



PROTECTING THE FUTURE PROFITABILITY OF YOUR FARMING BUSINESS

Edward Hutley
Farm Consultant and Partner at Ceres Rural

12th May 2022





EDWARD HUTLEY

PARTNER | SAFFRON WALDEN

Ed has a wealth of experience in providing financial and technical advice and management to farms, estates and educational institutions.

Ed is a BASIS and FACTS qualified agronomist and has a Masters degree in Farm Business Management. He is also a partner in his family farming and contracting business (J.E.Hutley & Son) where he provides strategic agronomy advice and people management support.

Ed joined from six successful years at Strutt & Parker and three informative and practical years as a farm manager for a national farming company.

Ed is an avid sports enthusiast who is sometimes mistaken for a certain Serbian tennis player... when not on the court.



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WHO ARE WE?



WHO ARE WE?

MEET THE TEAM

Ceres Rural is run and managed by nine ambitious and distinguished consultants, who are each a Partner in the business. Alongside the Partners are a team of highly skilled Associate Partners and Farming Consultants.



WHO ARE WE?

CERES RURAL LLP

- Independent advisors
- 25+ Specialist Farming Consultants
- Qualified professionals, tailoring unique solutions
- Offices at Saffron Walden, Oxford, and Norwich



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WHAT DO WE DO?



WHAT DO WE DO?

OUR SERVICES



FARM MANAGEMENT



CROP MANAGEMENT



STRATEGIC CONSULTING



BIODIVERSITY OFFSETTING



GRANT ADVICE



BUSINESS SOLUTIONS



BUSINESS REVIEWS



BENCHMARKING SERVICES



HEALTH & SAFETY GUIDANCE



ENVIRONMENTAL MANAGEMENT



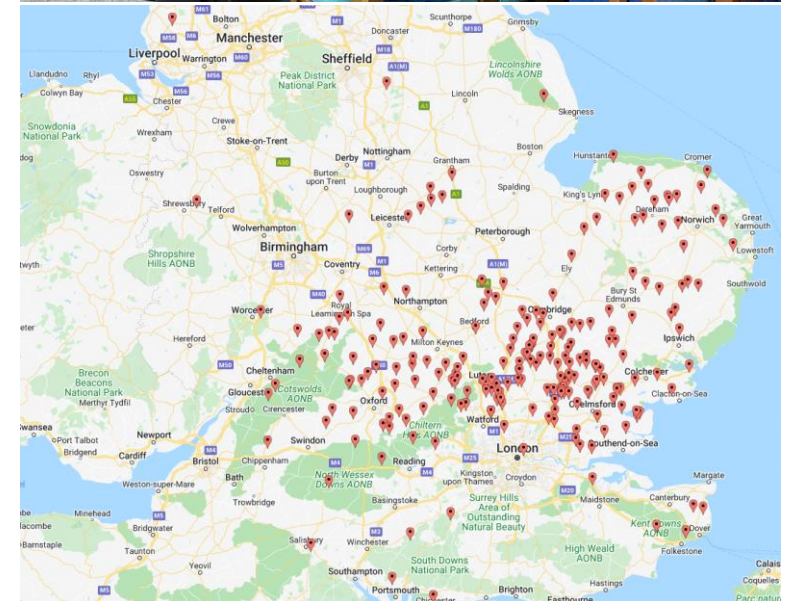
RECRUITMENT SERVICES

WHAT DO WE DO?

WHAT HAVE WE BEEN DOING?

A busy 6 months of business reviews, reaching over 500 farms:

- Hosted **19** Farmer benchmarking discussion groups in collaboration with the AHDB (**170** farms)
- Provided farm visits with strategy reports for **230** farms as part of DEFRA's Future Farm Resilience Fund
- Carrying out **130** half day Farm Business Reviews for the AHDB's FFRF
- Working with Morrisons to provide financial sustainability advice / business appraisals to **25** of their School of Sustainable Agriculture Farms



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HARVEST 2021

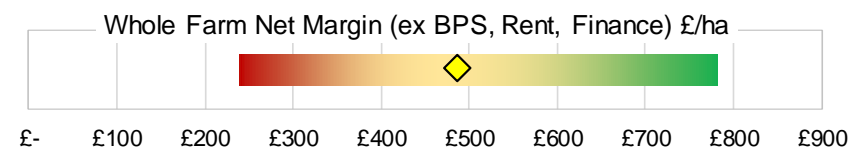
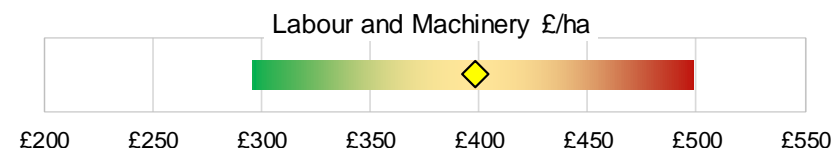
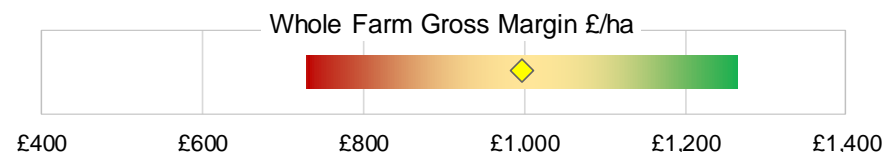
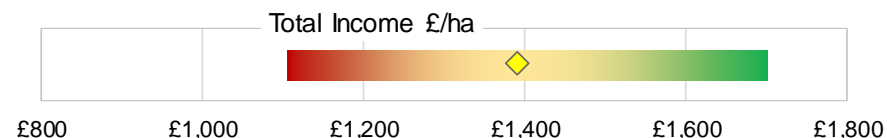


CURRENT LANDSCAPE – WHOLE FARM BENCHMARKING 2021



Whole Farm Benchmark Report

171 Farms	
2021 Harvest	GROUP AVERAGE
Area grown (ha)	361
Total Income (£/ha)	£1,392
Variable Costs	
Total Variable Costs (£/ha)	£396
Gross Margin (£/ha)	£996
Fixed Costs	
Total Labour (£/ha)	£125
Equipment spares and repairs (£/ha)	£62
Vehicle fuel (£/ha)	£48
Hire and leasing (£/ha)	£25
Contracting (£/ha)	£104
Crop Specific Contracting (£/ha)	£200
Machinery depreciation (£/ha)	£93
Total Machinery and Equipment (£/ha)	£293
Total Labour and Machinery (£/ha)	£398
Total Property and Energy (£/ha)	£62
Total Administration (£/ha)	£51
Total Fixed Costs (£/ha)	£510
Net Margin excluding BPS, Rent and Finance (£/ha)	£486





AHDB FARBMBENCH – WHEAT 2021

657 Farms	Bottom 25%	Middle 50%	Top 25%
Area of wheat (ha)	72	100	82
Yield (t/ha)	7.6	8.9	9.4
Price (£/t)	190	194	215
kgN fertiliser	204	201	210
Sprays (£/ha)	166	177	181
Gross Margin (£/ha)	1,017	1,300	1,678
Labour and Machinery (£/ha)	496	403	389
Property and Admin (£/ha)	160	125	109
Total Fixed Costs (£/ha)	656	528	498



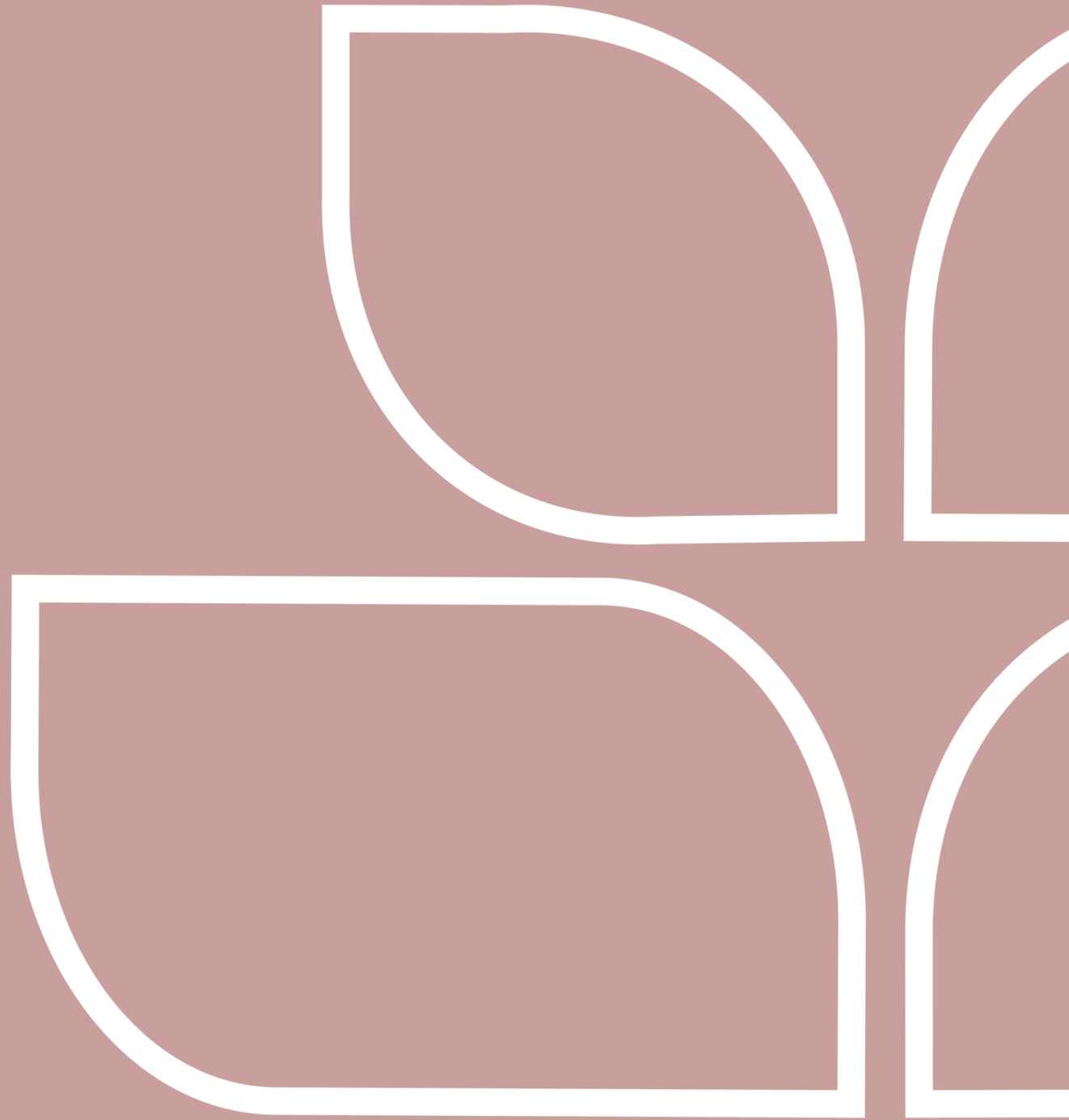
HARVEST 2021

- Difficult autumn followed by dry spring and a dull summer.
 - Harvest characterised by low yields.
 - Rising commodity prices and comparably cheap inputs have saved blushes for many.
- First year of BPS reduction – minimum 5% less than 2020.
- Overall £500/ha Net Margin, nearly 100% increase from 2020 (a poor year).



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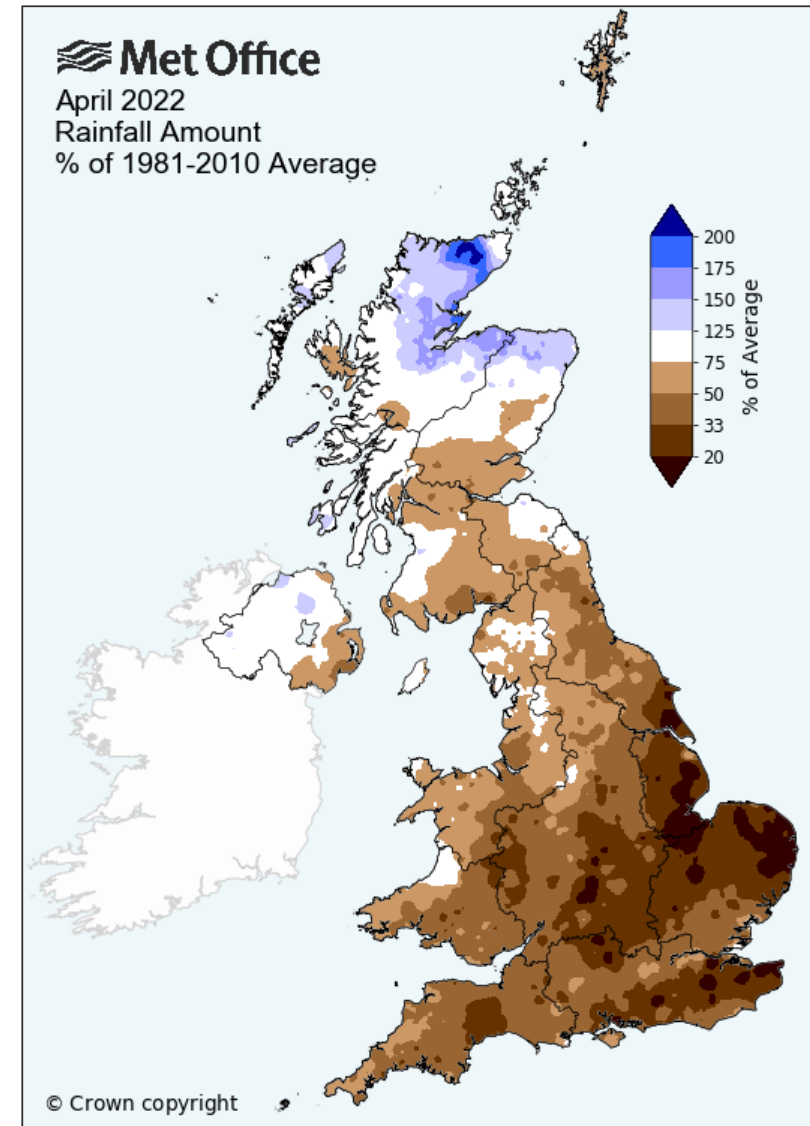
HARVEST 2022





PROSPECTS FOR 2022

- General Ag-inflation on inputs:
 - Sprays up 8-10%
 - Fertiliser prices up 200-300%
- Crop prospects:
 - Were looking good following dry autumn. However, drought now starting to impact on potential of many crops.
- Commodity prices:
 - High!
- Likely to be more profitable than 2021, providing we get rain....



PROTECTING THE FUTURE
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POLICY CHANGES





"THE TRANSITION PERIOD", 2021 – 2024

Our plans for the transition and spending

Direct payments

Payments will be reduced in a progressive way, so that in the first few years of the agricultural transition less is taken from the first £30,000 of payments. This is designed to help farmers manage the transition as smoothly as possible.

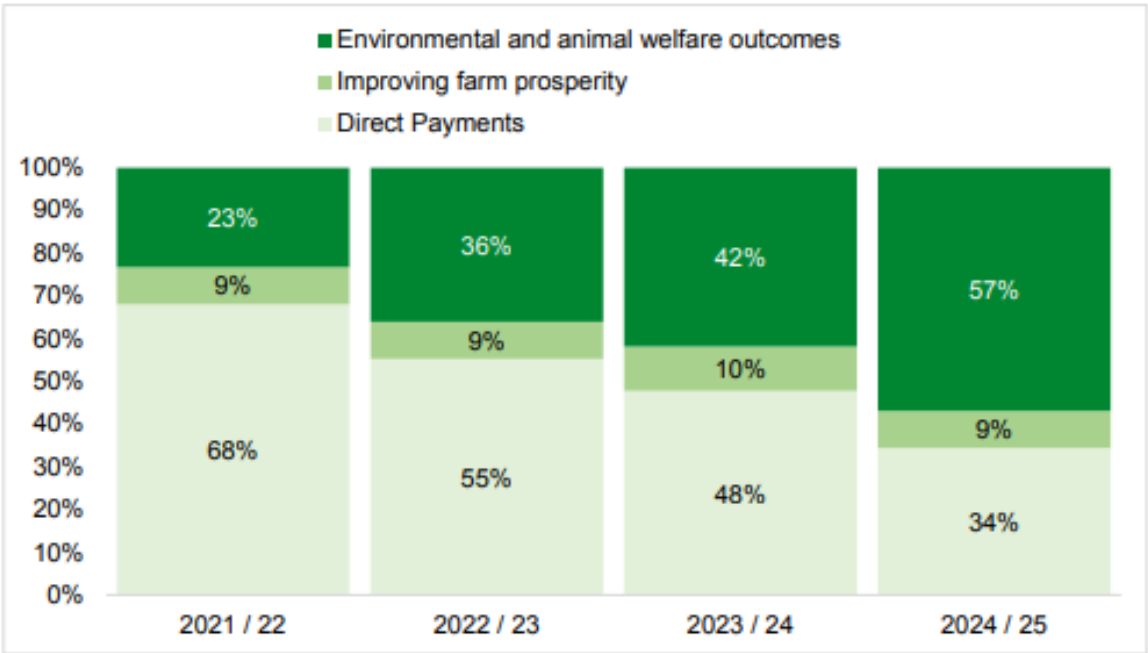
Table 2: Direct Payment reductions

Payment Band	2021 scheme year	2022 scheme year	2023 scheme year	2024 scheme year
<=£30,000	5%	20%	35%	50%
£30,000 to £50,000	10%	25%	40%	55%
£50,000 to £150,000	20%	35%	50%	65%
>£150,000	25%	40%	55%	70%
Cumulative total amount to be redirected into delivering other schemes for farmers	£169 - 179m	c£427 - 447m	c£703 - 733m	c£970 - 1,010m

Spending priorities

Figure 1 below describes our spending plans across three areas of spend from 2021/22 to 2024/25. This is the first four years of the agricultural transition period and is covered by the government's commitment to maintain current levels of spending in England, based on 2019 funding levels when the manifesto commitment was made. This amounts to an average of £2.4 billion a year over that period.

Figure 1: Funding plan for 2021/22, 2022/23, 2023/24 and 2024/25



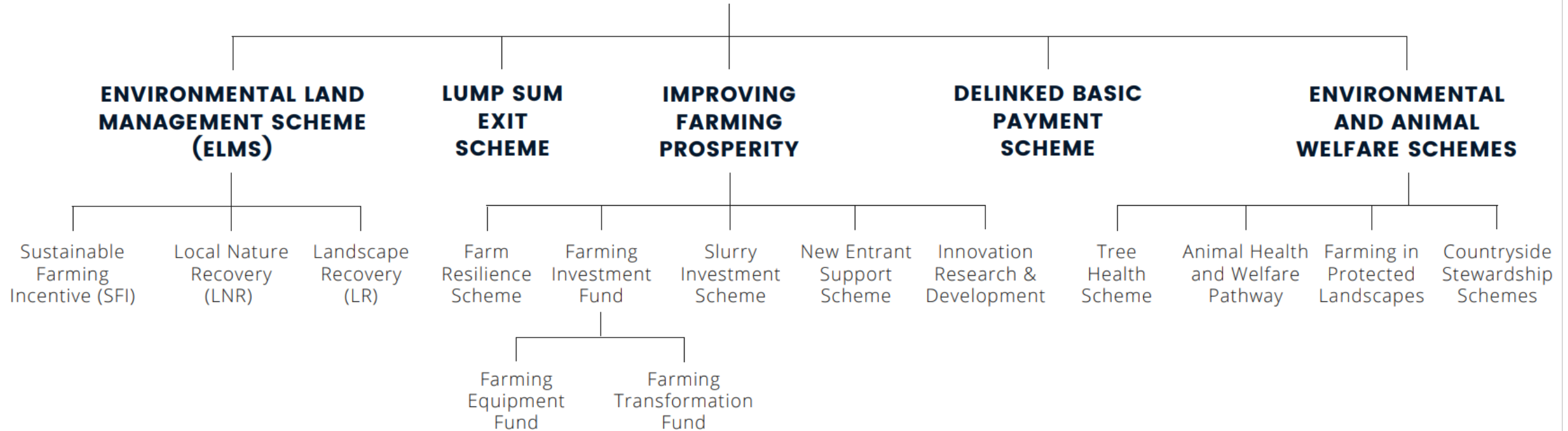


PROTECTING THE FUTURE

AGRICULTURAL TRANSITION PLAN

FUNDING CHANNELS

(2021-2028)

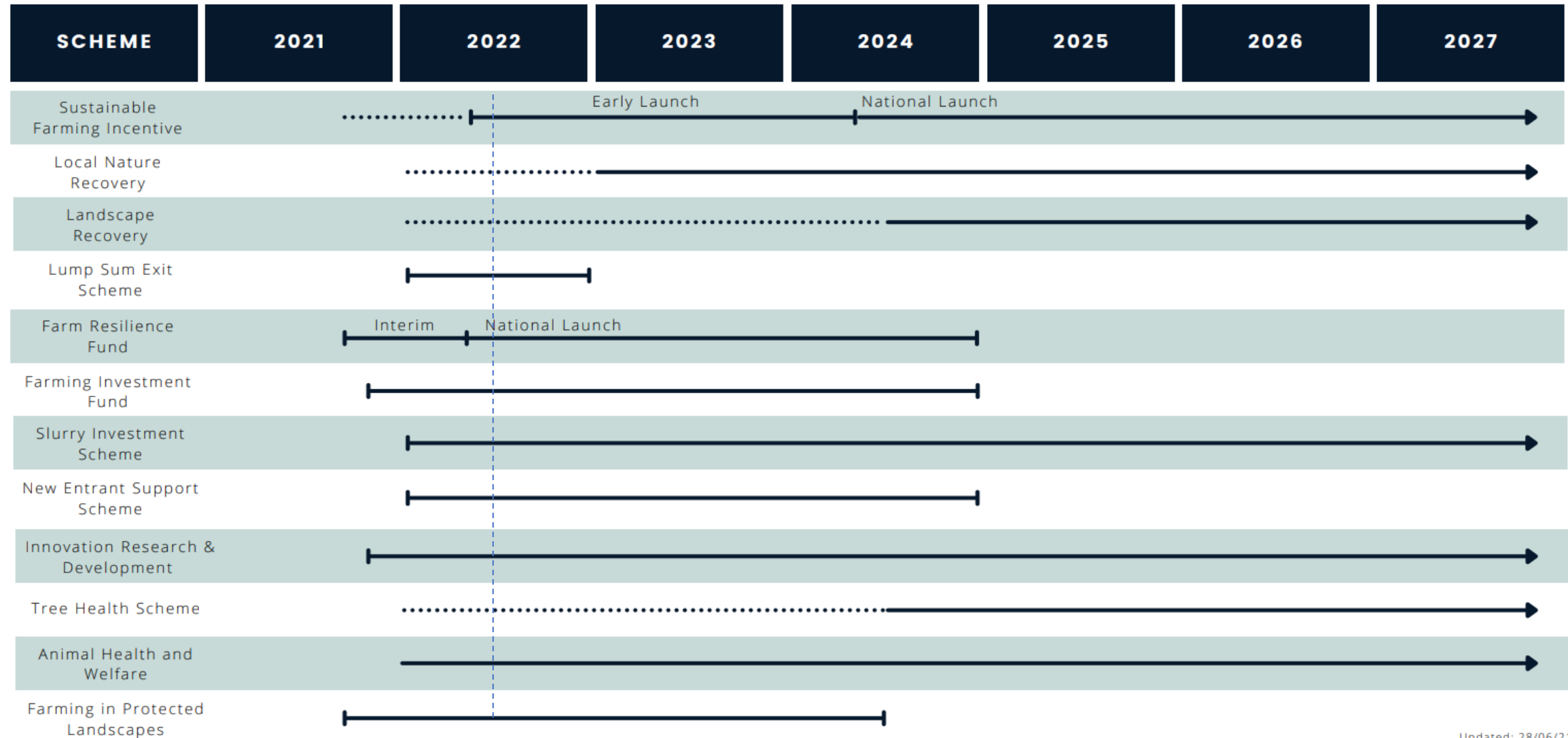


TRANSITION PLAN – TIMELINE



..... Pilot
 ——— Operational

Agricultural Transition Plan Timeline of New Schemes



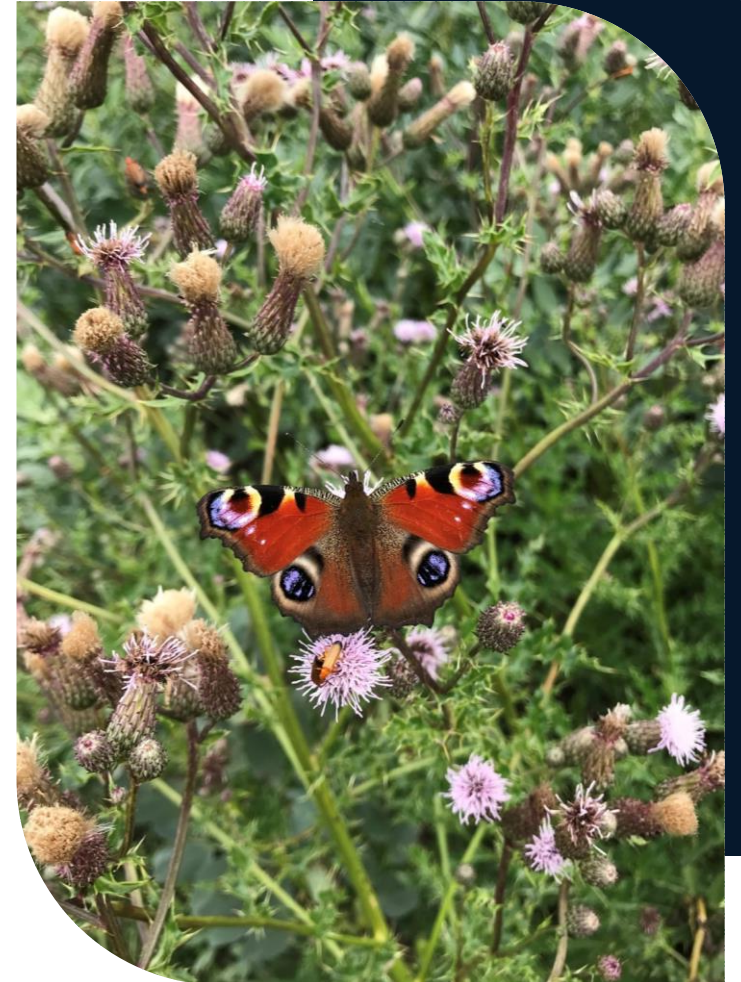
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HARVEST 2023
AND BEYOND



HARVEST 2023 AND BEYOND

- Future production
- Role of conservation and biodiversity
- Carbon credits
- Biodiversity Net Gain
- Blended finance – private and public



HARVEST 2023 AND BEYOND

- Productivity will still be key for many:
- Farmers need to know their costs – e.g **benchmarking**.
 - Fertiliser now available and forward prices above £260/t so **cashflow management** will be vital to ensuring inputs can be purchased in a timely fashion.
- Perhaps, we are facing choice between **high input / high output** or **low input / low output**?

Examples include:

- Intercropping
- Minimum tillage
- Integration of livestock or herbal leys?
- Improve organic matter
- Increase green cover
- Lower input farming



COUNTRYSIDE STEWARDSHIP vs ARABLE NET MARGINS



CSS Option Comparisons - New CSS Rates from 1 Jan 2023 (new agreements)

Budget Costs for Harvest 2023

Combinable Crop Gross Margins	Winter Wheat		
	Low	Mid	High
Yield (t/ha)	7.0	8.5	10.0
Price (£/t)	250	250	250
Output (£/ha)	1,750	2,125	2,500
Seed (£/ha)	80	80	80
N Fertiliser (£/ha)	396	396	396
Sprays (£/ha)	260	260	260
Variable Costs (£/ha)	736	736	736

Gross Margin (£/ha)	1,014	1,389	1,764
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Labour & Machinery £/ha	425	425	425
Contract Cultivation £/ha			
Contract Drilling £/ha			
Contract Cutting £/ha			
Contract Spraying £/ha			
Storage @ £9/t	63	77	90

Fixed Cost (£/ha)	488	502	515
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Net Margin (£/ha)	526	888	1,249
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Combinable Crop Gross Margins	Winter Oilseed Rape		
	Low	Mid	High
Yield (t/ha)	2.1	3.3	4.0
Price (£/t)	650	650	650
Output (£/ha)	1,365	2,145	2,600
Seed (£/ha)	70	70	70
N Fertiliser (£/ha)	432	432	432
Sprays (£/ha)	220	220	220
Variable Costs (£/ha)	722	722	722

Gross Margin (£/ha)	643	1,423	1,878
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Labour & Machinery £/ha	425	425	425
Contract Cultivation £/ha			
Contract Drilling £/ha			
Contract Cutting £/ha			
Contract Spraying £/ha			
Storage @ £9/t	19	30	36

Fixed Cost (£/ha)	444	455	461
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Net Margin (£/ha)	199	968	1,417
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Combinable Crop Gross Margins	Winter Beans		
	Low	Mid	High
Yield (t/ha)	2.5	3.2	4.2
Price (£/t)	260	260	260
Output (£/ha)	650	832	1,092
Seed (£/ha)	80	80	80
N Fertiliser (£/ha)	0	0	0
Sprays (£/ha)	150	150	150
Variable Costs (£/ha)	230	230	230

Gross Margin (£/ha)	420	602	862
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Labour & Machinery £/ha	425	425	425
Contract Cultivation £/ha			
Contract Drilling £/ha			
Contract Cutting £/ha			
Contract Spraying £/ha			
Storage @ £9/t	23	29	38

Fixed Cost (£/ha)	448	454	463
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Net Margin (£/ha)	-28	148	399
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	SW6 Cover crops + AB14 Compliant Spring Oats (Low input)	AB15 2 Year Legume Fallow	AB6 Enhanced Over Winter Stubble + Clover	GS4 Legume and herb rich sward
CSS Rate £/ha	£124 + £236	£569	£493	£358
Yield (t/ha)	4.0			
Price (£/t)	230			
Output (£/ha)	1280	569	493	358
Seed (£/ha)	80	60	30	100
N Fertiliser (£/ha)	190			
Sprays (£/ha)	30	10	15	10
Variable Costs (£/ha)	300	70	45	110

Gross Margin (£/ha)	980	499	448	248
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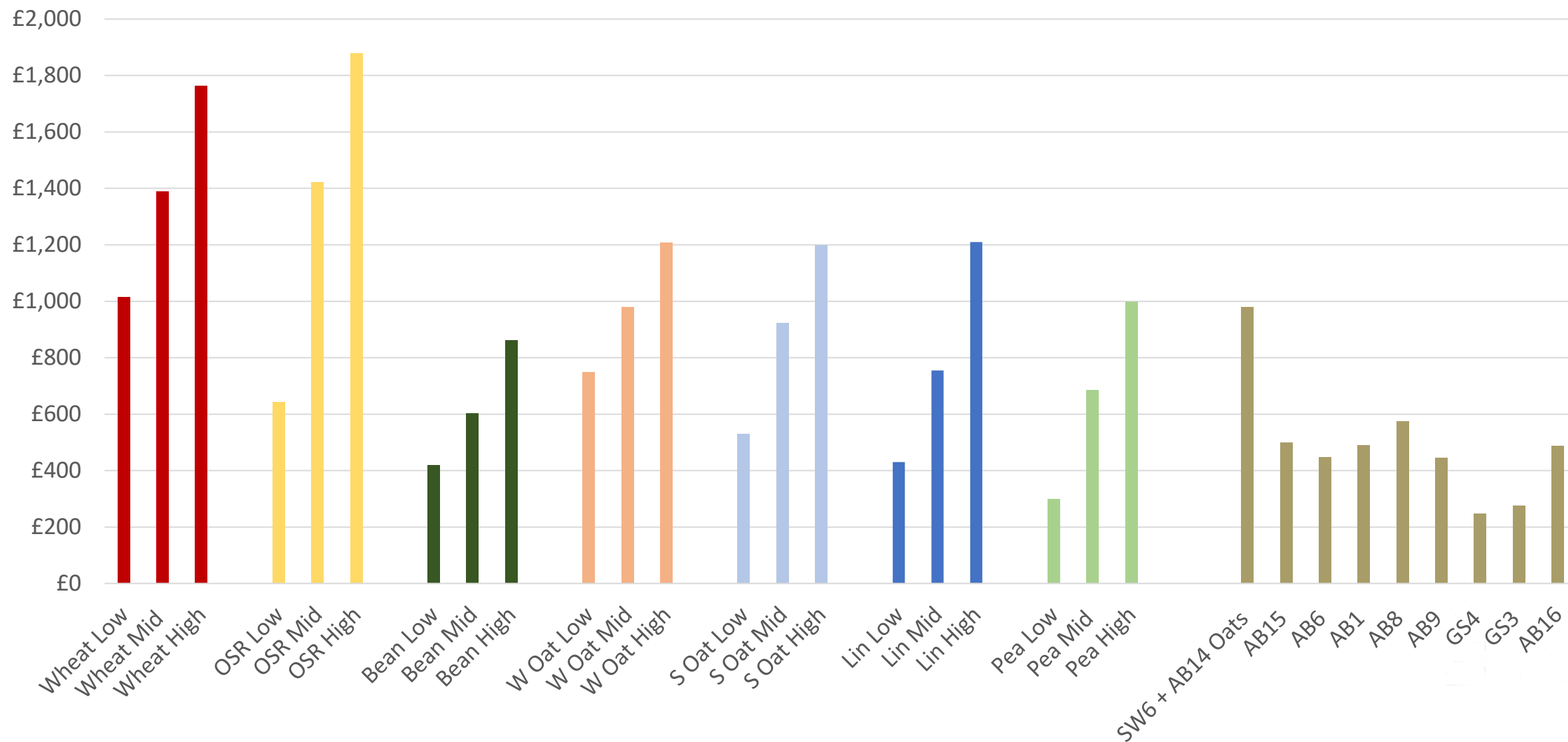
Labour & Machinery	425			
Contract Cultivation		30		30
Contract Drilling £/ha	50	30	30	30
Contract Cutting £/ha		60		60
Contract Spraying £/ha		10	20	10
Storage @ £9/t	45			

Fixed Cost (£/ha)	520	130	50	130
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Net Margin (£/ha)	460	369	398	118
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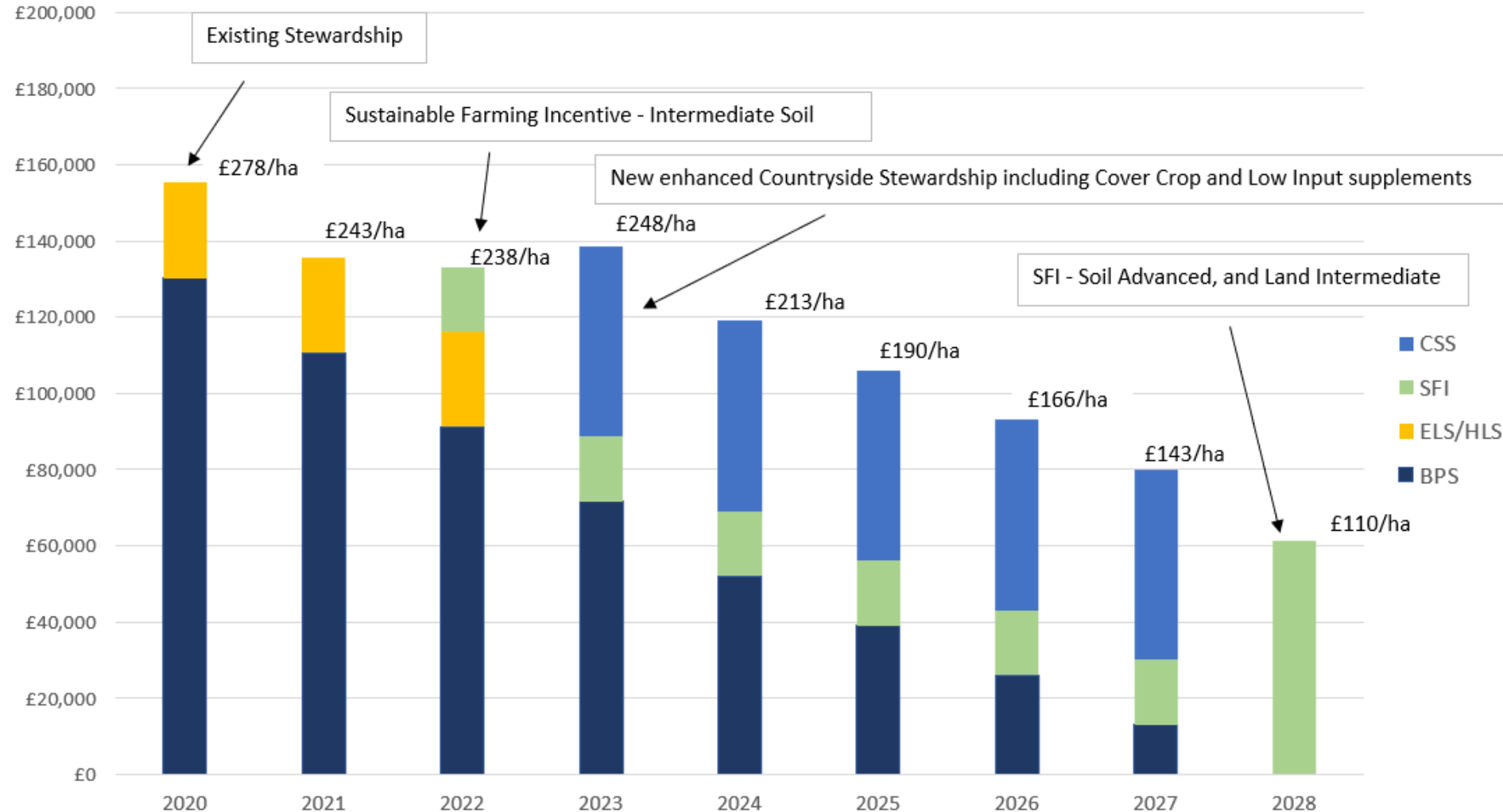
COUNTRYSIDE STEWARDSHIP vs 2023 ARABLE GROSS MARGINS





BPS AND FUTURE SUPPORT PAYMENTS

Future Farming Income 2020 - 2028 for a productive 550 ha Arable Farm





FARM CARBON

- The UK has set the target to be Net Zero by 2050 - How do farms get there?
- Farmers and landowners are in a unique position with the ability to sequester carbon
- Carbon audits enable farms to understand their current position with regards to emissions and sequestration potential
- It is recommended that farmers carry out baseline soil carbon analysis, enabling farms to realise their soil carbon sequestration potential
- The future of carbon markets is not clear, yet baseline analysis will allow farmers to enter carbon markets in the future
- Most arable farms are currently net emitters due to artificial fertiliser usage

Emissions	tonnes CO ₂ e	%
Fuels	313.19	19.80%
Materials	39.10	2.47%
Inventory	265.63	16.79%
Crops	314.90	19.91%
Inputs	649.12	41.03%
Total	1,581.94	100%

BIODIVERSITY NET GAIN

- Biodiversity Net Gain (BNG) aims to deliver measurable improvements to an area's biodiversity
- Development in the UK will soon be required to not only offset the biodiversity lost but also demonstrate a 10% increase - BNG
- BNG provides another opportunity for farmers to generate an income from historically unproductive land.
- BNG will therefore help farmers to diversify and recover income lost through the removal of BPS





BLENDED FINANCE

- Carbon credits and Biodiversity Net Gain are two examples of funding coming from the private sector.
- It is hoped that these funding streams will help replace the gap left by the removal of BPS
- In the future, farms may therefore receive blended finance, with income from the private sector as well as through grants from the government.
- It is unknown how much funding will come from the private sector, with industries such as carbon and biodiversity credits still in their infancy



PROTECTING THE FUTURE
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TAKE HOME
MESSAGES



ADAPTING TO THE CHALLENGE

CROPPING AND ROTATION

- Understand what is profitable
- Consider longer rotations reducing risk
- Engage with schemes that can underpin crop performance

CULTIVATIONS AND ORGANIC MATTER

- A gradual shift to lower disturbance
- Catch and cover crops, organic manures. Build resilience
- Regenerative and Commercial

THE TEAM AND TAKING THEM WITH YOU

- Involving the team in on farm trials
- Retaining the best
- Independent advice and learning from best practice



ADAPTING TO THE CHALLENGE

OCCUPATION AND COLLABORATION

- Lump sum exit and loss of BPS will trigger land availability
- Re-alignment of rents with productive capacity
- Sustainability - a new deciding factor on Tenders?
- Longer term JV/ share farming/ contract farming

SUSTAINABLE AND PROFITABLE

- Diversification of course – but farming needs to be profitable without
- Help to prepare – perhaps 50-60% of BPS:
 - Farming Investment Fund
 - Sustainable Farming Incentive and CSS
 - Private sector funding – an emerging market



QUESTIONS?

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