

BUSINESS MATTERS

Volume 6

ANDERSONS

the
FARM *business*
CONSULTANTS



Introduction and Contents

Welcome to the sixth edition of *Andersons' Business Matters*. This publication looks at a selection of business topics at the farm level. We hope you find it interesting and informative.

If you would like to discuss any of the issues covered please do not hesitate to contact one of our consultants (listed at the back of the booklet).

Previous editions of Business Matters covering a wide range of topics can be found via www.andersons.co.uk.

*The Directors of Andersons
the Farm Business Consultants
June 2026*

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Adding a Poultry Enterprise

Why Do We Want to Add a Poultry Enterprise?

Poultry currently offers an attractive diversification option for livestock and arable businesses alike. Notable benefits include regular income, relatively small land requirements and the potential to integrate with existing arable enterprises, utilising the nutrient value of the resulting litter and adding value to crop outputs.

In our experience, adding a new enterprise can often create a larger business which can be useful in helping bring the next generation into farming. That said, these are specialist enterprises and should not be seen as a straightforward bolt-on.

Before embarking on any new venture, it is critical to ask “what are my objectives” and understand whether any new venture aligns with these goals. If the key driver is simply that money can be made, that is unlikely to be enough. Poultry enterprises require significant commitment, investment and attention to detail. In addition, farm businesses must consider whether this option genuinely suits their holding, labour availability and skills, management capabilities and long-term aims.

Investment Appraisals

If the strategic fit is right, the next step is to undertake a thorough investment appraisal. This should go well beyond added gross margin and include a realistic allocation of additional overheads, along with capital expenditure requirements for buildings, equipment, utilities, access, drainage and compliance.

The appraisal should show whether the enterprise can generate enough return to cover depreciation, debt repayment, a realistic level of drawings for unpaid/family labour, and costs of working capital, at achievable levels of technical performance. Allow for construction costs to exceed budget by, say 15%, and for base rate to return to 5%. Would the enterprise remain viable, or would it put pressure on the wider business? Lenders often want a debt service cover ratio of >1.70, meaning the business needs enough cash to cover repayments with a 70% margin for safety. Is that achievable in current circumstances? When (not if) the outlook for poultry deteriorates, will it cover all costs?

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Poultry enterprises require significant commitment, investment and attention to detail
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Sensitivity Analysis

The last few years have highlighted how exposed the poultry sector can be. Intensive enterprises are typically highly reliant on fewer inputs, however, these have been the most volatile - not least feed and electricity/fuel.

Whilst the year of Russia's invasion of Ukraine seems like a long time ago now, for many poultry producers it will not be forgotten; electricity costs of >70p per kWh, feed costs nearing £500 per tonne and free-range egg prices below £1.20 per dozen. This should represent a stark reminder of how things can change and why understanding sensitivity analysis is so important.

For broilers, key variables include chicken price, feed price, chick cost, energy, mortality, feed conversion and throughput. For laying hens, the main sensitivities are likely to be feed, pullet cost, egg price, egg numbers and mortality. Assuming any investment is mostly funded by borrowing, interest rates are also a critical

factor in both systems. A well-prepared and thorough sensitivity analysis should answer the question: does the enterprise still work under pressure? A project that only stacks up under current (favourable) circumstances may be too risky.

Which Comes First? Balance Planning, Contract, Finance, Capital, and Permits

Once you have decided if a poultry enterprise is the right fit for your business, there are several elements that must progress in tandem to successfully initiate the process. Poultry processors and egg packers will not be that interested in fronting up contracts until you have Planning Permission and Environmental Permits in place. Banks will not look to provide finance until you have Planning and a contract.

Businesses will most likely be reluctant to apply for Planning without security of contract or funding for the project. This is the gamble that businesses must make to initiate the venture. Planning



Application fees for broiler sites can be over £50,000 for a standard four house broiler site. Application fees for the EA permit (if over 40,000 birds) will be £8,500. Then there will be Planning Agent fees and various surveys in addition to this, typically around £25,000, subject to location. In total, a business can expect to spend more than £80,000 with no guarantee of success or return.

Once Planning is in place, then you can negotiate for a contract, obtain robust quotes for capital investment, and negotiate finance.

Retro-fitting existing livestock sheds should also be considered as a more cost-effective and quicker option. Planning costs are significantly reduced and the effectiveness of retro-fitting these sheds is much improved, however design is normally compromised to some extent.

Actually Running It

This arguably should be the first stage, before you have committed to Planning, contracts, finance, and

the build. Do you want to do the day-to-day work? Or will you employ people? There are options to have the unit contract-farmed, or even rented out, although there will be tax implications to this. All these are possible options.

Whether you do the day-to-day work or not, we highly recommend that those considering a move into poultry spend some weeks/months helping on a similar operation, so you know what the management involves. The sensitivity and smoothness of these operations are so important to get right. As well as the people management; without good people on the ground, a poultry enterprise will not thrive.

Once up and running you should not get complacent. Ensure you benchmark, internally and externally. External input is unfortunately not common in poultry due to biosecurity. But there is always room for improvement.

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Natural Capital: Fad or Genuine Market?



Farming margins are unstable, volatile and, for many, squeezed. In uncertain times, it is common to look for the silver bullet; the saviour of farm profits. Natural Capital was supposed to be the next gold rush for UK farming. Carbon credits, biodiversity schemes and ecosystem markets were touted as alternative revenue streams capable of improving farm profitability. Whilst this may still be true in the future, many Natural Capital markets are either small, undeveloped or completely dependent on public funding.

What is Natural Capital?

The concept of Natural Capital first came to prominence in the 1970s by the British/German ecologist E.F. Schumacher. His philosophy was that Natural Capital such as carbon sequestration, biodiversity, clean water and flood mitigation have an economic value and should be treated as assets. Since 2011, the respective Devolved Administrations and UK Government have focussed on improving Natural Capital. With Government support, environmental organisations and investors have tried to monetise these assets, through a

combination of schemes and markets.

Natural Capital income can come from a variety of sources. Returns could be generated from habitat creation, biodiversity enhancement, carbon sequestration, woodland planting, peatland restoration and nutrient mitigation, amongst others. Under the right circumstances these schemes can provide valuable additional revenue. However, more often than not, the reality has often fallen short of the hype.

There are two fundamentally different routes to monetising Natural Capital. The first is through Government-backed schemes and grants. The second is through private finance, where investors, corporations or developers pay for environmental outcomes.

In fact, there is also a third 'middle way' where private funds are used but markets are created and supported by Government regulation and certification. It is under this hybrid approach where Natural Capital has developed the most.

Public vs. Private

Public funding for Natural Capital is largely through familiar agri-environment schemes, although there are smaller targeted grants as well. In England, when Environmental Land Management (ELM) was first proposed, it was considered paying directly for improvements in Natural Capital. This was found to be complex, so the programme has reverted to the traditional approach of paying for actions that *should* increase Natural Capital.

At the other end of the scale are purely private markets. In this sector Natural Capital payments are typically linked to measurable outcomes, regulatory requirements or corporate environmental targets. Carbon credits, nutrient neutrality schemes and water company catchment projects are among the most prominent examples seen in the UK. Carbon markets, in particular, were heralded as a major opportunity for agriculture. During 2020 and 2021, many commentators predicted carbon would hit £200 per tonne in the near future. Had those forecasts materialised, the carbon market would be more exciting for the agricultural sector. Instead, prices have struggled to break through the £50 per tonne mark.

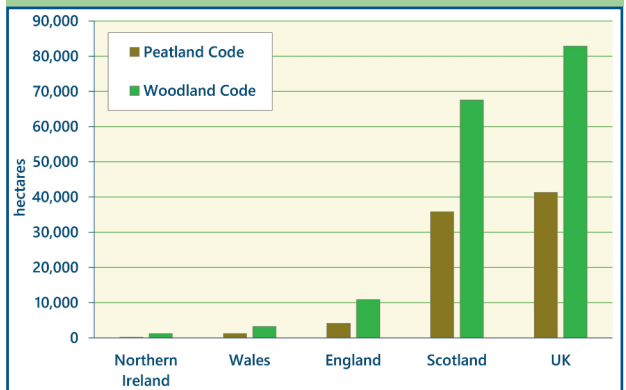
Businesses such as Agreena, Soil Capital and Soil Association Exchange were established to capitalise on anticipated growth, but with carbon values remaining subdued, the substantial returns once promised to landowners have largely failed to materialise.

Concerns over verification, questions around the integrity of some credits, disappointing investor returns and a growing corporate focus on reducing emissions within supply chains rather than offsetting them have all contributed to a limited demand. The reality is that unless the carbon price dramatically increases, the carbon market will remain subdued.

The limitations of private Natural Capital markets become even clearer when looking at Scotland. Scotland is often presented as a Natural Capital success story and, in many respects, that assessment is justified. Through initiatives such as the Forestry Grant Scheme, Peatland Action and the Nature Restoration Fund, thousands of hectares have been restored or planted. Between 2020 and 2025, 52,900 hectares of woodland were established, and 39,000 carbon units were validated under recognised carbon codes.

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Figure 1: UK Areas Under Carbon Codes



Source: IUCN (August 2024) and WCC Interim Summary Statistics (July 2024)

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The Government has repeatedly expressed a desire to attract greater levels of private investment. However, progress has been limited. Investment firm Aberdeen's recent decision to withdraw from the Nature Restoration Fund is the latest example. It marks the second unsuccessful attempt by NatureScot to attract substantial private-sector backing.

Biodiversity Net Gain (BNG) provides a useful case study of the hybrid approach. Introduced in England in February 2024, the policy requires most developments to leave nature in a measurably better state than before. Biodiversity, as measured by a metric, must increase by 10% once the project is completed.

Many predicted BNG would rapidly grow and provide opportunities for farmers. The reality has been a relatively slow building of momentum. By May 2026 around 250 BNG sites had been registered, covering approximately 7,500 hectares. Exemptions, recently expanded, mean many small sites are exempt from BNG requirements.

For those supplying BNG there are also a number of issues to recognise;

- ▶ Geographical inequality - given the nature of BNG requiring an uplift to be delivered local to the site, the greatest opportunities are in areas where there is the greatest development.
- ▶ Fluctuating prices – different types of habitats generate different levels of income.

Additionally, different routes can deliver different amounts of money for the same habitat. Habitat Banks typically deliver lower returns than private schemes.

- ▶ Long-term legal commitments – land is locked into environmental delivery for anything from 30 to 125 years.

Despite these caveats, BNG may yet prove to be one of the UK's more successful Natural Capital mechanisms. The Government's announcement that all Nationally Significant Infrastructure Projects will require BNG from November 2026 has the potential to change the market significantly. Major road, rail and energy projects could generate demand at a scale not previously seen, creating opportunities for long-term land partnerships and landscape-scale nature recovery. For many farmers, this may represent the most credible Natural Capital opportunity currently available. Time will tell.

At present, BNG only applies in England. Other parts of the UK appear to be adopting a wait-and-see approach (perhaps letting England refine its scheme first), before considering whether to proceed.

Concluding Thoughts

For most farms, public funding, such as Stewardship, will continue to provide the baseline support for environmental work and Natural Capital improvement. Some farms will want to go further and look at private markets. This can require a significant amount of research and preparation, including land surveys, market analysis, succession planning and feasibility studies.

What these examples demonstrate is that Natural Capital markets remain overwhelmingly Government-driven rather than fully self-sustaining commercial markets. Whilst opportunities exist, it needs to be recognised that being Government created or supported creates a risk of future policy change.

The future might well involve a blended model combining public and private finance. Given mounting pressure on public finances, Governments alone cannot fund the scale of intervention required to reverse biodiversity decline, improve water quality and reduce carbon emissions. Equally, the evidence to date suggests private investors are not yet willing to provide sufficient capital without regulatory support, public subsidy or guaranteed returns. Without further private investment it seems likely that Natural Capital goals will remain just that - goals.



Dairy Beef Schemes

Over 50% of cattle slaughtered in Great Britain (prime and cull cows) are now born to dairy dams, illustrating how important the dairy herd has become to beef production. Dairy-beef's share of prime cattle market has grown to now almost 40% of prime cattle slaughtered, up from 28% in 2019.

Consumer and milk buyer resistance to dairy bull calf euthanasia, the widespread use of sexed semen in the dairy herd, and the dramatic increase in beef prices over the last few years are the main contributory factors to the rise in dairy beef. Meanwhile, the GB suckler herd has continued to decline, meaning calves from the dairy herd have become a valuable resource.

Historically such systems have not proved particularly profitable and capable of supporting very few overheads (labour, machinery, finance costs etc). But, with beef prices appearing to have reached a higher norm, well-structured enterprises can make reasonable margins.

At farm level, there is growing interest in dairy-beef supply chain

schemes developed by the major processors. For processors, the attraction of such schemes is a secure supply of what is often a more consistent product, with increased traceability and usually a lower carbon footprint - all of which have become of increasing interest to their major customers, the supermarkets. These schemes link up the supply chain, offering a home for dairy-bred calves, whilst offering rearers security by guaranteeing a minimum price. This allows prospective and existing beef farmers to budget more accurately. Some schemes even provide integrated lending and fixed forward prices to ease cashflow.

Most dairy-beef schemes follow a broadly similar structure:

- ▶ Guaranteed or underwritten calf values
- ▶ Contracted supply agreements
- ▶ Defined breeding specifications
- ▶ Weight and performance targets
- ▶ Veterinary and technical support
- ▶ Access to finance or integrated purchasing arrangements
- ▶ Agreed finishing outlets

Whilst schemes offer security, there are potential drawbacks.

They can reduce flexibility in terms of:

- ▶ Breed choices
- ▶ Feed protocols
- ▶ Health treatments
- ▶ Target weights
- ▶ Sale timing (and sale outlets)

For example, a grazing-based beef unit may struggle to meet growth targets designed around housed systems. Integrated arrangements can sometimes involve strict performance thresholds. Missed targets may lead to reduced bonuses or price deductions.

Farmers should understand exactly how payments are calculated and where risks sit. A guaranteed market is valuable - but only if the specifications are achievable.

Dependence on one buyer reduces marketing flexibility. If relationships change, or scheme terms alter, producers may find themselves with limited alternatives. Businesses should ask: "If this arrangement ended next year, what would Plan B look like?"

Before entering any dairy-beef scheme, farmers should assess:

- ▶ Does it fit current housing and labour resources?
- ▶ Can growth targets realistically be achieved?
- ▶ Are genetics suitable for your system?
- ▶ Is cashflow improved or constrained?
- ▶ Who carries mortality risk?
- ▶ Are exit arrangements clear?
- ▶ What happens if market conditions change?

The strongest schemes tend to complement existing business practices rather than forcing wholesale change.

These schemes can be less capital-intensive than traditional suckler or finishing systems, provide a valuable source of organic manure, and perhaps offer arable farmers a grass-based enterprise option. Achieving good returns requires a consistent supply of healthy calves along with good stockmanship and technical performance.

Looking ahead, the wider direction of travel appears clear. Industry strategy increasingly supports stronger links between dairy and beef sectors, improved calf genetics and more transparent supply chains. As pressure grows to improve efficiency and demonstrate environmental performance, dairy-beef systems are likely to become more integrated and data-driven.

For some farms, schemes may provide welcome stability and access to expertise. For others, retaining flexibility and independent marketing options may remain preferable. Like many farming decisions, the answer is unlikely to be whether schemes are inherently good or bad. The key question is simpler - does the scheme fit the business - or is the business being forced to fit the scheme?

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Letting Farm Cottages: Recent Law Changes and Pitfalls



Farms and rural estates often include a number of cottages in addition to the main house. Historically these would have been used to house workers for the farm or estate. Whilst this use remains, the decline in workforce means it is much reduced. Many of these 'surplus' dwellings are now let out on the open market, providing significant income in many cases. The law around residential lettings continues to change and it is vital that farmers and landowners do not fall foul of the rules.

Firstly, the legislation of residential tenancies is a devolved matter. Therefore, separate systems operate in the different parts of the UK. Most administrations have moved towards a more tenant-friendly regime over the past few years - Wales in 2016 and Scotland in 2017. Northern Ireland has retained Assured Shorthold agreements but is considering amending its legislation. The remainder of this article will consider the situation in England, where there has recently been the largest change in the residential lettings sector in over 30 years.

The Renters' Rights Act (RRA) 2025 came into force on the 1st May 2026. As the name suggests, its aim is to increase the legislative protection for Tenants - in line with the moves in other parts of the UK. A corollary of this is that greater restrictions and obligations have been placed on residential Landlords. Where lettings are done through an Agent, they will have almost certainly ensured compliance with the new rules. Many Landlords deal with lettings themselves, however. They will need to ensure they have done what is necessary.

General

All new residential tenancies created in England after the 1st May 2026 are Assured Periodic Tenancies (APTs). In addition, all existing Assured Shorthold Tenancies (ASTs) have been converted into APTs as from the 1st May 2026. Therefore, the Act does not just affect new agreements.

For existing AST tenancies, with a written agreement, there is no need to have a new agreement drawn-up, but the Landlord should have provided Tenants with a Government produced

'Information Sheet' by 31st May 2026. Fines of up to £7,000 are payable for non-compliance.

For new APTs starting on or after 1st May 2026, Landlords must provide Tenants with a written 'Statement of Terms' setting out the core terms of the tenancy. Existing, verbal only, tenancies also should have had a written Statement of Terms provided by 31st May. These terms can be incorporated into the tenancy agreement. They cover things such as the property address, names of the parties, rent, treatment of bills, the deposit, rights of the Tenant, safety issues and how the tenancy can be ended. Importantly, to regain possession of the property, it is now a requirement under some of the possession grounds to have told the Tenant in writing at the start of the tenancy that they may be used. Such 'prior notice' should also be included in the Statement of Terms. Failure to issue

such a notice does not necessarily mean that possession cannot be gained, but the Landlord is likely to face a fine.

This introduces one of the biggest changes under the RRA. Under new APT tenancies the 'no fault' evictions previously available under Section 21 have ended. Landlords who wish to regain possession of their property will have to apply to the Courts under an expanded set of grounds under a new Section 8. These include both mandatory grounds, where the Court has to grant possession if the position is proved, and discretionary grounds where it must be demonstrated to the Court that it is 'reasonable' for the Landlord to regain possession.

The mandatory grounds include rent arrears (more than 3 months) or anti-social behaviour.

Possession can also be regained if the Landlord wishes to sell the property or move themselves or family members in - but not in the



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first 12 months of the tenancy. There are also grounds for where the Tenant was employed by the Landlord and the property was rented out as part of their employment - this is likely to be the route for employer Landlords (including farms and estates) to regain possession - see below for more details.

The other main changes compared to previous ASTs are;

- ▶ There will no longer be fixed-term tenancies. All lettings will be periodic (usually on a rolling monthly basis). A Tenant will have to provide 2 months' notice if they wish to end the tenancy.
- ▶ Rents can only be increased once a year - two months' notice of an increase must be provided on a prescribed form. Rent can only be increased to the open-market level and Tenants are able to challenge any increase.
- ▶ A maximum of one month's rent

in advance can be charged.

- ▶ There is a ban on rental bidding. Landlords and letting agents will no longer be allowed to invite higher 'bids' to rent a property - it can only be let at the rent it was advertised for.
- ▶ Tenants have the right to request to keep a pet which cannot be reasonably refused.
- ▶ There will be rules to prevent discrimination against Tenants with children and those on benefits.

Lettings to Workers

The housing of agricultural workers has always been more complicated. If a farmworker is simply provided with a 'tied-cottage' then an Assured Agricultural Occupancy (AAO) can arise. This gives the agricultural worker lifetime security of tenure, plus one succession.

For this reason, employers have been advised to avoid Service



Occupancies for agricultural workers and use an AST, with the Employer/Landlord first serving an Agricultural Notice (Form 9) in advance to avoid the creation of an AAO. This had allowed employers to gain possession using a Section 21 Notice.

Under APTs the way to regain possession of workers cottages will be via Ground 5C - end of employment by the Landlord. If the Tenant was employed by the Landlord and the property was rented out as part of their employment, the Landlord will be able to use this ground if the Tenant is no longer their employee. Landlords will need to give 2 months' notice before they will be able to apply to the Court for a possession order. However, for Agricultural Workers, it is important that agreements are set up correctly including a notice, in a prescribed form ('Form 24'), having been served on the Tenant before the tenancy commences, stating it is to be an APT. Previous Form 9 notices to prevent the letting being an AAO, already served for existing AST tenancies, remain valid.

Also useful in some circumstances will be Ground 5A - agricultural worker. This will allow an APT to be ended if the dwelling is needed for an agricultural worker.

Other types of estate worker such as gamekeepers or housekeepers do not get the protection of an AAO. Therefore, there is still the alternative to an APT of using a Service Occupancy to provide them with a tied cottage - as long

as their occupation of the property is required to properly fulfil their duties. Service Occupancies sit outside of the scope of the RRA.

Agricultural Tenancies

Where a farm is being let under the Agricultural Holdings Act (AHA) 1986 or is a Farm Business Tenancy (FBT) under the Agricultural Tenancies Act 1995, any dwellings within the letting, if occupied by the Tenant of the holding, are not covered by the residential letting legislation.

However, many tenanted farms also have surplus cottages which, depending on the terms of the tenancy, the farm Tenant may sublet. Landlords of agricultural tenancies should ensure that their farm Tenants serve any residential sub-Tenants with the necessary notices (grounds 2ZA-D under Section 8). This will ensure that vacant possession can be obtained over the whole farm when the main AHA/FBT comes to an end.

As can be seen, the legislation in this area is complex - an article such as this can only provide an overview and hopefully highlight some of the areas to watch. Readers are encouraged to get professional legal advice on any specific situations.

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Return on Capital: A Key Tool for Business Management



Whether a family farm or multi-national corporation, there are two basic ingredients to business - management time and capital.

Whilst for many corporations these two resources are separate (management is employed and capital is provided by shareholders), in many farming businesses both management and capital are provided by proprietors. The financial performance of any business, whatever its scale, depends on how well these two scarce resources - time and capital - are invested.

For those who manage (or own a share of) a business, some means of measuring the return on capital

is required to understand how the business is performing and where to target financial investment.

Measures of Return on Capital

The difficulty with the term 'return on capital' is that it can refer to a range of measures, all of which are calculated differently. Figure 2 sets out four of the more common, together with a summary of how they are calculated:

ROCE and ROE are more often applied to the whole business, whilst ROI and IRR are typically used to assess business developments, such as a new enterprise or expansion of an existing one.

Figure 2: Return on Capital Measures

Measure	Abbreviation	How Calculated
Return on Capital Employed	ROCE	Earnings before Interest/Tax ('EBIT') ÷ Total Capital Employed*
Return on Equity	ROE	Profit after Tax ÷ Net Worth
Return on Investment	ROI	Profit after Tax ÷ Initial Capital Invested
Internal Rate of Return	IRR	True interest rate, accounting for value and timing of investment return

Source: Andersons

* Calculated as Total Assets minus Current Liabilities

Returns on Capital:

Whole Business

ROCE measures the return on all the capital employed by the business, including borrowings, whilst ROE specifically measures the return on the investors' capital - whether shareholders in a company, sole traders or partners in a partnership.

These whole business calculations require a statement of business assets and liabilities - the balance sheet - which is to be found in a business's financial accounts.

A difficulty with farming balance sheets in financial accounts is that they are likely to include assets whose true value is more (and sometimes less) than their true (e.g. market) value. Key examples would include:

- ▶ Land and property - included at its acquisition value
- ▶ Produce in store - included at either cost of production or Deemed Cost (e.g. for crops in store = 75% market value at accounts date)
- ▶ Machinery - included at written-down-value, based on depreciation rates that may exceed actual rates (leading to 'profits on disposal' when assets are sold).

Adjustments have to be made to show the true value of the assets if the return on capital figure is to be meaningful.

At the present time, some 70% of UK farmers own a significant proportion or all of the land that they farm (c.f. only 11% in 1914) - in effect they are both Landlord and Tenant.

Returns on capital are typically quite different for these two activities. Landowning is generally in the band 2-5% (rental value ÷ capital value), whilst returns on Tenant's capital are more often in the 5-20% range.

A true measure of the return on capital from farming alone (i.e. return on Tenant's capital) should exclude land values from the balance sheet, but include a rent for the land in calculating business profit.

These return on capital calculations are complicated and in practice may provide little assistance in business decision-making. As a result they are less-used by farming businesses than measures to assess potential business developments.

Returns on Capital: Business Development

If capital is a limited resource, as for many businesses, then a method is required to compare the potential financial return from different investment choices, whether in an existing enterprise (e.g. dairy herd expansion, installing irrigation) or the introduction of a new one (e.g. AD plant, poultry shed).

Let us consider the relative merits of the two most common methods - ROI and IRR.

ROI is simple to calculate, being the after-tax profit of the new project, once fully operational, expressed as a return on the initial investment. Its main drawback is that it does not account for how quickly the project becomes

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operational or what effect inflation may have on future profits.

IRR overcomes these problems through the calculation of a series of annual cashflows for the project. These future cashflows are discounted to current values (a Discounted Cashflow or ‘DCF’) to give a true rate of interest (IRR). This calculation can be prepared using a standard formula in Excel.

The advantage of IRR over ROI is that it takes both time and inflation into account, giving a true rate of return on capital. This is particularly important when assessing projects that take time to reach full profit, which subsequently might alter through cost inflation. Examples include the installation of robotic milking machines (to replace parlour milking), the planting of perennial crops (eg. apple orchard or vineyard) or the setting up of a farm attraction.

To illustrate the importance of using a DCF to calculate the “time value of money” let us consider two choices offered to an investor of £100,000, for a 10-year term, and compare the results of ROI and IRR calculations. The two options are:

Option 1 Receive £15,000 in ten annual instalments - i.e. by Year 10 a total of £150,000

Option 2 Receive a single instalment of £200,000 in Year 10.

The ROI calculation indicates a 15% return on investment for Option 1 and 20% for Option 2 (based on £20K average annual return).

The calculation of the true rate of interest (IRR) using a DCF suggests a different conclusion, with the following results:

Option	True Rate of Interest %
1	8.14
2	7.18

Conclusions

The calculation of whole business measures of returns on capital can be complicated for farming businesses, particularly if the balance sheet includes both landowning and farming assets.

In practice return on capital calculations are more often used by those managing farming enterprises to assess the relative merits of different investment choices. In this respect, experience shows that the Discounted Cashflow method provides the most robust comparisons. This can either be prepared using the standard formula in Excel or alternatively with the help of an advisor.

Sources of Farm Business Comparison Data

Farm businesses have never had so much data so readily available, yet interpreting the information effectively can be challenging.

Comparing performance with industry standards can highlight where costs, output, or labour use differ from similar farms and help identify areas for improvement. Understanding how your business performs relative to comparable farms can be a valuable management tool.

'Benchmarking' can help answer important questions such as:

- ▶ How do individual and average enterprise gross margins compare?
- ▶ Is labour being used efficiently?
- ▶ Are machinery costs too high?
- ▶ Which enterprises within the business are truly profitable?
- ▶ How do fixed costs compare with similar farms?
- ▶ Does scale improve efficiency for your business?

Many farms already collect large amounts of data through field records, livestock costings, financial accounts or crop recording software that can be used to compare with available publications and data. Ensuring

the accuracy and reliability of your data is a critical first step which will allow you to make best use of the sources of information available. The data should also be calculated on the same basis as that with which it is being compared - so that like-for-like comparisons are possible.

Data Sources

AHDB Farmbench: Although this service is closing at the end of September 2026, AHDB data has been widely used across the industry and provides gross margin comparisons, crop performance data and enterprise benchmarking using aggregated grower data. The data is particularly useful because it includes regional comparisons to give a more accurate insight based on location rather than model-based costings (differing land type/geography). The data comes from industry-wide surveys with high participation levels, allowing businesses to compare where their costs differ significantly from industry averages.

The AHDB '**Basic Farm Business Review**' (available online) offers written guidance to review your farm's profitability, enabling you

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to calculate where the proportions of the farms total income are spent and how much profit is generated, compared with target Key Performance Indicators (KPIs).

The Defra Farm Business Survey (FBS) comprises data from over 1,500 farms that details land use, labour, business structures, costs and outputs. Farmers that participate in the survey receive benchmarking support providing them with comparisons of their farm management accounts to farms with similar farm type, land and geography. The survey separates the bottom 25%, middle 50%, top 25% by each category and enables farmers to identify where the best farms differ. There is a Data Dashboard (<https://shiny.farmbusinesssurvey.co.uk/>) which allows data to be filtered for comparison purposes. FBS suggests that financially stronger performing farms are often those with tighter control over fixed costs, machinery investment and labour efficiency. High yields do not always result in high margins. *The Scottish and Welsh Governments also undertake similar surveys in their countries and publish the data.*

Costings Books: These include the Nix Farm Management Pocketbook and The Agricultural Budgeting and Costing Book. Unlike the AHDB or FBS data, they are not a record of actual past results, but an estimation of future performance provided to support budgeting and business planning. Costings and gross margins are provided for a wide range of agricultural enterprises with

standardised costs and output figures. As well as helping with budgeting, these can be compared to existing farm performance to highlight areas of divergence from expected figures. The publications also provide operational costs for machinery, based on assumptions for depreciation, fuel consumption, maintenance and labour requirements. This may help businesses decide whether machinery ownership is economically viable, or if hiring machinery or appointing contractors may be better value.

Other Sources of Information: these include:

- ▶ National Association of Agricultural Contractors (NAAC) annual Contracting Prices Survey
- ▶ Scottish Agricultural Colleges produce a free download of their Farm Management Handbook at fas.scot/downloads/farm-management-handbook-2025-26/
- ▶ In some sectors, notably dairy and intensive livestock, there are commercial costings packages where data is collected and compared against your peers. This is sometimes undertaken within a discussion group setting where differences in performance are openly reviewed
- ▶ Finally, your Farm Business Consultant is likely to be working with a number of individual businesses and will be able to provide you with benchmark data, based on their knowledge of your business.

What to Compare

Historically, success in farming has often been measured purely in terms of yield. But higher output alone is unlikely to be the solution to a financially challenged business, financial gains are far more likely to be achieved through improved cost control and operational efficiency. Figure 3 sets out some of the metrics that can be used to highlight areas to be addressed. In many cases, there is unlikely to be one single area of improvement, but rather a number of marginal gains.

High input costs and weaker commodity prices are putting pressure on profitability resulting in businesses being forced to review costs of production and farming systems more closely. Good profits can hide poor machinery utilisation or inefficient labour structures. Tighter margins expose these weaknesses. Please contact your Andersons Consultant who would be happy to help direct you to the best source of information to help you benchmark your business.

Figure 3: Useful Metrics

Metric	Measurement
Enterprise	
Average Gross Margin	£ per Ha (or £ per Head for livestock enterprises)
Cost of Production	£ per unit of Output (eg. per tonne)
Labour	
Total Labour Cost	£ per Ha
Labour Efficiency	Full Time Equivalent (FTE) per Ha
Machinery	
Total Capital Employed	£ per Ha
Depreciation and Repairs	£ per Ha
Fuel Use	Litres per Ha
Horsepower/Ha	Horsepower per Ha
Combine Capacity	Metres per Ha Cut
Sprayer Capacity	Metres per Ha Sprayed
Labour and Machinery	
Total Cost	£ per Ha
% of Turnover	%
Profit before Rent and Finance	£ per Ha

Source: Andersons

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The four Andersons practices provide services for Farming Businesses and Food and Agribusinesses. Recognising that all businesses are different, Andersons' advisors tailor their advice to their clients' needs. Advice may be provided in a range of areas including:

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Agro Business Consultants Ltd

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