SPS and Rural Development**
2. **Greening – higher environmental requirements**
3. **Move to regional basis in Scotland and Wales**

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GREENING

- **Three basic EU-wide measures (national schemes rejected);**

1. **Crop Diversification;**
   - 2 crops where arable area is 10-30 Ha; 3 crops if arable >30 Ha
   - definition of crop fairly logical
   - exemptions for farmers with >75% grass
2. **Ecological Focus Areas;**
   - 'environmental set-aside'
   - 5% of arable area if this is >15 Ha; some exemptions
   - fallow, buffer strips, hedges, catch crops and green cover, nitrogen-fixing crops
3. **Retention of Permanent Pasture -** no farm level issues

- **Plantings in autumn/spring must be Greening compliant**

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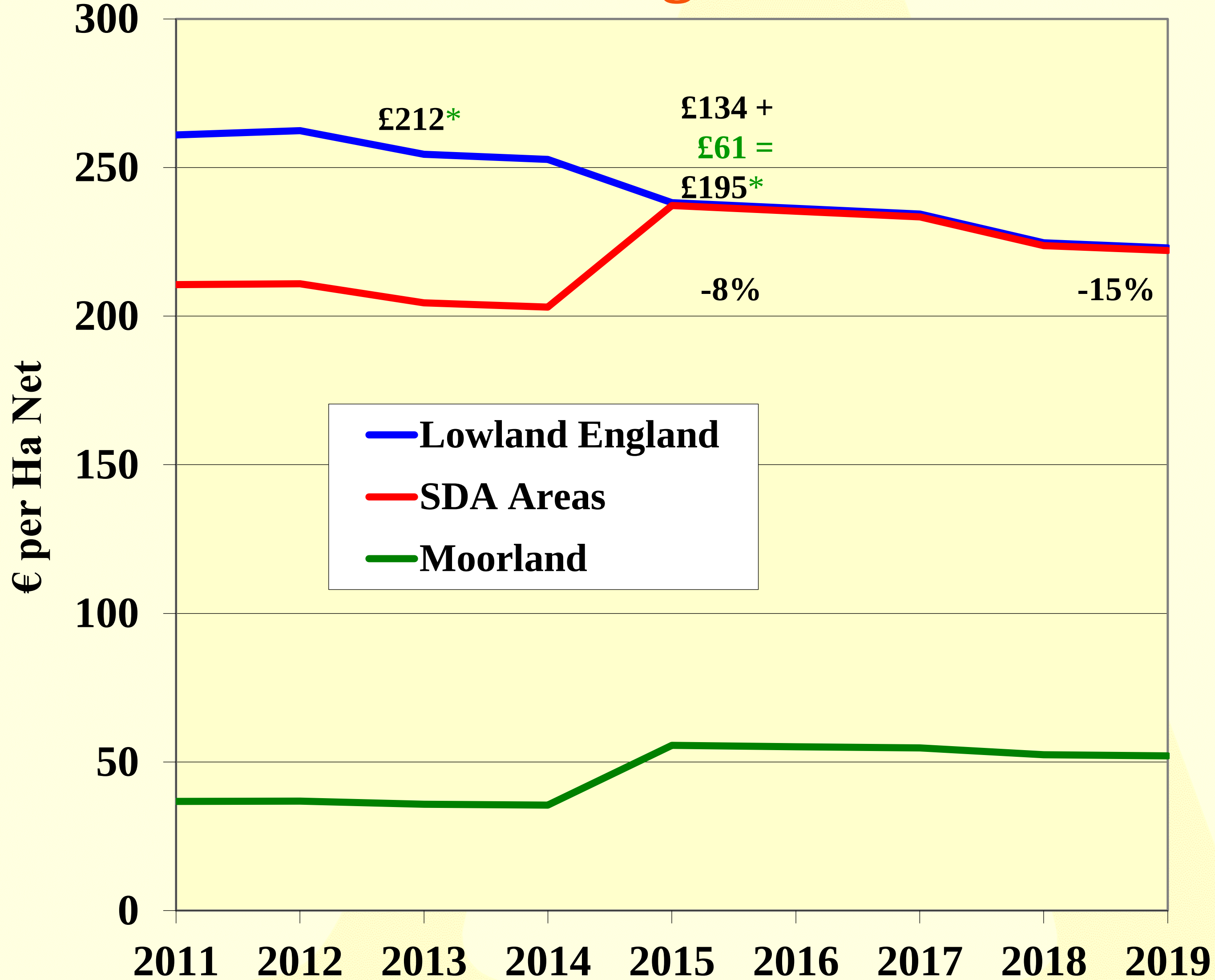
BUDGETING SPS (BPS)

Estimated English Rates – 2011 to 2019



Remember, also drop of £30 per Ha for many farms as ELS goes
i.e. 20%+ drop in value of area payments (SPS & ELS) in 2 years time

* at €1 = 83.5p

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PILLAR 2 – RURAL DEVELOPMENT

- **‘Countryside Stewardship Scheme’**
  - replacement for Environmental Stewardship (87% of funds)
  - no ELS replacement (reduced funding + Greening)
  - open in 2015 but 1st Jan 2016 start date
- **‘Competitiveness’ strand;**
  - capital grants scheme run by DEFRA (like FFIS?)
  - Training, advice and knowledge transfer – fits in with recent strategies – Future of Farming and Agri Tech
- **‘Rural Growth’ funding**
  - distributed through Local Enterprise Partnerships (LEPs)
- **Also LEADER – local community funding**

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FUTURE OF THE CAP

- **Funding for BPS in the MFF only lasts until 2019;**
  - potentially a 5-year scheme (could be rolled-over like the SPS)
  - review of CAP scheduled for 2018 (negotiations to start 2017?)
  - new Commission from Nov 2014
- **Pointers for future policy**
  - setting of policy won’t become any simpler
  - will continue to be direct payments post-2019 (funds trimmed)
  - Greening has established principle of ‘payment for public goods’
  - Greening requirements to increase – no big shift to Pillar 2
  - degressivity / capping now mandatory – likely to ratchet-up
- **Will we still be in the EU?**
  - a ‘British Agricultural Policy’
  - Scotland’s relationship with the UK and EU?

LUNCH