

HARD EVIDENCE ON MACHINERY COSTS

Full financial results for harvest 2008 are crossing the desk and, as ever, there are interesting comparisons to be made on machinery costs. The table below compares the real costs in the year to 30th Sept 08 for two different farming businesses. Farm A is a very typical unit of about 1000ac, mostly arable, with a rotation of two wheats and rape. The work is done by the farmer and one full-time employee and the cultivations system is mostly plough based for the cereals and the rape is broadcast. Farm B is a machinery syndicate formed by two farms, each of around 1000ac. All the labour is paid for and the cultivations are based around a solo or discordon type system.

	Farm A		Farm B	
	£/ac	£/ac	£/ac	£/ac
Labour		26		39
Machinery				
Depreciation	38		16	
Spares/repairs	23		6	
Contract/hire	13		14	
Fuel	28		19	
Other (inc. farm vehicles)	9		1	
		<u>111</u>		<u>56</u>
Total labour & machinery		137		95
Difference			42	
Difference x 1000 acres			42,000	

N.B. No account taken of the value of the farmer's labour on Farm A

The significant difference speaks for itself and shows the massive potential opportunity for cost savings that exist in some very typical businesses. The lower costs achieved by the syndicate are not just due to scale – the whole management process of a machinery syndicate, where two or more usually unrelated people come together to run a business, makes for much greater accountability and transparency of costs, coupled with bolder, more business-focused, decision making. In addition to the annual cost saving, there is also a £44/ac difference in the overall level of machinery investment between the two farms – so £44,000 of potential capital release for Farm A.

There are of course a wealth of considerations to take account of before entering a machinery syndicate with your own business, not least the availability of suitable like minded collaborators in the vicinity. There is a familiar saying that 'to get three farmers to cooperate you need to shoot two of them'. One would hope that in the 21st century with a modern, business-like approach, this is no longer the case, and the financial opportunity will win out!

For further information on machinery syndicates, please speak to William Tongue on 01604 782719.



Nitrate Vulnerable Zones

The new Nitrate Vulnerable Zone (NVZ) regulations affect every producer who applies nitrogen to a crop whether it be in the form of organic or manufactured N, grass or arable land.

Whilst the NVZ rules have always been a legislative requirement, their policing has always been somewhat haphazard. However, since they were brought under the umbrella of cross compliance, the penalties are far more tangible in the form of deductions to Single Payment.

The changes are more draconian for livestock producers who are now required to increase slurry storage facilities, rotate field manure heaps and update and improve records. However, arable producers are also affected being required to update and improve record keeping to demonstrate that any nitrogen applications are for crop requirement, taking into account soil nitrogen supply up to a crop specific N max limit.

The NVZ pack consisting of nine guidance booklets has not automatically been sent to producers; it needs to be ordered from Defra publications. In 2007 30% of NVZ cross compliance failures resulted in a 3% reduction to Single Payment. With the increase in complexity of the new regulations, there is a significant chance that these deductions will increase in severity.

If you would like assistance with the new regulations or would like to discuss how they affect your business, please ring Guy Banham on 01604 782727.

Profile your overdraft requirements to reduce bank charges

When a bank makes an overdraft facility available for you, it has to carry a certain amount of capital on its balance sheet to counter the maximum facility. In times when a bank's balance sheets are under pressure, carrying the capital to cover a £100,000 overdraft facility that only reaches this level for, say, three months of the year is something they could do without. Consequently banks are suggesting to us that they could make (and pass on) greater efficiencies if businesses with seasonal overdraft requirements were to profile their facility to match their requirements during the year.

For assistance, speak to William Tongue on 01604 782719.

Consider hedging your Single Payment

The weakness of sterling provides an opportunity to fix the exchange rate applied to your 2009 Single Payment (and future years) by forward selling euros.

In 09, a typical (all arable in the reference period) payment will be about €8.50/ha less than 2008. Therefore to receive the same amount of £s, the exchange rate in Sept 09 needs to be higher than 08 at around 81.5p. Currently it is 89.79p/€ and has been higher. Fixing at this level would deliver an additional £22/ha compared to 08.

The cost of the hedge is around 1-2% which is about 10 times cheaper than an option on grain sales.

For further information contact William Tongue on 01604 782719.

SCRAMBLED, BOILED OR POACHED?

However you like your eggs cooked, there is no question that there is a growing consensus on how your eggs should be reared. With the imminent ban on caged eggs coming into force in 2012, 62% of UK egg production will need to be sourced from alternative sources. Couple this with the 30% year-on-year increase in free range egg purchases and there is a real opportunity for farmers to capitalise on a growing market with an exceptional return on capital when compared to other agricultural enterprises.

The majority of egg purchasers require eggs to be produced to the RSPCA freedom food welfare standards, which limit stocking density to 400 birds per acre, but Defra standards allow for 800 per acre. It is hoped that the RSPCA will change their standards shortly. However, at current RSPCA stocking density levels, the land requirement for a starter flock, say 7,700 birds, is 20 acres, which could make use of an underutilised grass field or be sown down specifically for the enterprise. The birds can be housed in either bespoke fixed buildings, the more traditional route, or mobile arks. The advantage of a mobile ark, being a removable asset, is the potential to borrow against the asset itself in a hire purchase type deal whereby the building is its own security. This offers real scope for tenant farmers where security might be limited.

The table opposite demonstrates the potential returns from such an enterprise based around the hire purchase type approach. This is based on an initial flock of 7,700 birds in two mobile units.

With a ten-year finance repayment plan, a medium-size free range egg enterprise can offer a return on capital of 21.7% and a useful contribution to annual cash flow of £17,681. This can help to buffer the seasonal cash flow of traditional agricultural enterprises as the cash flow is a monthly income which will start one month into production.

The provision of labour will affect monthly cash flow; as with any enterprise, family labour will significantly increase cash generation. A rule of thumb for the labour requirement of free range eggs is 45 minutes per 1,000 birds, but this is just for the egg collection, where efficiencies of scale can be achieved. The time taken to walk the bird floor, check feeders, drinkers, etc. should not be underestimated and it is important that the enterprise complements an existing business rather than creates a management distraction.

		Annualised
		£
Output (7,700 birds)		
300	Eggs /bird over 55 weeks (+2 wk depopulation period)	161,565
Direct Costs		
	Feed	72,283
	Heat & Light	6,322
	Other variable sundries - medication, vet etc.	2,107
	Pullet Purchases, inc mortality & sale	23,884
	Total direct costs	<u>104,596</u>
	Gross Margin	56,969
Overheads		
	Labour	9,965
	Other	6,000
	Total overheads	<u>15,965</u>
	Net Margin (before interest)	41,004
Capital Expenditure		
		£
		000's
	Mobile units	169
	Power and access	6
	Fencing	5
	Contingency	9
		189
	Average Interest	<u>4,406</u>
	Profit (after interest)	36,598
	Average Capital (10 yrs)	<u>18,917</u>
	Cash Flow	17,681
	Return on Capital	21.7%

A full breakdown of the figures can be given on request.

Providing it fits with the existing business free range eggs can provide an opportunity to create cash for a younger generation returning from college, intensify a rented business or spread risk by adding a successful diversified enterprise. Established free range egg units can also fulfil the criteria for an agricultural worker's dwelling under PPS7.

If you would like to discuss this opportunity further or have any questions, please contact Guy Banham on 01604 782727.



Decision Time on Oilseed Rape

Many oilseed rape crops suffered from poor and late establishment and, with serious slug and pigeon damage in many cases, decisions will now need to be made on whether to keep the crop and, if so, how to manage it. If the crop has large empty patches and thin stands (40-60 plants per m2 is a minimum) with only four or five true leaves then write it off! Keeping a poor crop will achieve nothing but high costs and a huge enhancement of the black grass, cleaver, cranesbill and shepherd's purse seed bank.

If the crop is retained, consider using Carbetamex (cleared for use on OSR into the spring), which should provide reasonable results as long as black grass is not too deep rooted, and time this with early nitrogen. Apply a phoma spray as soon as possible and get the broad-leaved weed herbicide on before crop growth stages begin to rule out certain products and weeds get too big. From now on all crops that are retained will cost the same to see through to harvest, whether they are good or bad. The right management decisions are therefore crucial.

For further information, please contact Neil Simmonds on 07714 459394.

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