ANDERSONS

Outlook 2024

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the FARM *business* CONSULTANTS

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Outlook 2024 has been compiled with contributions from Consultants within the Andersons businesses. It is published by Andersons the Farm Business Consultants Ltd, which co-ordinates the presentation of the Andersons businesses throughout the UK.

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INTRODUCTION TO Outlook 2024

Welcome to the latest edition of Andersons' Outlook. We hope you find our 2024 publication informative and stimulating.

The coming year seems likely to be the one when the reality of post-CAP farm support hits home on many farms. In England, BPS payments will be down to at least half of their historic levels - more for larger farms. The offer under ELM will be further developed, but farmers will need to do more to access this money than under area payments. The introduction of BPS replacements is less advanced in other parts of the UK. However, next year should see detailed rules released for the new arrangements in Wales, Scotland and Northern Ireland - clearly illustrating that the BPS is on borrowed time.

This should crystalise producers' thoughts about having to farm profitably with less financial assistance from Government. A thriving agricultural sector requires a significant improvement in overall productivity in the next decade. Whilst there are pockets of excellence in UK agriculture, there is also a 'long-tail' of underperforming businesses. Technology will undoubtably have a part to play in addressing this issue, but the need for high-quality people - both management and staff will be equally, if not more, important.

For most, food production will remain the core of their businesses. However, maximising income from all aspects of the farm will be vital. This encompasses traditional 'diversification' activities as well as newer income streams from selling environmental services.

These themes (and many others) are addressed in this edition of Outlook.
By working together, the farming sector has the ability to solve the issues facing it. Andersons has been working with farmers and the allied industries for 50 years to help them make the right decisions, whatever the business environment.

We wish you all the best for a successful 2024.

John Pelham   Nick Blake   David Siddle   Richard King
Directors, Andersons the Farm Business Consultants Limited

Farm Profitability Prospects

RICHARD KING

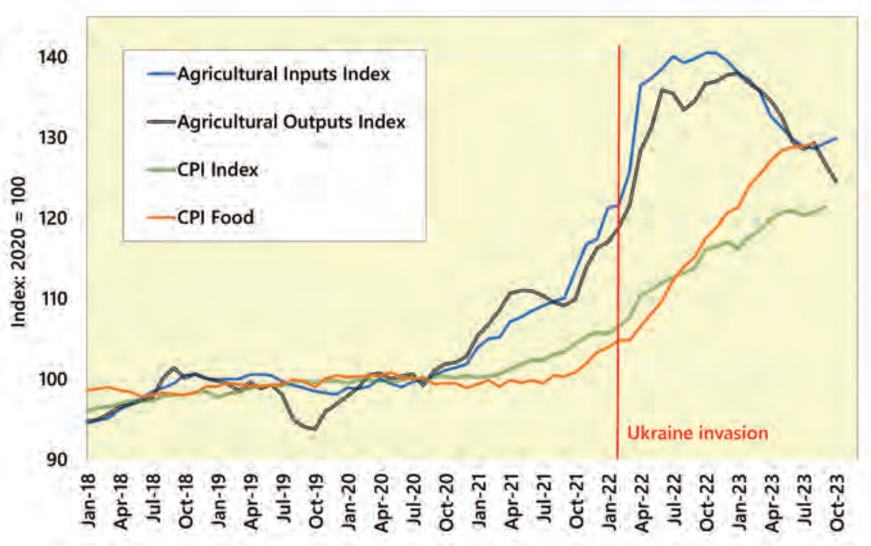
After record farming profits in 2022, returns are set to fall to more normal levels in 2023. The coming 2024 year is likely to see this situation persist, as high costs continue to bear down on UK agriculture.

Rising costs have been a theme in farming (and the wider economy) for a while. Although it is often attributed solely to Russia's invasion of Ukraine, inflation was already rising before then - mainly as a result of post-Covid supply-chain disruptions. Figure 1 provides an Agricultural Inputs Index which shows 'agflation' and has been calculated by Andersons. It builds on Defra price indices for agricultural inputs and weights each input cost (e.g., animal feed) by the overall spend by UK farmers. We then provide an up-to-date estimate of the price index for each input cost category and add data for costs not covered by the Defra figures.

Agricultural inflation is much more variable than general inflation. This is largely due to having fewer items in the 'basket' and the linkages to commodity prices for such things as fuel, fertiliser and animal feed (feed is almost a quarter of the index). The rise in the Inputs index has been matched to a large extent by similar rises in Output values (i.e. what farmers sell). However, in recent months there has been signs of a divergence - mainly as a result of a fall in some output values such as grain and milk. There is also the issue of the timings of purchases and sales. For 2023, many inputs will have been purchased at 'peak' values, whilst outputs are being sold into falling markets.

> **High costs continue to bear down on UK agriculture.**

Figure 1 Price Levels - 2018 to 2023



Source: Defra / Andersons

Figure 1 also shows general inflation in the economy - as illustrated by Consumer Prices Index (CPI) and the Food element of CPI. Food prices now look to be stabilising - there is a 'lag' between rises in commodity prices and what happens on the supermarket shelf.

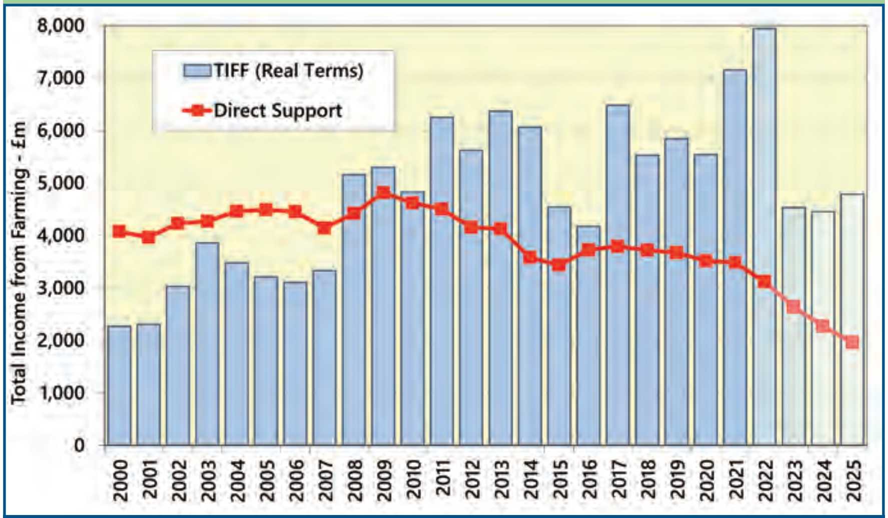
To look at the overall profitability of the farming sector we use Defra's Total Income from Farming (TIFF) measure. This shows the return to all entrepreneurs in the industry for their management, labour and capital invested - simplistically the profit of 'UK Farming Plc'. It is Defra's preferred measure of the aggregate returns in the farming and horticultural sector.

All the data is in real-terms (at 2022 prices) and is on a calendar year basis. Having a single figure for a year and covering all sectors means that some of the nuance is lost, but it provides a handy benchmark for the overall financial health of farming. Figure 2 shows the results since the Millenium. The figures to 2022 are Defra's, those for 2023 onwards are Andersons' estimates.

Defra's provisional TIFF figures for 2022 show the highest real-terms profits since 1995. This follows a very good 2021 year too. There is a history of significant revisions to the TIFF figures however; we wonder if 2022 perhaps looks a little too good and may come back a bit when final figures are released.

Our estimates suggest a significant drop in profits, by over 40% for the current 2023 year. Whilst this sounds dramatic, it does only put TIFF back in the range seen in recent years (albeit at the lower end of it). As the figures are shown in real-terms the high level of inflation has the effect of reducing profits too. Inflation is also eroding the real-terms value of direct support (BPS and agri-environmental payments).

Figure 2 Total Income From Farming and Support - 2000 to 2025 (Real terms, 2022 prices)



Source: Defra / Andersons

Looking to 2024, overall profitability is forecast to be little changed in real terms. Overall, cost levels look set to remain high. Although some key inputs such as fertiliser and feed are forecast to be cheaper, many other costs will continue to be pushed-up by inflation. Even if inflation falls through 2024, prices of products or services may still rise as firms look to 'catch up'. The outlook for output prices is mixed, depending on sector. However, the two largest sectors of UK farming, dairy and combinable crops, seem set to face challenging market conditions.

A very tentative forecast for 2025 is included. Some recovery in outlook prices is included and costs may well ease by this point. Overall, profits remain in the range around £5bn which has been the average level for the past 15 years. By no means a disaster, but feeling uncomfortable for a sector coming off the very good years of 2021 and 2022.

Economic Prospects

GRAHAM REDMAN

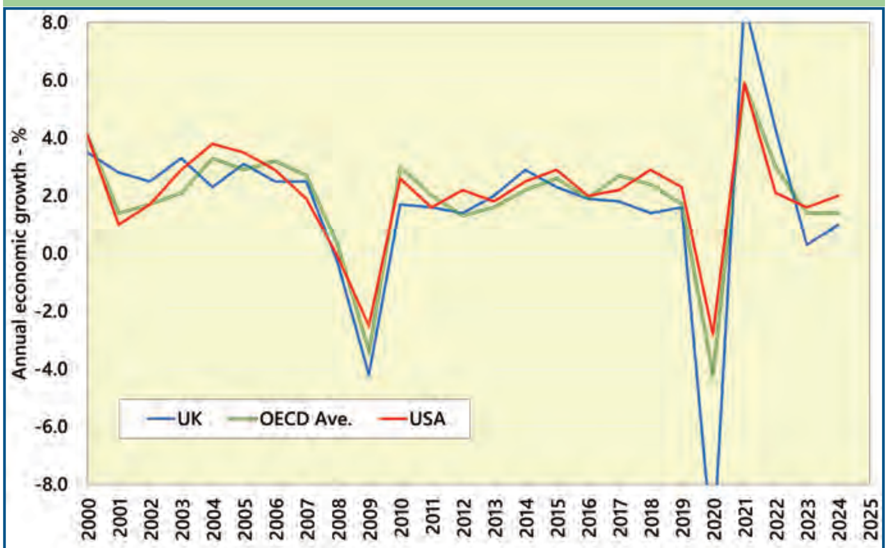
Since the financial crisis in 2007 to 2009, British economic growth has been slow. Our economy was arguably worse hit then than many, being disproportionately concentrated in the financial sector. Barely had the UK recovered from that and we plunged ourselves back into self-inflicted economic hardship through Brexit. Despite the assurances of some at the time, it is already costing us and will continue to do so. Then, there was the global pandemic and Mr Putin's attempt to re-write history. The British economy has arguably had a harsher battering than most and the current problems of high inflation, public debt and stagnant growth is particularly painful in the UK. Figure 3 shows how the UK has lagged behind other advanced economies in recent years in terms of growth.

The past year has seen the cost of borrowing go up. This is of little overall consequence to agriculture, it being so well capitalised. The debt in the industry is held by a small proportion of farmers meaning some are now overstretched. Much of this will be on fixed rates, but that percentage will fall as terms end and incentives to re-fix have gone. A small number of farmers who either gambled too hard, or did not reflect on the implications of higher rates will lose out, but most will not be fatally injured. The days of cheap money are over. For now. The later article on Finance and Banking considers the on-farm implications of higher Base Rates in more detail.

Have Base Rates hit their highest point? Perhaps not. Whilst the world is focussed on watching for borrowing costs to come down, the drivers that caused the increases in the first place are still pushing hard. Labour for one is still stretched. In this piece last year, we noted "It is an employee's market; salaries are protected whilst dividends are not and strikes are therefore inevitable, giving Government another headache." This turned out to be exactly right. The strikes look set to continue into 2024. In agriculture, we see ample evidence of labour shortages. Finding enough people to pick cauliflowers, apples, strawberries and all manner of other (usually high value) crops is a massive challenge. Others have to pay generous packages to find herdsmen, able and willing to get up in time for the milk tanker. Further along the supply chain, labour shortages are also causing problems.

The Pound has been weak against other major currencies, adding to inflation through higher import costs.

Figure 3 UK Economic Growth versus OECD Average - 2000 to 2025



Source: Defra / AHDB / Andersons

> **The concept of public goods for public money is acceptable to taxpayers and voters, making it more sustainable. This will be important in a General Election year.**

Whilst a weak Pound might be good for export volumes, including farm goods, global trade has been slowing of late. It has waned because of Covid and wars; both military, in Ukraine, and trade, between USA and China. Protectionism has returned, which does not help global prosperity.

Energy prices were another driver of inflation. After falling, oil prices are heading back up. Conflict in the Middle East could see these rises continue. Europe has worked hard to wean itself off Russian gas. However, last winter was relatively mild across the continent. A much harder winter will see higher demand for heating with a resurgence in gas prices.

We also thought house prices would fall in 2023. They have declined about 5%, which equates to about 13% in real terms. We suggested land would provide a more robust hedge against market uncertainty for those protecting capital. Evidence suggests this too has been the case (see later article). Lastly, in the light of the huge Government spending done to shore-up the economy during Covid, we floated the question of whether high-cost capital projects such as HS2 would still go ahead. We wonder whether other such projects will lose out.

Many commentators and industry influencers consider agriculture is being sidelined by Government and the gradual reduction of Government funding (in real terms) is proof. But Figure 2 in the previous section shows 20 years gradually increasing profitability in real terms. It arguably suggests the farming industry does not need as much support. Change is tough and, yes, for many the new agricultural policy (throughout the UK) will return less profit, but the concept of public goods for public money is acceptable to taxpayers and voters, making it more sustainable. This will be important in a General Election year - the latest possible date is January 2025, but many believe it will be in 2024.

The NHS is primarily focussed on medicines and operations to help ill people get better, not keep people in good health. It hence falls to the food and exercise industries to claim the title of health professionals. This is a mantle we should grab and celebrate. We hear plenty of how the food industry provides over-processed products, but good food and exercise are the bread and butter (if I am not mixing metaphors) of a healthy lifestyle. Agriculture and the food chain then could claim a proportion of the Government's health budget, and there is a lot more it could do to make Britain healthier.

There is also the challenge of making the transition to low-emissions business and lifestyles. Whilst most recognise the necessity of this, there is limited direction on precisely how to achieve it. That will be hampering innovation and creativity in the economy.

Some leaders, regulators and lobbyists are pressing for a reduction in production as a soft way of reducing UK emissions. This will, though, only export the problem. Whilst it will make our figures look good, it will solve nothing. As Deiter Helm has pointed out, emissions should be measured at the point of consumption, not production. An economy-wide carbon tax is generally believed by economists to be the most efficient way to tackle emissions. This would be easier to implement with international co-operation. However, the biggest issue is that it puts pressure on the consumer, which is politically challenging.

Farm Policy

CAROLINE INGAMELLS

There continues to be a lot going on in terms of agricultural policy. England is progressing with its Agricultural Transition and whilst Scotland and Wales have not experienced any significant change yet, we expect plenty of detail to emerge in 2024 as we get closer to the introduction of their new support schemes. In Scotland this is planned to commence in 2026, although in 2025 Scottish farmers will have to meet 'conditionality rules' to receive their BPS. Full details on conditionality are expected in the first half of 2024. In Wales, the Sustainable Farming Scheme (SFS) is due to commence in 2025, meaning a final scheme and payment rates will have to be released in 2024. More details on Welsh and Scottish agriculture support can be found in later articles.

In England the Basic Payment will be down to 50% of 2020 levels in 2024; less for those who receive larger payments. We know the Basic Payment will be completely phased out by 2028, but Defra has not released the rates of deduction for 2025 to 2027 yet. Payments in England have also now effectively been 'delinked' - future BPS money will simply go to historic recipients with no ongoing need to occupy a specific amount of farmland. Claimants who subsequently reduce or increase their area will still receive the same future stream of income (reducing under the phase-out).

> **As ELM evolves over the next two years, Defra aims to offer SFI and CS in a single, integrated service.**

There have been significant changes to the Sustainable Farming Incentive (SFI) in 2023. This is Defra's first element of Environmental Land Management (ELM) and is the one that most farmers should be able to enter alongside commercial farming. All SFI 2022 agreements will be ended. The previous practice of grouping actions into Standards and Levels has been dropped, and the scheme has effectively been 'relaunched' in 2023 starting with 23 individual Options that farmers can choose from (see Figure 4). A Management Payment has also been introduced.

Defra has reported that the uptake of SFI has been good. Within Andersons, we have seen plenty of interest from our farmer clients and have been able to draw up some strong agreements. The key to a successful SFI scheme is to integrate it as seamlessly as possible with the existing farming operation. It does not make sense if the SFI agreement is forcing you to do something that you don't want to do. There may be some instances where a whole-field SFI option is better than growing a bad crop i.e. Legume Fallow (NUM3) at £593 per Ha (risk free) compared with Spring Beans or even a poor OSR crop where there's bad flea beetle.

We have also found the SFI to be particularly beneficial to grassland farmers. Many are already integrating legumes into their swards to improve nutrient management or even establishing herbal leys; so why not get paid for doing this? It is also possible to be paid for an existing herbal ley or legumes on improved grassland if this has already been established. As Outlook lands on desks, we expect to receive more announcements regarding SFI in 2024 and this could include more options for arable land, including 'min till'.

By the end of 2023, Defra has also promised more details of what will be on offer via Countryside Stewardship (CS) in 2024. Building on the success of CS, Defra has decided to evolve it to include what had been originally planned for Local Nature Recovery

Figure 4 SFI - 2023

Payment	Code	Actions
Soils		
£95 + £5.80 per Ha	SAM1	Complete a soil management plan including assess soil and test soil organic matter
£129 per Ha	SAM2	Multi-species winter cover crops
£382 per Ha	SAM3	Herbal leys
Moorland		
£265 + £10.30 per Ha	MOR1	Assess moorland (soil type, vegetation and public goods potential) and produce a written report
Hedgerows		
£3 per 100m: 1 side	HRW1	Assess and record hedgerow condition
£10 per 100m: 1 side	HRW2	Manage hedgerows so there's a range of different heights and widths
£10 per 100m: both sides	HRW3	Maintain existing hedgerow trees, or establish new ones, so there's an average of at least 1 hedgerow tree per 100m
Integrated Pest Management		
£989 per year	IPM1	Complete an integrated pest management (IPM) assessment and produce an IPM plan
£673 per Ha	IPM2	Flower-rich grass margins, blocks, or in-field strips
£55 per Ha	IPM3	Establish a companion crop on arable and horticultural land
£45 per Ha	IPM4	No use of insecticide on arable crops and permanent crops
Nutrient Management		
£589 per year	NUM1	Complete a nutrient management (NM) assessment and produce an NM review report
£102 per Ha	NUM2	Legumes on improved grassland
£593 per Ha	NUM3	Legume fallow
Wildlife on Arable and Horticultural Land		
£614 per Ha	AHL1	Blocks or strips of pollen and nectar flower mix
£732 per Ha	AHL2	Blocks or strips of winter bird food
£590 per Ha	AHL3	Grassy field corners and blocks
Wildlife on Improved Grassland		
£333 per Ha	IGL1	Take grassland field corners and blocks out of management
£474 per Ha	IGL2	Maintain improved grassland to provide winter bird food
Buffer Strips		
£451 per Ha	AHL4	4m-12m buffer strips on arable and horticultural land
£235 per Ha	IGL3	4m-12m buffer strips on grassland
Low Input Grassland		
£151 per Ha	LIG1	Manage grassland with very low nutrient inputs (outside SDAs)
£151 per Ha	LIG2	Manage grassland with very low nutrient inputs (inside SDAs)
Additional Payments		
£20 per Ha	Management Payment: up to first 50 Ha entered into SFI	
£6.15 per Ha	Commons Payment: if a group of 2 or more people enter SFI agreement on a common.	

Source: Defra / Andersons.

(LNR), rather than introducing a new scheme. There will also be 'Countryside Stewardship Plus'; this will reward farmers for taking coordinated action - working with neighbouring farms and landowners. The evolution of CS will see around 30 additional actions available to farmers by the end of 2024. As ELM evolves over the next two years, Defra aims to offer SFI and CS in a single, integrated service. We expect the boundaries between SFI and CS will 'blur' and farmers will be able to select a combination of actions from both schemes that works best for them. Also, claimants will be pleased to hear there will only be an annual declaration (like SFI), instead of the current cumbersome revenue claim process.

Countryside Stewardship also provides a substantial capital grant offering, either within a Higher Tier

Biodiversity Net Gain (BNG)... a statutory requirement for developers to show there is a 10% gain in biodiversity after a development is completed... has been delayed until January 2024.

or Mid Tier agreement, or as a standalone option. This was significantly expanded in 2023 together with revised payment rates and claimants now have three years to complete the capital works. This will be expanded again in 2024.

The final element of ELM is Landscape Recovery (LR). This funds a smaller number of longer-term projects of 20 years plus over large areas (500 to 5,000Ha). These are bespoke schemes which usually involve several land managers working together. There have been two application windows to date and a further round is expected to open in 2024.

For those, who are farming within the National Parks, Areas of Outstanding Natural Beauty (AONB) and the Broads, the Farming in Protected Landscapes (FiPL) has been well received. It remains open until March 2025 (extended by one year). It is not an agri-environment scheme *per se*, but can offer useful funding for farmers in these areas.

The other main strand of support in England is for 'productivity'. There are a number of capital grant schemes aimed at improving the performance of English farming. The Farming Equipment and Technology Fund (FETF) has gained a lot of attention. It is expected to be open again in early 2024, offering 40% grants for a set list of (smaller) capital items, pre-identified as being able to improve the productivity of farm businesses. The same is expected with regards to the Farming Transformation Fund (FTF). This is for larger items of spending, with grants of between £25,000 and £500,000 (based on a 40% grant rate). Funding opens in rounds for specific 'themes' - Water Management; Improving Farm Productivity; Adding Value; Slurry Infrastructure Grant etc. In 2023, a new Calf Housing for Health and Welfare scheme opened offering grants to build new or refurbish existing calf housing. In the future, funding is expected to extend to adult cattle, pig and poultry housing.

Andersons, under the Ricardo consortium, continues to offer free farm advice via the Future Farming Resilience Fund (FFRF). There are 17 different providers available, each provides a different level of service. Andersons offers three days equivalent of consultancy time including a one-to-one farm visit, detailed report, follow-up meeting and access to online training courses.

In April, funding via the UK Shared Prosperity Fund (SPF) and the Rural England Prosperity Fund (REPF) started to become available. This is a replacement for the previous LEADER and Growth Fund and should support farm diversification, including tourism enterprises, the conversion of redundant farm buildings for other uses, food processing, marketing ventures etc. Grants are being run by Local Authorities. Each one has had to produce a 'Local Investment Plan' meaning funding is likely to be targeted at different projects depending on your area. Some Authorities have been quicker getting schemes running than others, but all should have something operating in 2024. Funding will run through to March 2025.

With all the vast amount of scheme information, it is easy to forget other areas of policy. Last year in Outlook we mentioned how land managers were looking at Biodiversity Net Gain (BNG) and Nutrient Neutrality (NN) as potential income streams. Introduced via the Environment Act, there will be a statutory requirement for developers to show there is a 10% gain in biodiversity after a development is completed than before. This was expected to commence in November 2023 but has been delayed until January 2024.

It has been stated that the delay is to allow more time for Planning Authorities to get prepared for the rules. The Government has also tried to repeal the NN rules for housebuilders. These restrict new housebuilding in certain catchments unless developers can prove that water pollution (chiefly nitrates and phosphates) will not increase as a result of the new houses. The proposed change was due to be enacted in law through an amendment to the Levelling Up and Regeneration Bill, but was blocked by the House of Lords. The Government is looking at other ways of achieving the same outcome.

Lastly, with a General Election due in 2024, or early 2025, it's perhaps prudent to take a look at the direction of some of the Labour Party's policies. At the Party Conference, relatively little was said about agriculture or the environment. In terms of the current schemes, they will evaluate them to see if they offer value for money; but this is no more than would happen anyway with a new administration. There was quite a lot of focus on housing and the Planning system, with Sir Keir Starmer saying he proposed to 'bulldoze' through the Planning system, to achieve progress on housing.
The indication is that a Labour Government would introduce a Planning Bill within 100 days if it got into power.

Capital Gains Tax (CGT) and Inheritance Tax (IHT) always gains attention from the industry. Whilst Labour has said they do not intend to increase rates, there may be a review of Business Assets Disposal Relief (formerly Entrepreneurs' Relief).
In terms of IHT reliefs (APR and BPR) there was no talk of getting rid of them, more about closing 'loopholes'; although no detail on how this would be achieved.

This article only touches on some of the most topical areas and shows the complexity of schemes and policies under which our industry now operates. Please contact us if you would like more details on any of these issues.

Agricultural Trade Issues

MICHAEL HAVERTY

In contrast to the turbulence of previous years, the trading relationship between the UK and the EU has stabilised and improved during 2023. The Windsor Framework agreement on implementing the Northern Ireland Protocol, which was agreed in the spring, has been crucial to restoring trust between both parties. That said, challenges remain and the UK Government has, for a fifth time, delayed the implementation of its border controls on imports from the EU, which are now due to be introduced in the early part of 2024.

The UK has also been active on other fronts as the trade deals with Australia and New Zealand (NZ) were applied from 31st May and in July the UK confirmed its accession to the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP). However, this agreement will not enter into force until the latter part of 2024.

As outlined in Outlook 2023, although the Australian and NZ trade deals are now operational, for sensitive products such as beef, lamb and dairy, imports into the UK will be limited initially by a series of Tariff Rate Quotas (TRQs) which will increase progressively over 15 years with unlimited trade thereafter. In 2023, up to 47Kt of beef, 60Kt of lamb, 48Kt of cheese and 13Kt of butter will be permitted to enter the UK from both countries on a tariff-free basis. This is in addition to the existing TRQ access that NZ already has for lamb exports (114Kt) to the UK under previous (WTO) agreements.

In July 2023, the Scottish Government published a study undertaken by Andersons and Wageningen University and Research (WUR) which looked at the long-term impacts of trade deals. This focused on UK free trade agreements (FTAs) with Australia, NZ, Canada (an enhanced trade deal going beyond the current rollover agreement) and the Gulf Cooperation Council (GCC) - a trade bloc that includes Saudi Arabia, United Arab Emirates, Qatar, Oman, Bahrain and Kuwait.

The modelling studied the FTA impacts on five UK agricultural sectors - wheat, barley, dairy, beef, and sheep. This was done using two FTA scenarios; high and low liberalisation. These were modelled alongside the current status quo (whereby the UK has left the EU but the Trade and Cooperation Agreement (TCA) is in place).

The results are summarised in Figure 5. This shows the long-term effects of these four FTAs on output (gross value added (GVA)) after full implementation of the agreements - i.e. after 15 years when the TRQs no longer apply.

The impacts on barley are minimal, whilst for beef and wheat output declines of between 3% and 6% are projected across both scenarios. The effects on sheepmeat are of much greater concern with declines of between 10% and 11% projected versus the baseline, as the UK faces significantly increased competition from Australia and NZ. Conversely, liquid milk output is forecast to grow by 3% to 9% in value terms, indicating significant FTA opportunities for dairy products particularly in the GCC region where UK dairy exports already surpass £50 million.

The study shows that whilst the individual effects of each FTA are fairly limited in most sectors, the cumulative effect of multiple trade deals over the longer term should not be underestimated. This is especially so if the UK agrees FTAs with agricultural powerhouses such as the US and Mercosur, which includes Brazil and Argentina. Trade negotiators will view the UK trade deals with Australia and NZ as important precedents when seeking further concessions on agricultural trade with the UK.

Overall, the findings that more pressure will be exerted on UK beef and sheepmeat sectors are unsurprising. That said, the projected extent of declines on output is perhaps not as pronounced as some might have feared. It is also important not to lose sight of potential opportunities for dairy products, particularly in the Gulf region.

Although the impact of the UK joining the CPTPP was not assessed in the Scottish Government study, the effect of the UK's accession from an agricultural perspective is thought to be limited. This is because the UK already has trade deals with most of the CPTPP members (including Australia, NZ and Canada) and most agricultural trade will continue to be conducted via these trade deals and not via the CPTPP framework.

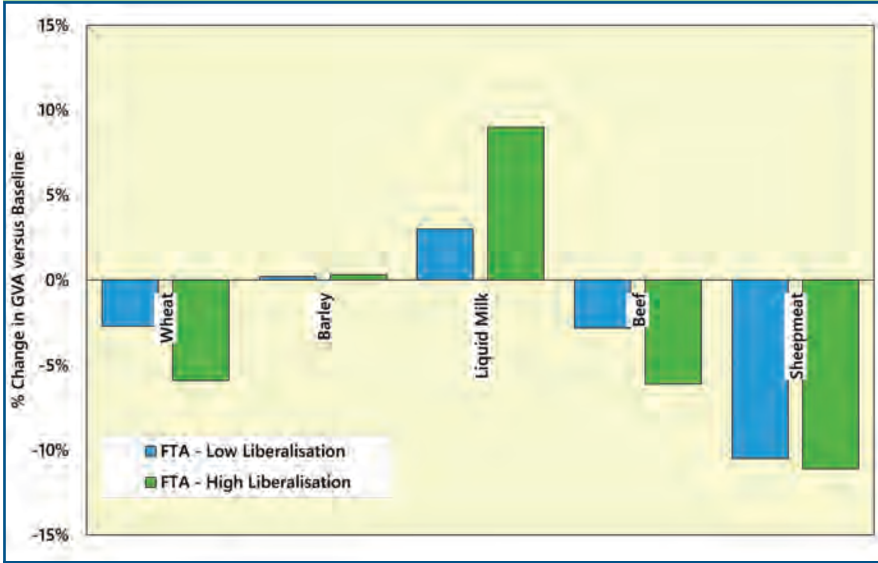
Turning attention back towards the more immediate items on the trade agenda in 2024, whilst there is talk of a 'foundational trade partnership' with the US, this is unlikely to be a fully-fledged trade deal and it is questionable as to how much the partnership would focus on agriculture. It is likely to require a change to a Republican administration in the US before full FTA negotiations with the UK become a central focus.

The UK is also progressing trade talks with India and the GCC. Whilst the British Government is hoping for a deal with India before the end of the year, difficult hurdles, especially around visas remain.

With a Westminster election in 2024 a strong possibility, and given Labour's lead in the polls, its trade policies could have a major effect on UK agricultural trade in the years ahead. If elected, a Labour administration is likely to push for a much closer relationship with the EU, although it currently seems to favour remaining outside of the EU Single Market and Customs Union.

Central to Labour's approach is pursuing what it is calling 'beneficial alignment' with the EU standards and regulations. A key aspect of this is pursuing a veterinary agreement with the EU which it claims will 'eliminate most checks on agri-food goods'. This would suggest an agreement akin to the Swiss arrangement with the EU, where the need for health certificates and physical checks for agricultural trade are practically eliminated. Although the Swiss Government has to dynamically align with EU regulations and standards which is likely to pose challenges for a UK Government.

Figure 5 Long-Run Effects of FTAs with Australia, NZ, Canada and GCC on UK Farm Output



Source: Defra / AHDB / Andersons

> **The trading relationship between the UK and the EU has stabilised and improved during 2023.**

Land Prices and Rent

GEORGE COOK AND AMELIA ROME

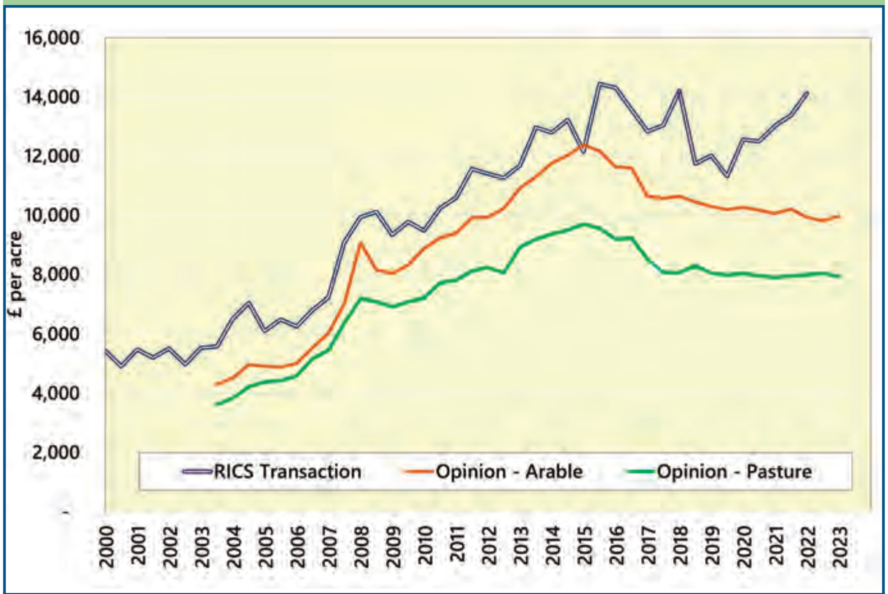
A combination of falling ex-farm prices and rising direct input costs in the last 12 months has led to a significant reduction in farm profitability across many sectors. Whilst the SFI is causing much interest, for most, payments are unlikely to equate to more than a third of BPS income. Headline figures might indicate otherwise but the highest payments require land area and therefore merely replace other crop revenues.

Have these changes affected land values and rents?

Trends indicate land prices have been relatively flat for a few years. We previously commented that with rising interest rates, it would have been thought that this trend would continue or even see prices fall. However, there has been indication of a slight increasing demand for land due to a combination of 'rollover relief' and increased farm profitability in 2021 and 2022. Figure 6 shows the trend in prices (in England and Wales) over the past few years.

Note, we still tend to refer to land prices in Pounds per acre, even though we generally use hectares elsewhere in Outlook. Like beer, land is still sold in imperial measures.

Figure 6 Land Prices - 2000 to 2023 (real terms)



Source: RICS / Misc Agents / Andersons

Although there have been some big 'headline' increases in land values reported, the high rate of inflation means that values have been pretty subdued when looked at in real terms.

Since Covid, there has been a substantial increase in demand for small paddocks or amenity land. For the first half of 2023, 79% of all land transactions were for areas of 50 acres or less, according to the RICS. These small area transactions can achieve very high prices per acre.

It is also worth noting who is buying agricultural land in the UK. We mentioned last year that agricultural land prices are subject to the basic economics of supply and demand. Demand for agricultural land continues to outpace supply due to the diversity in buyers.

In 2015, the dominant purchaser of agricultural land was non-farmer / lifestyle purchasers (54% of transactions) overtaking farmers for the first time. However, farmers became the dominant purchaser again in 2021 (45% of land transactions). Interestingly corporate buyers are increasing their share of agricultural land transactions year-on-year, going from 11% in 2015 to 18% of all transactions in 2022.

With inflation expected to fall slightly in 2023, and demand continuing to be strong, we expect that land values will increase in real terms through 2024.

So, where to with rents?

Farm Business Tenancy (FBT) rents are determined in the open market. There continues to be significant variation in these rents across the country, with the highest generally in the east. Recent good profits, a desire for scale, environmental requirements and cash cropping continue to sustain high FBT rents, despite progressive reductions in BPS rates and lower SFI income. Perhaps also a lack of understanding of a business's true costs and income may also push up bids beyond what is affordable.

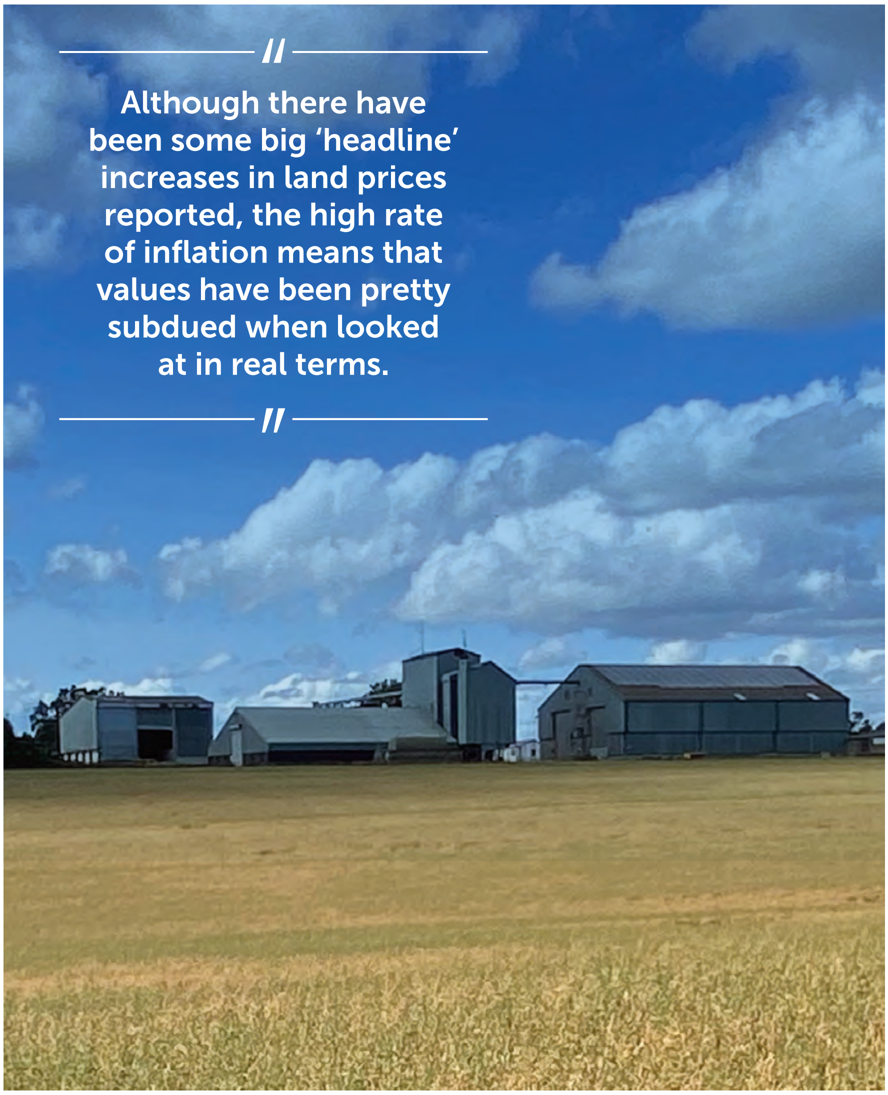
Demand for land to grow crops for anaerobic digestion (AD) plants has been another driver of demand over the past few years. In 2014 the area of maize grown for AD plants was 29,000 hectares, by 2020 (the latest data available) it had increased to 75,000 hectares. Once an AD plant is built the (high) costs are effectively 'sunk' - the only way to get a return is to run it and therefore operators are willing to pay high rents to secure the feedstock they need. Often more than can be justified for general cropping. This cropping has often been at the expense of long-term soil health and wider biodiversity.

In recent years there has been a slowdown in the construction of new AD plants, however, the demand for greener energy will only grow driven by net zero targets. Thus, the demand for land to fuel this will only increase. Government advisors on net zero, the Climate Change Committee, are suggesting there should be 700,000 hectares of bio-energy crops in the UK by 2050.

The other factor at work in intensive livestock areas is the demand for additional land for manure and slurry disposal to meet increasing environmental and water quality legislation.

Older, Agricultural Holding Act (AHA) rents are still technically determined by the productive capacity of the holding; there seems little current prospect of rents falling to reflect reduced BPS payments due to recent short-term higher profitability. In certain areas, there is pressure from landlords to remove tenants from the farm to enable them to pursue either in-hand farming operations or for non-farming income streams which they perceive to be more profitable.

Overall, we see rents remaining robust for the coming year, despite lower farming profitability. No two farm businesses are the same, and as always there are many factors to consider for each individual business when tendering or bidding for land. The benefits from understanding your businesses costs and having a long-term strategic plan to complement the day-to-day have never been more important.



Finance and Banking

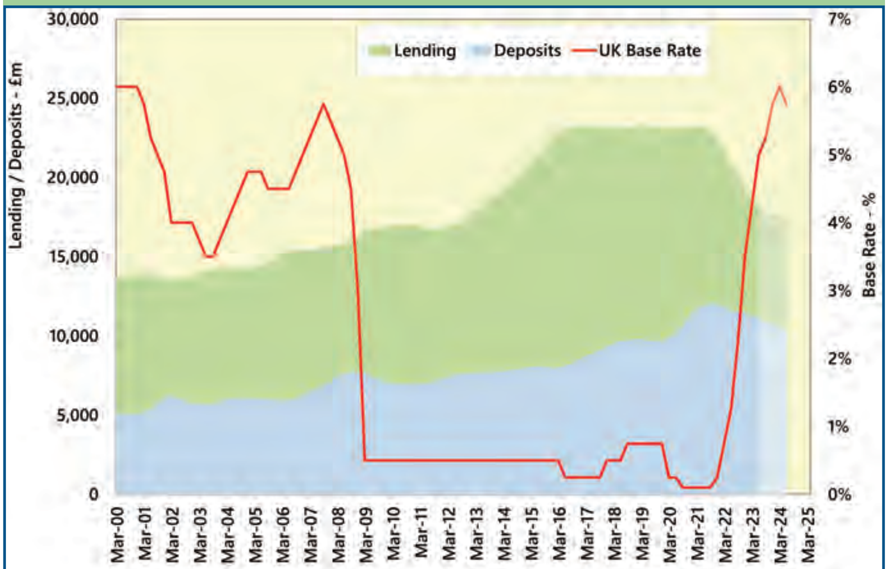
JAMIE MAYHEW

When writing last year's article, budgets for the 2023 harvest produced a profit. Unfortunately, over the course of the year, commodity prices have continued to fall, in some cases, below the cost of production. Lower profits, plus the need to fund the next crop at high input costs, means any cash reserves built up from the 2022 season, will be largely consumed. This, combined with the additional cost of borrowings, due to the increase in base rate, are causing concerns for debt serviceability for some businesses, particularly in light of the need to fund tax bills from the profitable 2021 and 2022 harvests.

> **Businesses should focus on understanding the cash generation pre-support.**

Figure 7 shows the (real terms) change in bank lending to farmers, plus the deposits held by the farming sector. Borrowing grew in real terms after the Financial Crisis of 2008 - although it didn't really take-off until 2012. This is not surprising as borrowing became cheap due to ultra-low interest rates. UK Base Rates are shown by the red line - being at 0.5% for many years and sometimes lower. There was a plateau in borrowings for around five years, from 2016 to 2021. The fall thereafter is a combination of the good profitability in 2021 and 2022 allowing farm businesses to pay down debt, and rising interest rates making this attractive. Also, as the chart shows, some farmers' deposits have been liquidated to repay debt as it becomes dearer.

Figure 7 Farm* Borrowing, Deposits and Base Rate: 2000 to 2023 (real terms)



*Source: Bank of England / Andersons | * Farming, Forestry and Hunting*

An increasing number of businesses over the past few years will have borrowed on fixed-interest deals. The rise in the base rate will have little impact on these farms - until the fixed-term period ends. Indeed, being locked-in to loans at low interest rates is more of a problem for the lender – there are instances where farmers have been offered generous terms to break an ongoing fixed-term deal.

For those on variable rate loans they may have seen their finance costs increase by a factor of three or more over a very short space of time.

Distinctly uncomfortable for those with high levels of debt.

Looking ahead, gross margins are largely in line with 'average' figures (i.e. pre Ukraine war), however overhead costs are some 30-40% higher for many. Coupled with a subsidy payment expected to be 40% lower than 2022, profitability, and working capital, will need to be carefully monitored in the coming 12-18 months. Businesses should focus on understanding the cash generation pre-support. In order to analyse the true cash generation of a business, the costs that appear 'below the line' of the Proft & Loss account should be considered.

Figure 8 Profit to Cash

Profit / (Loss)
Add Back
• Depreciation (shown in the P & L account)
• Machinery Sales
• Capital Sales
• HP Loan Income
Take Off
• Machinery Purchases
• Capital Purchases
• HP Loan Repayments
• Bank Loan Repayments
• Private Drawings
• Tax Paid
= Cash Surplus / (Deficit)

Alongside this analysis, borrowing levels and debt serviceability should be considered. Despite inflation appearing to slow down, many experts suggest that, although base rates will start to fall, after a possible short term slight increase, it is highly unlikely they will return to previous levels. Therefore, when analysing current, or future borrowings, a realistic approach must be taken when calculating the cost.

In order to spread the risk on profitability and cash generation, many businesses are looking to invest in diversified projects. With the current cost of funds, careful consideration must be given to returns required to simply cover the financing as they have significantly increased compared to just two years ago. For example, assuming that all of the cash required would be borrowed, and amortized, at current interest rates, a return of 11%, after tax, would be required to cover the cost of the borrowing. Even with base rates at 4%, one would have to generate an additional 30% of income compared to the base rate at 0.1%.

Consideration should therefore be given to whether now is the right time to invest, or to focus on existing debt servicing, or even cash retention.

If the business is unable to afford the current debt profile, the return on capital of investments should be reviewed. Disposal of assets should be considered if they are no longer generating sufficient returns. This can reduce debt and increase profitability. Before making the decision to dispose of assets, the cost structure of the existing business should be carefully reviewed. This could be achieved by benchmarking against other similar businesses. With profitability possibly becoming strained over the coming years, it is important that all costs within a business are contributing to cash generation.

Figure 9 Financing Investment

Loan term (years)	15		
Principal (£)	200,000		
Assumed Margin over Base	2%		
Base Rate	0.10%	4.00%	5.25%
Total Interest Rate	2.10%	6.00%	7.25%
Annual Repayment* (£)	15,682	20,593	22,307
Breakeven Return	8%	10%	11%

*Source: Andersons * interest and capital*

Topical Issue: Diversification. Cash Cow or Expensive Distraction?

LILY GIBSON FLEMING

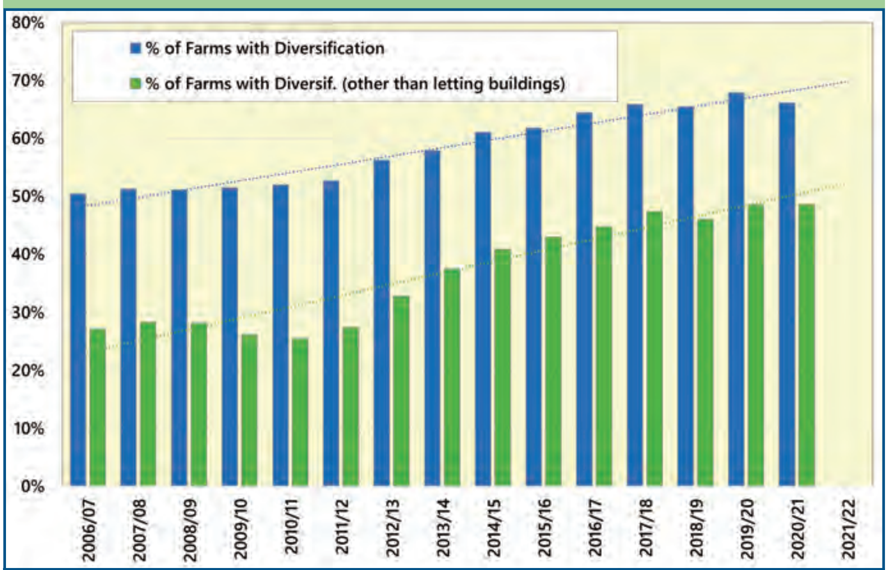
Diversification can be defined as non-agricultural work of an entrepreneurial nature, both on or off farm but which utilises farm resources. Less formally, it might be described as 'putting your eggs into more than one basket'. This is not a topic which we've generally covered in Outlook, but it is now something which forms part of 68% of farms in England, which is a growth of some 15% over the last 10 years (see Figure 10).

This diversification income comprises of many different enterprises, but the majority would be letting buildings (47%), solar (22%) and other diversification (51%). It is this 'other' classification which is of interest, as this has grown by some 50% over the last 10 years. This indicates that farms are undertaking a wider range of activities to generate diversification income and support their main agricultural enterprises. This might include 'environmental diversification' such as creation of biodiversity net gain, offsetting etc.. all of which were not on the radar just 3 - 4 years ago. On average, the income generated from diversification activities is £24,400 per annum per holding, but with considerable variation between farms.

> **Farms are undertaking a wider range of activities to generate diversification income.**

In a period of such significant volatility, both as a result of the Ukraine / Russia War, more recently the conflict of Hamas vs Israel, and also the long lasting effects resulting from Brexit, it is important for all farms to ensure that any diversification activities are indeed generating a strong income, contributing to profit and are not just an expensive distraction. Farmers need to think of themselves as operating a rural business to get the best return from their assets. Just as with any new farming enterprise or investment, it is important to ensure that the diversification enterprise is generating a viable return on capital. With a significant increase in finance costs because of the rising base rate, the return that businesses should be targeting is more than a 15% Internal Rate of Return (the annual rate of growth an investment is expected

Figure 10 Percentage of English Farms Undertaking Diversification - 2006/07 to 2020/21



Source: Defra / AHDB / Andersons

to generate). If, from the outset, this does not look achievable, then it is likely that other alternatives should be explored.

Other key considerations and areas where businesses could fail, are not identifying things such as;

- the time that the enterprise will require
- the location
- quality of the facilities being provided
- the legal/agreement side of setting up a business
- administration, insurances and tax (including Rates)
- Planning permission.

In a cost of living crisis such as this, there are a number of factors that should be considered to ensure that diversification enterprises continue to run well, generating a strong income and achieving the target return on capital.

Agreements

To ensure that a business is covered in the eventuality that Tenants begin to make late payments, or are in arrears for certain items, it is important to ensure that a Formal Agreement is in place at commencement. This will cover items such as, payment dates, what happens if a tenant gets into arrears, notices etc. A Handshake Agreement is not uncommon on a farming enterprise, which is low-cost at commencement, but can become an expensive mistake in periods such as this, where tenants are in difficulty and cannot pay, making removal of tenants, almost impossible.

Insurance

On the same basis as above, each diversification enterprise should be covered by insurance. This might cover items such as loss of earnings in a challenging period, or legal cover or legal expenses in the eventuality that a tenant or client is causing difficulties.

Competition

Do your research! In highly-competitive environments such as glamping and tourism, which have grown significantly since Covid 19, it is important to ensure that you are offering something unique, or niche, and are providing top-quality facilities. As demand has reduced, with holidaymakers now able to go abroad, it is clear that those places that do not offer something different or a good experience, are suffering a reduction in occupancy rates. The key is to achieve a high occupancy rate. Similarly, the cost of what you are providing should be reviewed, and ensure that it is in line with other providers in the area. Indeed, if this is not the case, then a reduction in rates and/or a discount for late bookings to encourage higher occupancy rates should be considered. Where you are lacking time, and are not able to push your facility, whether that be on social media or with a good website, consideration of using an Agent should be undertaken to put your offering at the top of website listings.

Prices and Input Costs

In some situations it is easy to allow contracts for items such as the sale of electricity generated from solar or wind to carry on unchanged. Over the last 12 - 24 months, we have seen a significant increase in gas and electricity prices; those clients not on fixed contracts or indeed with a get-out clause on a fixed contract, should consider whether they are on a top tariff for the sale of their electricity generated from renewable enterprises.

Similarly, clients should ensure that in a period of high energy prices, that they are making maximum use of renewable energy generated on the farm. This might include simply changing the time of equipment use i.e., dairy washing and the use of time clocks, for example, to ensure that energy use is in the day for solar, or possibly at night for wind. Other alternatives such as the use of batteries could be explored. The technology has improved and costs have fallen, and are now able to store energy generated by the on-farm renewables. As we look ahead, the use of batteries may become more common place in key infrastructure on the farm.

Finance costs

As above, farms are not generally tied to remaining with one finance provider. Do not be afraid to consider alternative options if the business is on variable rate loans and the cost of finance is becoming too much. Discussion in respect of interest-only periods, extending loans or taking a repayment holiday should be held with your current finance providers. If this is not offered in a period of challenging times, alternative finance providers might be considered.

Finally, it is important for farmers to remember and understand that if an enterprise is generally not working, not contributing to profit, or taking an inordinate amount of time compared to other enterprises, then do not be afraid to stop or indeed change the structure of what you are doing. This might be in the form of taking on a more experienced manager if it's an enterprise in which the farm and family do not have experience, or indeed changing direction if demand was high previously, but has now significantly reduced. Diversification enterprises in any form, can generally be profitable and generate cash to support farming enterprises in a challenging time, but it is important to ensure that they do not become an expensive distraction and that they contribute to business profit.

Dairy

OLIVER HALL, MIKE HOUGHTON AND TOM CRATCHLEY

The past twelve months have seen the UK dairy industry go from boom to bust. Heading into 2024, how do we rationalise where we are with UK dairy businesses?

In the autumn of 2023 you could do your monthly costings and see a milk price that was between 10ppl to 20ppl lower than the same month in 2022. It would be easy to just throw your arms up in the air and declare the cows are off for sale and be done with it! Let's take a look at a few things before the auctioneer is called.

Firstly, 2022 or March year-end 2023 should have been your best year for profitability from dairy farming. This is even with drought and poor forage production widespread across the UK in summer 2022. We saw average milk prices over 50ppl and pre rent and finance profits of 20ppl in the best businesses. This effectively was two years profits in one year, pre rent and interest.

The first thing to remember is that it is the rolling 12-month milk price that is the important number and where this gets to in relation to where your costs are is the critical factor in determining business performance.

Where could rolling milk prices get

Figure 11 NZ Fonterra Payout v UK Milk Prices - 2010 to 2024

NZ Season	Fonterra Milk: $ per Kg MS	Fonterra Cash: $ per kg MS	Exchange Rate: £ = NZ$	UK % Milk Solids	Milk Solids per Litre	NZ ppl equiv.	Defra rolling ave. to July	Total Payout: NZ as % of UK
2010-11	7.60	7.90	2.08	7.34	13.20	28.77	26.11	110%
2011-12	6.08	6.40	1.97	7.34	13.20	24.58	28.09	87%
2012-13	5.84	6.16	1.91	7.28	13.29	24.31	29.71	82%
2013-14	8.40	8.50	1.96	7.28	13.31	32.56	33.11	98%
2014-15	4.40	4.65	2.06	7.35	13.17	17.12	26.72	64%
2015-16	3.90	4.30	2.18	7.39	13.09	15.05	22.46	67%
2016-17	6.12	6.52	1.77	7.38	13.11	28.03	25.95	108%
2017-18	6.69	6.79	1.90	7.40	13.08	27.31	29.36	93%
2018-19	6.35	6.35	1.92	7.46	12.97	25.45	29.44	86%
2019-20	7.14	7.19	1.99	7.50	12.92	28.02	28.42	99%
2020-21	7.54	7.74	1.94	7.55	12.83	31.06	29.81	104%
2021-22	9.30	9.50	1.95	7.57	12.79	38.04	37.01	103%
2022-23	8.22	8.72	1.97	7.57	12.79	34.68	44.67	78%
Average	**6.74**	**6.98**	**1.97**	**7.42**	**13.06**	**27.31**	**30.07**	**91%**
2023-24		7.25	2.08		12.78	27.27		
				UK price @ direct equivalent to NZ:			27.3	100%
				UK price at last year's percentage:			35.0	78%
				UK price at average percentage of NZ:			30.0	91%

Source: Fonterra / Andersons.

to? Not many people like to put their name to a number with the GDT Auction bumbling around during the summer and autumn of 2023 trying to find the bottom of the world market price for milk. One organisation that has to stick its neck out with a number is Fonterra in New Zealand with its forecast payout for the 2023/24 season (Aug-July). A 13-year analysis of how the Fonterra payout had compared to the Defra average milk price, fully adjusted for Exchange rates and Milk Solid percentages identifies some interesting points. Firstly, UK milk solids have improved from 7.34% to 7.57% over that time. Then, in only four years in the previous thirteen NZ seasons has the Fonterra producer been paid better than the average UK farmer. And, on average, NZ payments have been at 91% of the UK price; this equates to 2.7p on average.

So with this analysis what do we make of the current Fonterra milk forecasts? They opened the season with a midpoint of $6.75 per Kg Milk Solids; this equates to direct milk price of 25.4ppl for the UK, or 28ppl to 33ppl milk price if you take a range between last year's % of NZ milk price and the historic average. This is a more likely outcome in periods of lower global prices.

By mid-October Fonterra had revised the payout to a midpoint of $7.25 which directly links to 27.3ppl (or 30ppl to 35ppl), with collections edging below last season in the early NZ spring. There was also below average milk production growth in other key export countries. On the demand side, the Co-op referenced the increased GDT auction but were cautious about the stronger demand from China and other customers, noting they were reluctant to commit to buying product forward at higher prices.

Bringing this back to the UK market, the Defra average milk price was 36.22ppl for the month of August

It was not that long ago we had milk prices averaging 36ppl so dig out your cost of production for that period and compare it with where you now are.

with a yearly rolling price now fallen to 43.76ppl. The rolling-price peaked at 46.75ppl for the 12 months to April 2023. Even with the slightly more buoyant market and mood shift in the autumn of 2023, it seems unwise at this point to say that the Defra average milk price paid by the backend of 2024 will be above 36ppl unless there are some drastic changes in the global milk market outlook. You need to adjust what this Defra average milk price means for your milk buyer, seasonality and milk solids accordingly. On 12.4 billion litres of production in GB, a 10p drop in the average price is a reduced income of £1,240 million!

So, what can be done? Firstly, it was not that long ago we had milk prices averaging 36ppl, so dig out your cost of production for that period and compare it with where you now are. Yes, we have had inflation on farm at varying levels, but a lot of agflation has become ag-deflation, notably in feed and fertiliser. The question is, 'what has physically changed about your business since you last received a 36ppl milk price?' Our analysis shows the areas where costs have increased above what should have been expected from inflation alone during the last five years have been;

- Breeding AI and Recording
- Feed
- Parlour Consumables
- Machinery Repairs
- Land and Property Repairs

Hard questions need to be asked around generating the right amount of heifers and the use of sexed semen. Have you incurred any system-creep on your farm, ignoring the drought years? It was easy to justify spend to chase production at very high milk prices, but is now the time to hone your dairying system and ask 'am I producing any marginal litres'? Or milking any marginal cows? These are cows and litres that, on average, raise your cost of production. It was easy for suppliers to pass on price rises to dairy farmers in a period of rising milk prices and with inflation in the news every 24 hours. Now is the time to get the invoice out from three years ago and compare it to the current one and ask the supplier to politely justify why this product or service costs so much more when you are now getting the same price for your milk.

Finally we need to discuss interest rates. The period of cheap money looks over. It is important to remember our targets of spending no more than 15% of income on Rent and Interest. At a 36p milk price plus 3ppl for culls, calves and other revenue, total income is 39ppl. Therefore, Rent and Interest should be a maximum of 6ppl. If you are over this threshold, perhaps a restructure of the balance sheet could be needed.

Beef

CHARLOTTE DUN AND
BEN BURTON

Most recent survey data as the of 1st December 2022, reported the UK breeding herd, dairy and beef, to be 3.2 million head, down 1.6% from the same point a year ago. The suckler herd fell 2.2% to 1.4 million head with the dairy herd falling more slowly at 0.6% to 1.8 million head.

Despite current higher beef prices, inflationary pressure on costs together with reducing farm support is likely to mean beef cow numbers continue their downward trajectory. With regards to the dairy herd, low milk prices in the year ahead are likely put pressure on cow numbers in the short term, with rising milk yields keeping the pressure on in the longer term. This is likely to mean the dairy herd continues its decline, albeit at a slower rate than that of the suckler herd.

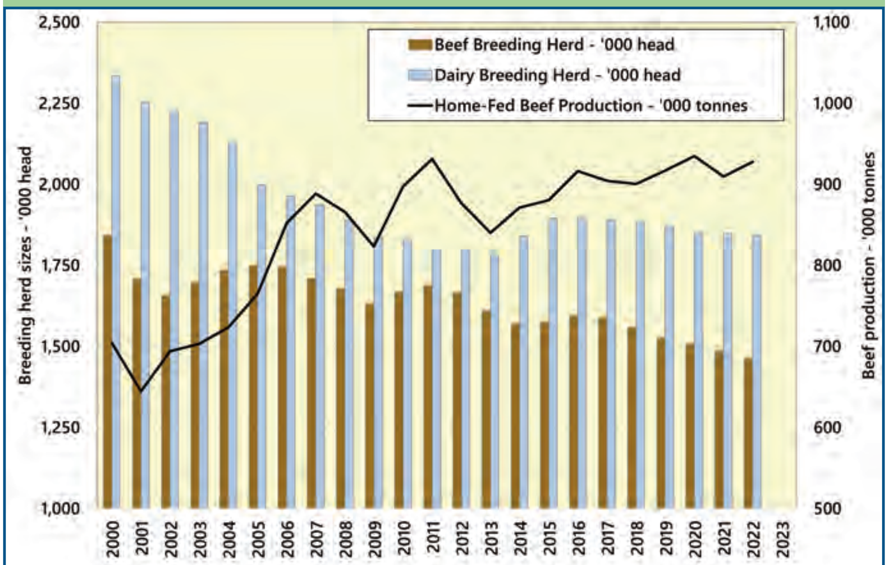
Notwithstanding reductions in the breeding herd, UK beef production has remained relatively stable as the use of sexed semen in the dairy herd means many more beef calves are being born from dairy dams. In addition, the implementation of milk buyer policies preventing the euthanising of dairy bull calves has meant more dairy bulls being reared and entering the beef supply chain.

GB deadweight cattle prices reached record levels in May and June 2023 at over 490p per kilo, and as Figure 13 illustrates, they have stepped up again in 2023 as compared with historic averages. With cost of production rises and falling farm support, producers will hope these prices are the ‘new normal’.

There is rising awareness amongst the major retailers, who have to date demonstrated a good degree of loyalty towards UK-produced beef, of the longer-term risks to supply. More initiatives are appearing aimed at securing supplies of beef-cross calves from the dairy herd. With the large-scale use of AI in the dairy herd as compared with predominantly natural service in the suckler sector, this can result in a more consistent product, faster genetic improvement in areas such as feed conversion and daily liveweight gain, and reduced carbon emissions.

Retailers are also starting to show interest in the carbon footprint of supplies and we expect this to develop. Producers will have to get to grips with carbon accounting as it

Figure 12 UK Cattle Herds and Beef Production - 2000 to 2023



Source: Defra / Andersons

More initiatives are appearing aimed at securing supplies of beef-cross calves from the dairy herd.

evolves and how the emissions of production might be improved.

Looking at the long-term vison for beef farms, producers will need to look consumers in the eye and explain why beef is not only great quality, but also plays a key role in improving soil health, water quality, biodiversity, and even human health. Recent audits have shown strong correlations between efficiency in beef finishing units and low carbon scores. Finishing units with high herd health status, low finishing ages, and efficient forage and feed usage produce lower greenhouse gas emissions. In the future, there will need to be a greater focus on detailed performance of stock; understanding growth rates, genetics and forage utilisation will all help contribute to gains being made in profitability and carbon performance.

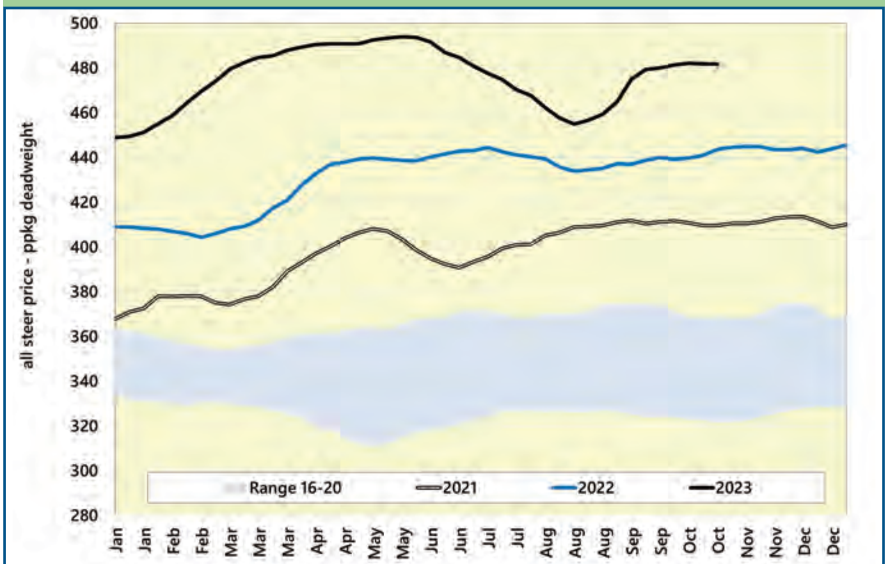
Looking ahead in the short-term to 2024, cattle supplies and beef production are forecast to remain relatively stable, the main headwinds appear continued weaker domestic demand due to the rising costs of living. This picture is similar on the Continent, with consumers reducing their spending.

Ireland is a major exporter of beef into the UK and Europe. Irish cattle prices have fallen significantly of late due to weaker demand and this could put pressure on UK prices in the year ahead, hence we would issue a note of caution about a return to the record price levels seen in the second quarter of 2023.

On the cost side, 2024 should see some easing in feed prices as compared to 2023 and whilst fertiliser is not as significant an input as in the arable and dairy sectors, prices coming back to more normal levels will be welcomed. However, many overhead cost rises are now baked-in or continue to increase; labour, machinery and fuel costs being the most notable.

Cattle enterprises can tie up a lot of working capital, with the amount required to run a typical beef enterprise having increased markedly over the last couple of years. Stock values, variable and fixed costs have all increased and rising interest rates will be a further addition to the costs of production for many farmers.

Figure 13 GB Beef Prices - 2016 to 2023



Source: AHDB / Andersons

Sheep

DAVID SIDDLE

The national flock has been rebuilding ever since 2018, when the 'Beast from the East' resulted in significant ewe and lamb losses. However annual growth rates have been slowing. Data from the 2022 December Survey shows the UK breeding flock growing marginally by 1% as compared with a year earlier to 14.4 million ewes. Significant increases in the flock in the year ahead seems unlikely.

Rising costs, strong cull sheep values, reducing support payments and uncertainty over future policy along with an ageing population of sheep keepers is likely to mean the flock remains stable at best going forward.

Despite a lot of discussion about regenerative agricultural practices and the reintroduction of mixed farming, we not seeing significant areas returning to rotational pasture and being stocked with breeding ewes. The underlying profitability of the enterprise remains modest at best, in particular without family labour.

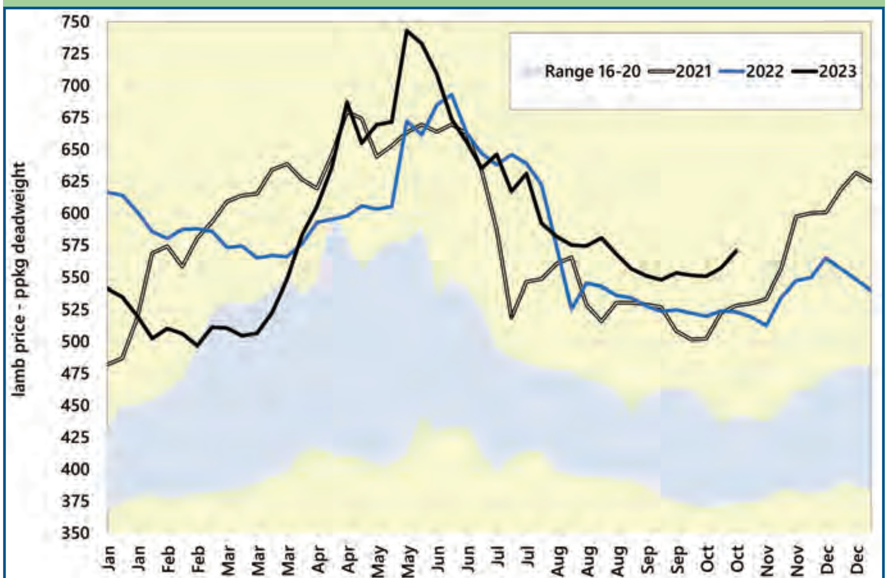
Consumption is expected to weaken in the year ahead, linked to recessionary pressure and tighter consumer budgets both in the UK and in our major export markets in Europe. However, market dynamics remain favourable as production in

> **The underlying profitability of the [sheep] enterprise remains modest at best, in particular without family labour.**

Europe continues to fall, down 6.5% in the first half of 2023, and Australian and New Zealand exporters focus on their nearer Chinese markets. Headwinds include an expanding Australian flock and, over time, increased market access from recent Free Trade Deals. The long-term decline in consumption of sheepmeat is also a concern. In the short term though, prospects for the UK sheep sector remain positive and prices will hopefully remain at the higher levels seen over the last three seasons.

Sheep are generally an extensive enterprise and not as reliant on purchased feed and fertiliser as cattle or arable enterprises. However, some lowering of feed and fertiliser prices will be welcomed going into 2024. Rising labour, machinery, fuel and financing costs are likely to mean costs of production will not return to former levels and continued strong

Figure 14 GB Lamb Prices - 2016 to 2023



Source: Defra / Andersons

prices are needed to maintain a positive margin.

Most cost of production data suggests well-managed lowland and upland flocks needing somewhere in the region of 230 to 250 p per kg liveweight or 485 to 550 p per kg deadweight to make a profit. This to include a return on family labour. Recent market prices have been delivering this.

This will need to continue as the value of support going into sheep businesses declines. In England the 2024 Basic Payment will be at least half of its 2020 level, before taking into account the effects of inflation.

We expect to see an accelerated decline in sheep kept in the high hills where output is typically low and forestry or other forms of environmental land management prove more attractive. In the lowlands, farm businesses who have traditionally managed smaller and/or poorer areas of grazing with breeding ewes may well take advantage of the agri-environmental opportunities available to them from schemes such as the Sustainable Farming Incentive in England.

With the challenging economics of keeping suckler cows we are seeing some upland farms focussing their efforts on expanding and improving the efficiency of their sheep flocks at the expense of keeping cattle. Sheep keeping is perhaps likely to become more specialised with larger flocks run by professional operators rather than a minor enterprise in a mixed business.

We expect to see an accelerated decline in sheep kept in the high hills where output is typically low and forestry or other forms of environmental land management prove more attractive.

Pigs

HARRY BATT

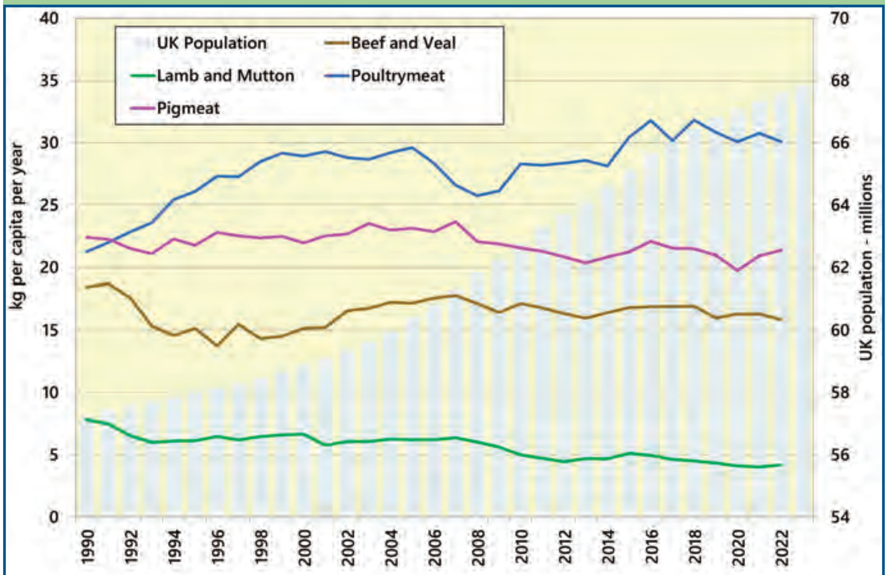
The last 12 months have seen a change in fortunes for the pig industry with the majority of producers reporting positive margins. This comes after a crippling three years for the industry, which has witnessed supply chain failures and compounded loss-making for producers. Could a corner have been turned for UK producers?

It will not be a surprise to anyone that the cost-of-living crisis is affecting consumer demand for meat, with price highlighted as the key driver behind reduced purchases. As expected, this has reduced demand for higher value products, including outdoor bred and organic pork.

Figure 15 highlights that pork consumption per capita has fallen over the past 15 years; down 10% compared to its highpoint in 2007. Is there an opportunity for the pork industry to steal market share from beef and lamb sectors, given the focus on emissions from ruminant production?

Retail data from Kantar shows that sales of lower value products (sausages, bacon and gammon) are up, with consumers using these products to substitute for more expensive meat cuts. It is also recognised that these lower-value products can be used in fewer ingredient meals, further reducing price and increasing ease and convenience.

Figure 15 **UK Meat Consumption per Capita and Population - 1990 to 2023**



Source: Defra / Andersons

> **The last 12 months have seen a change in fortunes for the pig industry.**

Primary pork is one of the cheapest non-processed sources of protein. At the time of writing, primary pork is £1.50 per kilogram cheaper than the average non-processed meat. This could see pork displace beef and lamb in our roast dinners this winter.

Although costs for producers have reduced, there is still an ongoing pressure on cost of production despite reduced feed prices. Data from AHDB highlights that cost of production is 20 to 30 pence per kilogram above the five-year average. The key challenges in respect of this have been labour and electricity costs which, despite increased focus on improving resource efficiency, have continued to rise on a pence per

kilogram basis.

This will be compounded by increasing interest rates, which are affecting the profitability of all sectors. The average cost of the working capital for a pig has increased from £1.33 to £4.00 (or 1.52p to 4.55p per kilogram) in the last 18 months. This will be of great concern for a number of producers that have invested significantly over the last five years.

I would question how producers can meet environmental and social targets, whilst encouraging people to work in the industry if the profit margins aren't there. Surely, the conversation must be driven by the supply chain to highlight that the best opportunity to have environmental, net carbon zero pork is by building a profitable industry for all. Failure to sustain a UK pork industry will lead to increased food miles with retailers paying UK landowners to offset the emissions. Is this not a backwards approach?

> **There is still an ongoing pressure on cost of production despite reduced feed prices.**

Looking ahead for the next 12 months, I would be cautiously optimistic. However, things can change quickly. It is baffling how many producers across the agricultural industry do not know what their cost of production is! How can you make informed business decisions if you do not understand the cost of producing the product.

Poultry

VICTIORIA MOXHAM AND
EDWARD CALCOTT

The UK poultry sector has been suffering from many challenges over the last 12 months and beyond. All commercial UK producers will be aware of them. For the benefit of non-poultry readers, we will list the most prominent below:

- Avian Influenza
- Energy price inflation
- Threat of importing egg products which are illegal to produce here (battery cages)
- Planning rules and restrictions for large units
- Labour issues
- Rising interest rates
- Low returns and lack of profitability

All of these can have an impact on the performance of the business, its stakeholders, its suppliers, and the morale of the people operating it. However, rather than dwelling on the problems and their consequences, we will explore solutions which producers should initiate where appropriate.

Avian Influenza

Practise the best biosecurity you possibly can. Restrict visitors to the site and limit access to the shed; have a good perimeter fence with a locked gate; ensure you have adequate wheel wash facilities; encourage showering onto site; provide PPE for visitors to cover up and change clothes; practise good vermin control. You could also commission an external audit to identify weak spots you may have missed. A fresh set of eyes and a second opinion is beneficial. This could be a neighbouring poultry farmer, enabling some mutualism.

Energy Price Inflation

Depending on the contracts you negotiated this can be difficult. Shop around between suppliers. Ultimately energy cost control stems from controlling usage. Assess the payback from energy saving items such as solar panels and heat exchangers before installing. Once installed, track performance and challenge suppliers if they are not performing as they should.

Threat of Imports

This is something largely out of the direct control of producers. Liaising with poultry lobby groups and local MPs to influence policy is the best approach. Promote British poultry on social media to educate consumers on the differences between domestic produce and imported produce.

Planning

For new sites, appoint an experienced Planning agent and obtain pre-Planning advice from the Local Council. Prepare a very thorough application, covering all aspects. Highlight any ammonia reducing infrastructure you will install; along with robust lorry/transport routing plans. Think very carefully about the site location; it will be there for a very long time.

Poultry farming is a 7-day a week job, but it does not necessarily have to be 9-5, or even 5-9.

Labour Issues

Labour is an issue across most agriculture sectors. Make your farm a good place to work for staff. Poultry farming is a 7-day a week job, but it does not necessarily have to be 9 - 5, or even 5 - 9. Promote flexible working within the day and encourage time-off during quieter periods and between daily work patterns. Become a leader, not a boss and allow people to make decisions if they are capable. Leave snacks for contractors; small gestures encourage respect. Have periodic meetings with staff to discuss issues and involve them in the wider business if appropriate so they understand the bigger picture.

Rising Interest Rates and Lack of Profitability/Returns

Depending on your levels of debt and whether it is fixed or variable, this will be influencing the business profit, cashflow and residual funds. Be proactive and forward budget to determine if there will be cashflow pinch points so you can manage and address them with your lender in advance. If you are unsure or require a second opinion, engage a farm business consultant to assist you with this!

> **Greater collaboration and communication is required between producers and processors to ensure supply and demand remain in balance.**

Make sure you challenge your suppliers and contractors. If their costs/charges have risen, respect that and make sure you still receive the same standards and quality of service. Sometimes loyalty and good relationships can have more worth than money alone.

Likewise, for those who are farming within integrated supply chains, challenge your customers, packers, and integrators on quality of service, support, and price. Put pressure on them for higher prices where appropriate and quantify them. Ensure you receive feedback on birds and eggs. If the quality of the birds/chicks you receive is poor, tell them. Make sure you thank people where appropriate. The people within these companies have challenging jobs and you need to avoid tainting a relationship. Be a reasonable person to deal with and think about the longer-term strategy, rather than the short term.

Looking ahead to 2024, notwithstanding the issues identified above, the industry looks set to continue on a rollercoaster ride. Layer chick placings have once again rocketed upwards, which will begin to increase supply as we head into the New Year. With demand remaining suppressed, this can only mean prices heading one direction. As we have historically learnt, less production is often almost certainly more (profit, cash etc...) for the poultry industry and greater collaboration and communication is required between producers and processors to ensure supply and demand remain in balance.

Combinable Cropping

JOE SCARRATT AND
SEBASTIAN GRAFF-BAKER

The last two years are in stark contrast with the input : output price equation reversing. The modest margins from the 2023 harvest may, until recently, have been hidden by the sale proceeds of the 2022 harvest crops. Bank positions have generally improved and in some instances the contrast in profitability between harvests 2022 and 2023 may only becoming clear as this publication goes to press.

In 2024 the BPS will be delinked, with payment rates no more than 50% of those at the beginning of the Transition Period. The reductions in BPS to date have been mitigated by two largely good harvests and some modest additions from the SFI for any early-adopters. With re-investment needs and rising interest rates, the economics of arable farming are shifting significantly.

To illustrate this, we have used our Andersons model combinable cropping business, Loam Farm, as shown in Figure 16 below. The figures are not a specific budget for 2024, simply what 'the future' might look like without BPS. This outlook is quite different to recent history but to assess viability for the long-term requires focus on some key areas.

Figure 16 Adjusted Loam Farm Budget: Normalised Year, Fully Financed

£ per Ha	Loam Farm: No BPS	% of Output
Crop Output	1,550	
SFI	83	
Total Output	**1,633**	**100%**
Variable Costs	552	34%
Gross Margin	***1,081***	***66%***
All Labour	135	8%
Machinery and Power Costs	390	24%
Admin and Property Costs	121	7%
Pre Rent (or Rent Equivalent) and Finance Surplus	**435**	**27%**
Finance (machinery and working capital at full cost)*	120	7%
Rent (Loam Farm average)	225	14%
Surplus after Full Finance Costs	***90***	***6%***

Source: Andersons
** The above finance cost includes the full cost at current interest rates for working capital and all machinery. For some, these will be opportunity costs but for many these previously 'hidden' costs are now real and significant. .*

Finance

The amortized cost of borrowing (interest and capital) is almost double that of two years ago. That has made the equation for new long-term propositions like taking on additional land or investing in infrastructure completely different. For those with core debt on variable rates, interest charges have increased significantly, as has the cost of funding working capital and machinery. In Figure 16, we have calculated a full finance cost for Loam Farm as an illustration. It assumes a 7% interest rate with all working capital (variable costs and overheads) being funded for, on average, half of the cropping year, and all machinery financed. The total interest cost (excluding any borrowing for fixed infrastructure or land) equates to £120 per hectare. That is almost the same cost as a typical cereal farm's total labour cost.

Labour, Power and Machinery Costs

Many still operate with a level of overhead capacity (machinery and, perhaps more so, labour) far greater than can really be justified. This is the key area in determining the profitability of arable farming and where we see the greatest variations in expenditure between producers. For combinable cropping, the target expenditure range should, for most businesses, be between 30-35% of turnover (to include the cost of family labour). In practice we see a much wider range, with the best performers' expenditure below 30%, whilst some can be as high as 45-50% of turnover.

The most significant contributor to this 'family' of costs is likely to be machinery depreciation. Many incorrectly calculate this, particularly given complications of profits on disposal when machinery is sold, or balance of use between enterprises. Far too many react to tax or repair issues when making buying decisions, rather than knowing the cost by having a replacement plan. Such an exercise can also consider the alternatives to ownership such as hire or machinery sharing. There is no one correct answer for every situation but in our view we are likely to see more of the latter in the future (as in the early 2000's when profits were under pressure), particularly for those businesses whose cropping areas reduce with the introduction of environmental management measures.

There are many good examples of challenging the convention whether it be the balance of own and other's resources, sharing overheads, the mix of enterprises, or even, at smaller scales, a simple system to allow off-farm work where a full-time dedicated person is not justified.

Rotation and Risk

There is a continuing need to reassess rotations. Many have now realised that spring cropping is not as dreadful as first feared and can lead to longer-term gains that enable a significantly lower cost base (herbicides, machinery and labour) and therefore less risk and greater resilience. Spring cropping can also integrate with new environmental 'break crops' that are available both through Countryside Stewardship and the SFI. With the challenges of growing oilseed rape and the, often, variable financial performance of pulse crops, a central question for many growers is the respective proportions of 'cash' and 'environmental' break crops in the rotation.

To stop undertaking un-profitable work will be a challenge for many to grapple with. The first issue is, without accurate data, identifying the areas or crops that are not delivering a margin. Then there is the challenge of how fixed costs can be removed or re-allocated when scale is reduced, particularly for smaller businesses where the largest cost could be the proprietor themselves.

Poor land is nearly always too expensive.

Soils

There is definitely an approach within policy makers and even industry leaders to 'box' different production systems with defined labels. 'Regenerative farming' is a name which means different things to different people, but its overall focus on soil health is clearly here to stay. For many it is about 'good' farming practices that have been undertaken for many decades. For others it's an extensive change. What it is for all though is the opportunity to adopt those elements that fit your soils, your scale, your ability to access machinery etc. It might not mean direct drilling the whole farm and indeed could still involve cultivations and ploughing in the right conditions. As long as those soils are well looked after, organic matter maintained and improved where needed, you will have adopted the element appropriate to your system.

Future support payments will focus on sustainability which firstly, of course, requires being profitable. Therefore, some will need to reassess what they can be paid for within existing practices and perhaps new ones too.

Returns for Land Providers and Farmers

Where land is made available under an Agricultural Holdings Act (AHA) tenancy the starting point historically for determining the rent has been an equal division of the Pre-Rent and Finance Surplus between Landlord and Tenant (broadly equivalent to 15% of turnover). The Loam Farm budget demonstrates how current open market rents or rental equivalents may often need to change to reflect the underlying economics of combinable cropping. The range in rents paid does not necessarily reflect the full range in productive capacity and profit potential of land types. Poor land is nearly always too expensive.

With some clarity now around future support schemes (in England at least), this gives many the ability to assess scheme options as 'crops' within their rotation as alternative break choices. Many joint ventures will also need to think about how they incorporate these; in many cases it would be logical that it forms part of the agreement income. Both crops and environmental options require management and inputs and affect cropping and productivity.

Whatever elements are necessary to be reassessed, the one that sets most better performing businesses apart in terms of profitability is excellent attention to detail. That knowledge (data), dedication and understanding to inform decisions simply adds to the bottom line. Without a material reduction in input costs, the cost of production (including finance) for medium to low yielding areas of land is such that either the land provider or crop grower will elect to stop growing and instead use the land to generate environmental payments.

Sugar Beet and Potatoes

NICK BLAKE AND
JAMIE MAYHEW

Beet

As noted last year, the announcement of the sugar beet price for the 2023/24 season at £40 per tonne was a welcome relief to many growers who were considering ceasing growing the crop. Despite the growing pressure on farm businesses to reduce soil damage, reduce emissions, use less inputs and undertake more regenerative practices, there is still a strong place in the rotation for this crop at £40 per tonne and even the proposed minimum price of £37.50 for the 2024/25 season. When analysing a two year rotation of sugar beet, followed by a potentially poorly established wheat or spring barley, compared to a break crop (which might include one of bean / pea / legume fallow) followed by a well-established wheat crop, the economics suggest that, due to the downturn in commodity prices, the former still generates a far greater return.

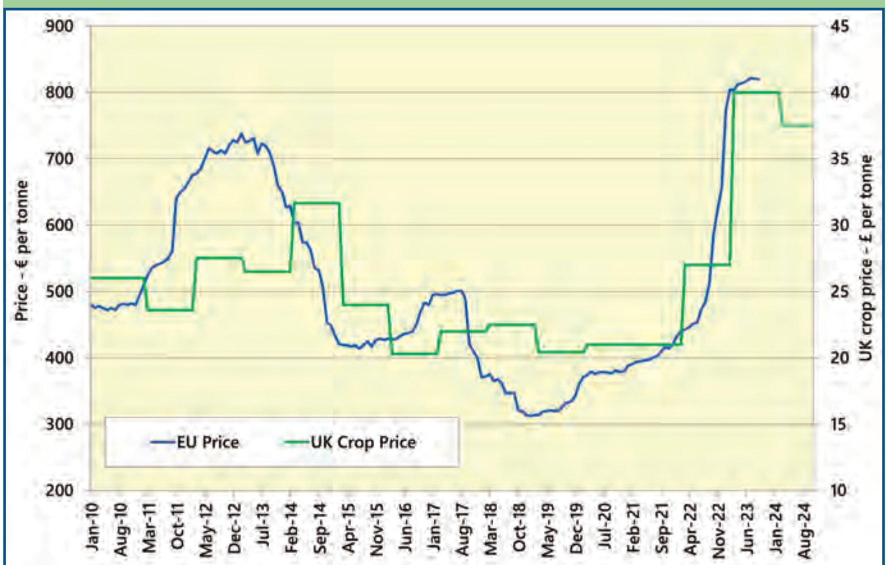
> **There is still a strong place in the rotation for [beet] at £40 per tonne and even the proposed minimum price of £37.50 for the 2024/25 season.**

Planting dates in 2023 varied significantly due to the wet spring, with some crops being planted well into May. The growing season has been variable with poor sunlight and low rainfall in late spring/early summer. A comparatively wet summer resulted in crops putting on weight, but sugar content was very low (approximately 15%) when the factories opened in September; far earlier than in previous years. As daylight hours reduce, there is a risk that the sugar content will not recover and root yield will be key.

The late announcement of the early delivery bonus whereby growers received a minimum £3,000 per hectare (plus a further top-up for higher yielding crops) for the delivery of the 2023 crop by mid-September is believed to have been oversubscribed. It was an unusual move and demonstrated the challenge British Sugar faces in meeting their own factory supply requirements.

At the time of writing, October 2023, British Sugar and NFU Sugar are

Figure 17 EU Sugar Price and UK Crop Price - 2010 to 2024



British Sugar / EU Commission / Andersons yet to agree a price for the 2024/25 season. Although this is not the first time that the price has not been settled by this point, speculation suggests that the two parties are a long way apart. On one hand, even at the minimum price quoted by British Sugar, gross margins are likely to be significantly greater than the alternative break crops. On the other hand, in the EU, the average white sugar price is some 60% greater than last year and growers feel that they should be able to benefit from this market. One way to achieve this would be to allow growers to contract a greater proportion of their contract via the futures-linked contract.

Potatoes

One of the main talking points for most of the 2023 growing season has been the forecast planted area. There has been a wide range in predictions - somewhere between 10% and 15% lower than 2022. Based on average yields, this would reduce the crop by around 750,000 tonnes. Anecdotally, the reduction appears to be focussed on the packing area, where traditionally there are fewer contracts, with growers no longer willing to shoulder the burden of risk.

The 2023 season started with a late Spring and the growing period which followed has been variable depending on location. With more rain compared with 2022 for most, irrigation pressure has been lower, and yields appear to have recovered from the late start. Irrigation has been required for some to be able to harvest the crop.

The UK produces approximately 70% of its annual potato requirement, a relatively consistent statistic, with the primary import being processed material. It is likely that any shortfall would be met by imports, probably as finished goods.

The current trend in pricing may tempt some growers to increase their area for 2024, but the indications from Europe are of an increase in ware plantings in 2023 (in direct contrast to the UK), and a reduced seed area. This could limit ware production for 2024.

"The adversarial approach to crop procurement, is destructive in a sector with high capital employed and high risk associated with weather."

As has been written for many years in Outlook, a sustained drop in area is required to stabilise the market in the long term. The statistics prove that the usual reaction to increase area on the back of a high price year is detrimental to all growers.

The biggest impact in costs for 2024 is likely to be the effect of interest rates on working capital, including the cost of machinery finance, the latter which is likely to cost 17-20% per annum more than before the interest rate rises.

At the time of writing, it is too early to comment on overall changes in cost of production, however grower sentiment appears to imply an increase is required to reflect market, rather than cost, movement.

The adversarial approach to crop procurement, is destructive in a sector with high capital employed and high risk associated with weather. The structure of the industry needs to develop, with an increase in direct relationships. Hopefully this should emerge as the industry further consolidates.

The introduction of the Sustainable Farming Incentive and development of carbon markets is likely to require further collaboration between land provider and grower. The development of a sustainable relationship requires a positive attitude to change. Growers require productive, pest-free land to grow crops and have to account for the significant investment by land providers related to infrastructure, whether this be storage or irrigation. Conversely, land providers also have to appreciate the pressures experienced by growers and the added constraints related to falling BPS. A new approach to working together to find the right balance of returns is required to ensure a healthy production platform.

Horticulture

JOHN PELHAM

Horticulture forms a key part of food production in the UK, with home-grown fruit and vegetables accounting for some 10% of the financial output of the farming industry - achieved from less than 1% of the farmed area.

This important contributor to the national diet is currently under immense financial pressure, as the alarming cost inflation of the recent past has generally been matched by little, if any, improvement in sale prices. The scale of financial losses in 2022 and 2023 in this sector is unprecedented and will inevitably lead to a decline in UK production in some crops.

By contrast, Henry Dimbleby's 2021 National Food Strategy identified that consumption of fruit and vegetables in the UK would need to increase by 30% to meet health, climate and environmental commitments - a requirement that is likely to have increased as a result of the cost-of-living crisis.

So how has the consumption of fruit and vegetables been changing in the UK? Figure 18 below sets out the changes of the thirty years 1990-2020 for some key categories.

Home-grown fruit and vegetables account for some 10% of the financial output of the farming industry - achieved from less than 1% of the farmed area.

Figure 18 UK Fruit and Vegetable Consumption - 1990 and 2020

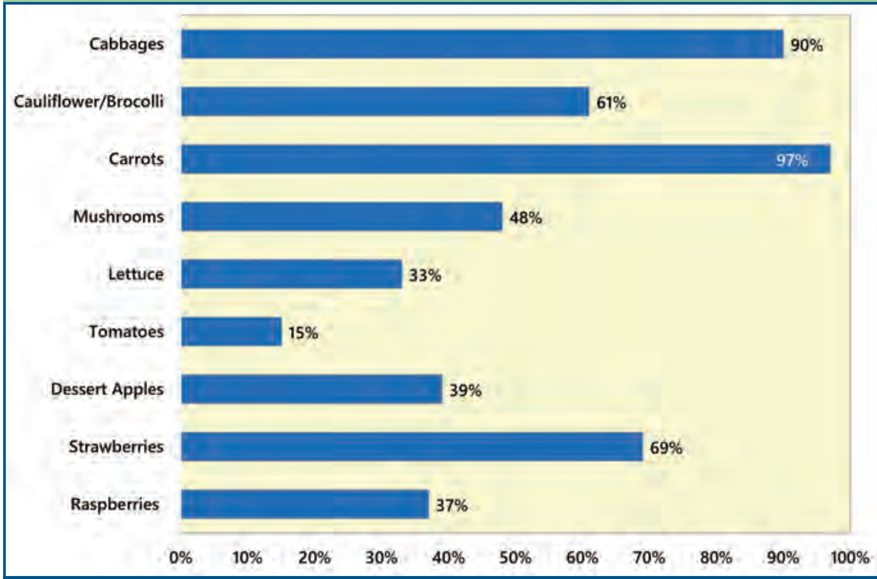
'000 tonnes	1990	2020	% Change
Cabbages	420	186	-126
Cauliflowers and Broccoli	366	301	-22
Carrots, Turnips and Swede	639	910	+30
Mushrooms	145	196	+26
Lettuce	273	331	+18
Tomato	350	441	+21
Dessert apples	627	518	-21
Pears	130	129	-1
Strawberries	70	178	+61
Raspberries	28	41	+32
Bananas	470	1,033	+55
Oranges	391	265	-48

Source: Defra / Andersons

The cabbage decline is striking, as is the rise in strawberry consumption (almost exclusively as a result of increased UK production). Some of the changes, for example the decline in oranges and enhanced banana consumption, are at least partially driven by the increasing proportion of food consumed outside the home; this currently stands at some 32% of all UK food and drink sales.

Whilst members of the European Union, UK food self-sufficiency figures were somewhat academic (we were effectively a 'county' of Europe) but are now quite relevant. The headline figure for UK self-sufficiency in fresh fruit is 15% although this is misleading, due to significant imports of non-indigenous fruits such as grapes, bananas and citrus. Self-sufficiency for fresh vegetables is 57%. Figure 19 shows UK self-sufficiency in some key horticultural crops.

Figure 19 UK Self-Sufficiency - 2020



Source: Defra / Andersons

Over the last twenty-five years UK horticulturalists have shown themselves to be enthusiastic adopters of technology in a range of areas including mechanisation, growing systems and new varieties, translating into significant improvements in productivity and increases in UK home production. The following comparisons of the periods 1996-2000 and 2016-2020 for three key crops - carrots, apples and strawberries - illustrate the point.

Whilst current financial circumstances are challenging for many growers, it is this continuing adoption of new technology that will assist producers in countering the cost:price pincer. This is particularly so with the increasing cost and declining availability of seasonal labour for crop husbandry and harvest. Much has been said about the development of mechanical harvesting, but widescale commercial application is still at least half a decade in the future (e.g. apples and strawberries). It is in the area of husbandry and crop packing that new developments are currently leading to labour savings and productivity gains - examples would include the use of drones for crop spraying, robots for in-field logistics and robotic applications in packhouses, such as tray stacking.

Any consideration of new technology in horticulture would be incomplete without reference to Vertical Farming, where the production of leafy greens (e.g. Basil, Rocket) is becoming a commercial reality and considerable investment, from both public and private sectors, is being made into the feasibility of growing a range of other crops, including soft fruit.

The future for UK horticulture is challenging - but for those with the energy (and balance sheet) it remains an area of exciting opportunity.

> **Continuing adoption of new technology will assist producers in countering the cost:price pincer.**

Figure 20 UK Production: Selected Vegetables and Fruit - 1996-2000 and 2016-2020

Crop	Av. Total Annual Yield: Tonnes '000 1996-2000	Av. Annual Yield: Tonnes/Hectare 1996-2000	Av. Total Annual Yield: Tonnes '000 2016-2020	Av. Annual Yield: Tonnes/Hectare 2016-2020
Carrots	653	57.9	802	69.9
Apples	106.9	13.4	190.2	30.9
Strawberries	37.4	9.9	131.1	27.5

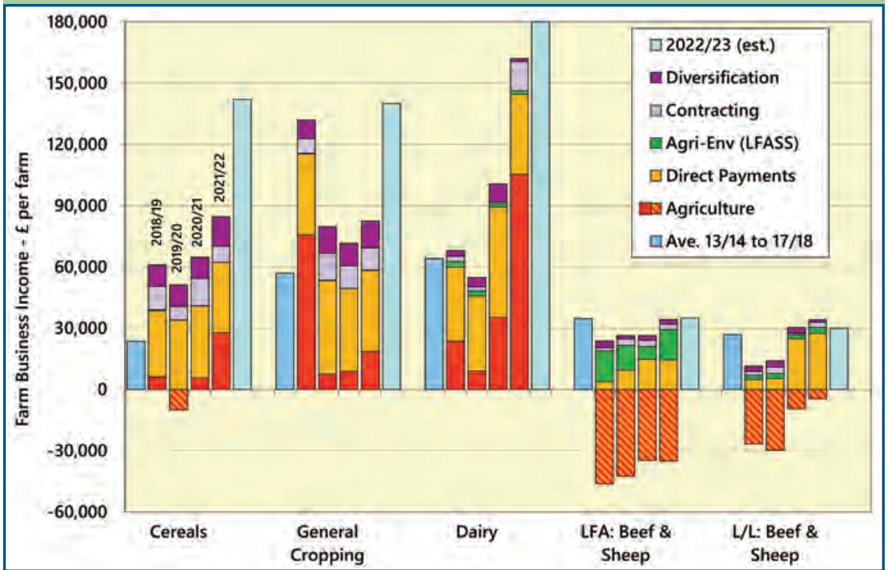
Source: Defra / Andersons

Scotland

BEN KALLAGHER

It is pleasing to be able to begin this article on a positive note. In the first half of 2023, Scottish farm income figures were released. These figures confirmed an increase in profitability for the second year running, with an average Farm Business Income across all farm types of £50,000. This was a rise of £11,000 from the previous year, following a £10,000 increase the year before. The main reason for improvement was a rise in total output, which more than offset rising costs. And for the first time in 10 years, the average farm would have been profitable without subsidy support payments, the figure quoted as being £5,100.

Figure 21 Scottish Farm Business Income - 2013 to 2023



Source: Scottish Government / Andersons

> **2024 will be the last year of the current BPS scheme.**

However, when the 2023 farming year is ultimately analysed, the average Farm Business Income figure is likely to be a good bit less than £50,000 and once again, subsidy payments will be needed to maintain profitability. Similar to the rest of the UK, 2023 in Scotland will be in sharp contrast to the previous year, with reduced levels of output and a significantly increased cost base. Although grain and milk prices have tumbled, the grazing livestock sector continues to remain positive, with prices for beef significantly ahead and lamb prices also tracking or slightly better than the previous year.

Changing weather patterns continue to make farming in Scotland more challenging than other parts of the UK. Cold conditions during the early part of the year did not suit spring cropping. The following dry period challenged grassland management and the wettest July on record made for a difficult start to harvest. Winter crops seem to have fared well but spring barley has suffered, with higher-than-normal rejections for malting premiums. Although late spring/early summer was very dry and many livestock farmers feared the worst, 2023 turned out to be a good grass growing year and silage analysis results so far have seen good energy and protein levels.

BPS in Scotland continues unchanged, with payments in 2023 starting as early as mid-September. 2024 will be the last year of the current BPS scheme. The Scottish Government has released more detail on agricultural reform beyond 2024.

Figure 22 summarises the Scottish support timeline.

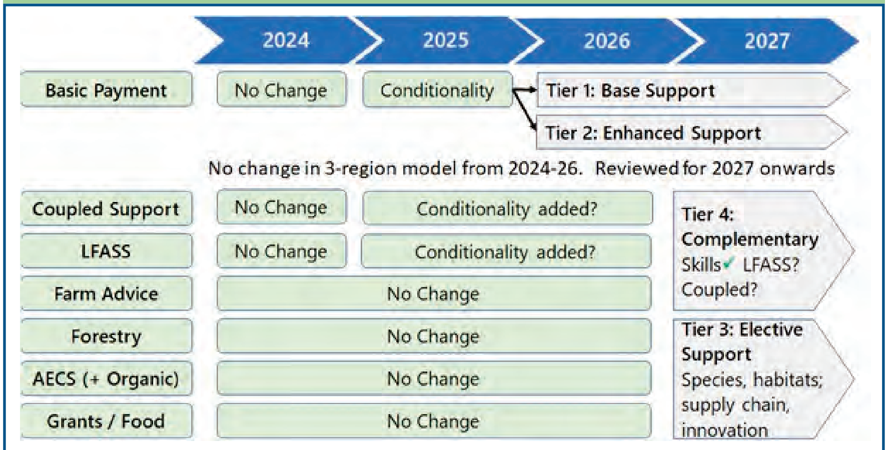
As reported last year, a four-tier structure looks set to be implemented. It seems likely the current Three Region basis of payment will continue. Tier 1 and Tier 2 will form the equivalent of the current BPS subsidy receipt. Tier 1 or Base Support is linked to farmers meeting Essential Standards (see below), with lower area payments expected when compared to current BPS payment rates. Tier 2 or Enhanced Support will be elective, with a number of measures under consideration for different farm types. These measures are likely to incentivise more sustainable and regenerative farming practices. Conditionality will be added from 2025, with farmers having to meet new Essential Standards, to include:

- **Greening - likely unchanged from current requirements.**
- **Cross-Compliance - as per current rules, with new protections for wetlands and peatlands.**
- **Whole Farm Plans - foundations are productivity baselines, e.g. soil testing, carbon audits, biodiversity audits, animal health and welfare declarations.**

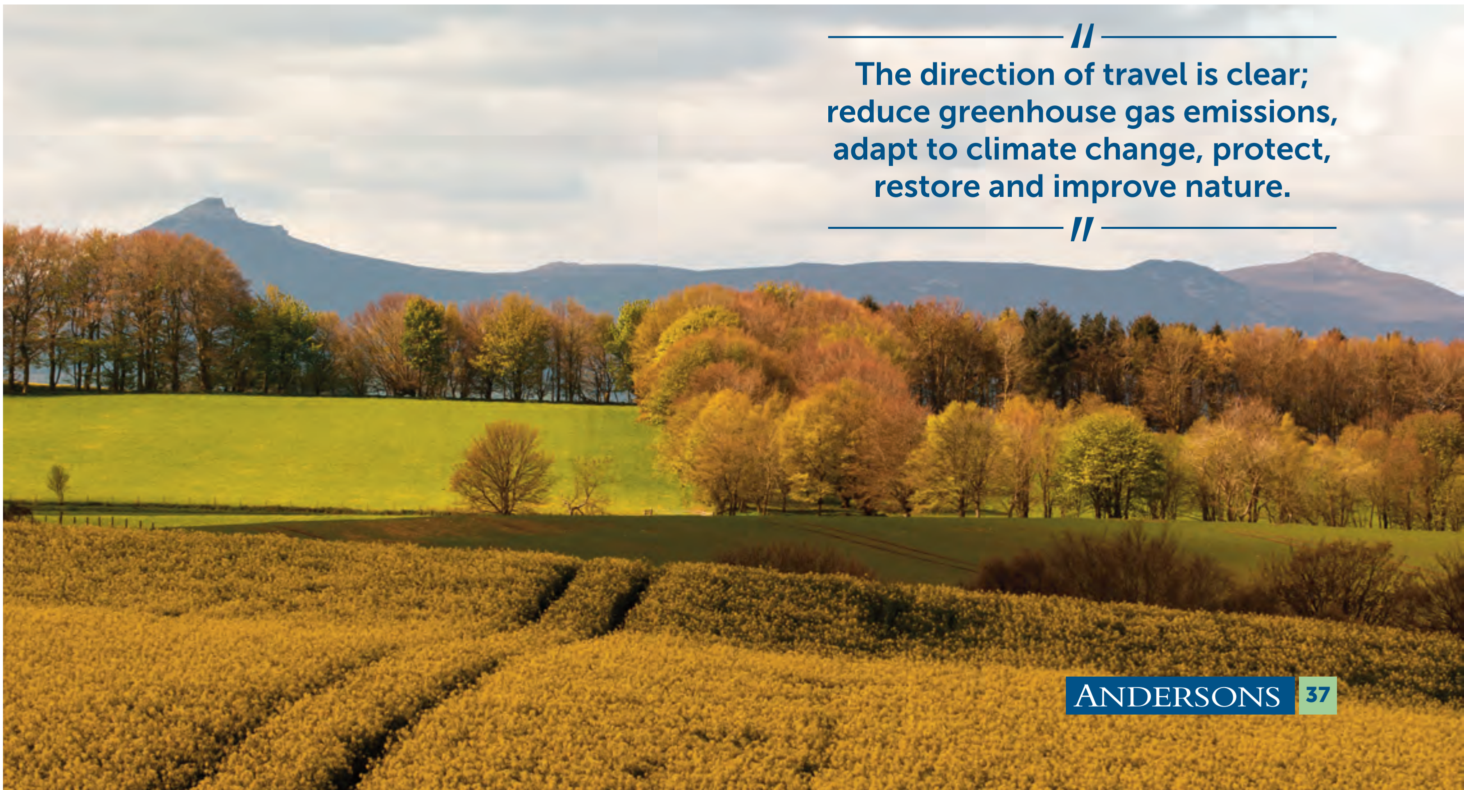
It is not yet known what elements of the above will be required from 2025 but the direction of travel is clear; reduce greenhouse gas emissions, adapt to climate change, protect, restore and improve nature; i.e. help Scotland deliver its climate and biodiversity targets. What is also clear is that future agricultural policy in Scotland looks set to become even more complicated than it is now. We are still waiting on payment rates to be published and the Scottish Government to give an indication of the size of the budget. Without this vital information, it is very difficult for farming businesses to plan for the future.

And a word of warning to all Scottish farmers. In England, BPS has been in decline since 2021. Next year will see all English farming businesses receive no more than 50% of their pre-reform BPS subsidy. The uptake of the replacement scheme, Sustainable Farming Incentive (SFI) has been slow, but many more English farming businesses are showing an interest in SFI, as profitability is being squeezed and BPS continues its decline. When considering the current options that are available under SFI, it is difficult to generate a return equivalent to historical BPS levels without radical change to farming practices. Scottish farming businesses should be mindful of this and prepare themselves for lower subsidy support.

Figure 22 Scottish Reform Timeline - 2024 to 2027



Source: Scottish Government / Andersons



The direction of travel is clear; reduce greenhouse gas emissions, adapt to climate change, protect, restore and improve nature.

Wales

KERRY JERMAN AND
ANNA BOWEN

As with the other home nations, the combination of agflation and tax on recent profits is putting a high cash demand on some farm businesses. However, there are a large number of Welsh farming businesses that are marginal in both size and profitability that have not been dramatically affected by this volatility. The effects of the dry summer have impacted all types of farms, but particularly the sheep sector due to the seasonality of spring lambing. With lamb numbers down for the 2023 crop, and therefore income, there has been a strong demand for replacement ewes driving high prices at the autumn breeding sales. This will increase replacement costs and put pressure on 2023/24 profitability.

The majority of administrative requirements for The Water Resources (Control of Agricultural Pollution) (Wales) 2021 Regulations are now being enforced. For many upland farmers, this just proves to be an additional record that must be kept, with relatively few physical farming practices needing to be changed. However, for some dairy farmers and many suckler herds, the reality of investing in new slurry storage systems is not proving to be a worthwhile investment, particularly with the current cost of borrowing. It is inevitable that when the final requirements for slurry storage comes into force from July 2024, there will be a decrease in the number of smaller suckler herds. On a positive note, this could produce an opportunity for those dairy farmers needing to 'dilute' their stocking by moving youngstock off their farms. However with TB still being a large threat, businesses will need to weigh up potential implications of moving stock off their holding to be compliant, with possibilities of animals being stuck off farm for long periods.

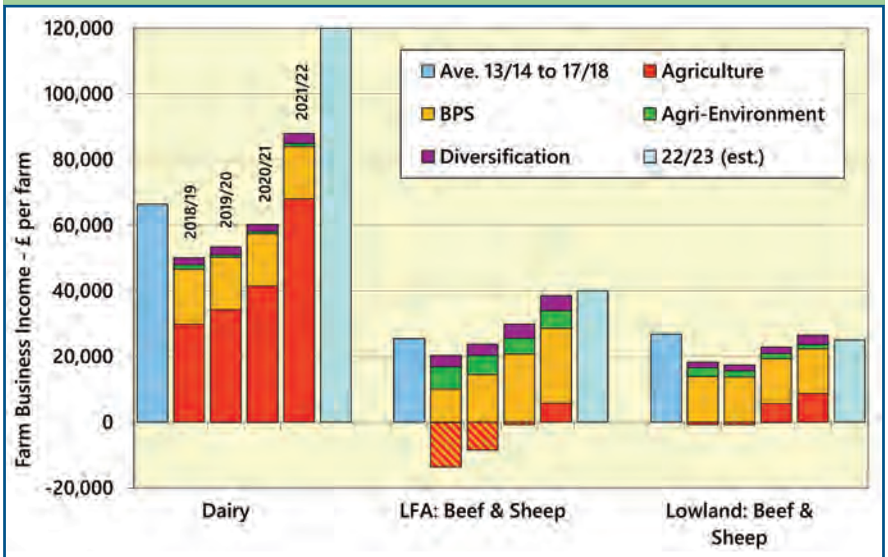
For some dairy farmers and many suckler herds, the reality of investing in new slurry storage systems is not proving to be a worthwhile investment.

With the final consultation on the Sustainable Farming Scheme (SFS) yet to be released, a 2025 rollout of the scheme is moving closer at a remarkably fast pace. The new Habitat Scheme for Wales, a one-year scheme targeted mainly towards previous Glastir Advanced (GA) and Glastir Commons holders, allows many farmers in GA to be eligible for the small grants schemes for capital works (hedging, fencing, pond creation etc). However, with a large budget deficit in the Principality, it is likely that the pot to fund these schemes (as well as the Growing for the Environment Scheme) will be restricted.

The Farming Connect programme has been extended for 2023 and 2024. The aim of this extension is to provide a 'transition' period for farm businesses to prepare for the SFS in the future. The support aims to improve the access of farm businesses to industry professionals, be they farm consultants, solicitors, vets, agronomists / FACTs qualified grassland specialists or carbon auditors. A wide range of training courses are also available for farmers, to ensure that they are cross-compliant and also to improve the overall CPD of the farming industry. It is encouraging to see that the uptake by the younger generation of Welsh farmers is strong, with many joining discussion groups and attending webinars and masterclasses to improve their understanding of their farming systems.

While the delay of the SFS consultation feels somewhat like putting off the inevitable, the mood is changing in Wales and businesses are becoming more proactive in assessing their survival post BPS. There are very few businesses that will not see a significant drop in income, as BPS makes up a large proportion of total output (see Figure 23). However, businesses have the opportunity to improve their resilience now, at a time when BPS still remains.

Figure 23 Welsh Farm Incomes - 2013/14 to 2022/23



Source: Defra / AHDB / Andersons

CONTRIBUTED ARTICLE

Renewables

JAMES MILES HOBBS

James Miles-Hobbs from JMH Farming and Renewables looks forward to the prospects for the renewables sector for 2024 and beyond.

Firstly, I am not going to dwell on the whole of the background of renewables, climate change, carbon emissions, energy prices, etc. I am going to concentrate on what we can practically do on-farm and where I see the opportunities for 2024.

Large-Scale Renewables

Principally, we are looking at ground mounted field-scale solar PV and battery storage. The whole of the UK is suffering from constraints in the electricity grid. This is most acute in the South of England, which is potentially grid-constrained until 2036 at the moment. National Grid have a 5-point plan to reduce these blockages so that grid connection timescales can be rapidly brought forwards. Without this, our 2030 CO2 emission targets will be missed.

If you have been approached to consider a large-scale project, grid connection is therefore the be-all and end-all. Without capacities, the project will not get off the ground. Solar PV is principally export. But do not forget that battery storage may need import as well as export. This could be difficult near conurbations where significant import capacity is already booked for housing and business developments.

'Behind the meter' batteries are becoming more commonplace in the design of large-scale solar PV now.

49.98MW solar PV developments (just under 50MW Nationally Significant Infrastructure Project ceiling) are becoming more and more usual. This equates to approximately 150 to 200 acres, depending on the configuration.

Rental rates for solar PV are around £1,250 per acre, with leases up to 40 years, CPI linked. You should not forget to have a percentage of turnover included as an additional top-up, particularly as your solar site might be repowered in 15 years' time.

Figure 24 Solar PV Returns and Payback - 2013/14 to 2023/24

	Pre-Tax Internal Rate of Return (IRR) on Assets	Equity Payback: Years	Total Cost: £ per kWh
2013/14	18.5%	5.5	1,200
2014/15	18.9%	5.4	1,065
2015/16	17.2%	5.9	1,065
2016/17	9.6%	9.3	1,012
2017/18	14.3%	6.3	795
2018/19	21.2%	4.8	690
2019/20	19.9%	5.4	590
2020/21	21.2%	4.8	515
2021/22	19.3%	5.3	755
2022/23	27.3%	3.8	875
2023/24	28.4%	4.7	1,045
On-site Usage: Daytime: 50.2%		On-site Usage: Total: 22.3%	

Source: JMH Renewables

On-Farm Solar PV

Roof mounted solar PV is still attractive and indicative paybacks for 50kW installed are currently around 5 years with an installed cost of around £1,045 per kW. The key is to aim for 75% onsite usage. Unless you have very significant energy usages, you will struggle to achieve 100% utilisation.

The difficulty is balancing what I refer to as 'two thirds / one third'. Generally, you will use two thirds of your electricity in the winter and solar PV will produce two thirds of its electricity in the summer.

East/West alignments are becoming more commonplace for roof mounted, which extends the shoulder hours, both in the morning and afternoon and gets rid of the 'hump' of solar PV production in the middle of the day.

Defra has promised an on-farm grant of £16 million for mainly roof-mounted solar PV with a 25% grant rate and maximum installation cost of £400,000. This should give farms, with up to £70,000 annual electricity costs, the opportunity to get up to £100,000 of grant aid towards their on-farm solar PV. Not to be sniffed at!

Heating: Ground Source Heat Pumps

For around 100,000kWhs to 200,000kWhs of heat a year, good ground source heat pump systems can be installed competitively. For those of you on oil, a litre of oil equates to 10kW. Therefore, this is around an annual oil usage of 10,000 to 20,000 litres.

Having said this, it is essential to have your own feedstock of electricity so that your electricity is competitively priced to feed into your ground source heat pump system.

Anaerobic Digestion

There are still good opportunities for small-scale AD, particularly on livestock farms and especially on dairy farms with slurry-based systems. I particularly like the Biolectric, which is competitively priced and, from my clients' experiences, relatively easy to manage, whilst at the same time providing all-year-round electricity and heat.

I had been hoping that with the repeated slurry grants, Defra would bring out a grant for livestock farms to invest in small-scale AD. So far, this has not come about. I will keep my fingers crossed for 2024 and beyond.

Wind Turbines

Potentially, in England, we could see Planning becoming more favourable, particularly for single stick on-farm turbines, bringing it more in line with Scotland. You will need a wind speed of over 5.5m/s to get a reasonable return. Turbines are useful as, generally, two thirds of wind power will be generated during winter months, balancing the two thirds of the solar power generated in summer.

> **The whole of the UK is suffering from constraints in the electricity grid.**

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