HARDCASTLE BURTON LLP

2023

HARVEST SURVEY

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“FARMING LOOKS EASY WHEN YOUR PLOUGH IS A PENCIL AND YOU ARE A THOUSAND MILES FROM A CORN FIELD’’

Dwight D Eisenhower

WE WOULD LIKE TO SAY A HUGE THANK YOU TO ALL OUR CONTRIBUTORS. IT IS A VERY BUSY TIME OF YEAR FOR YOU AND WE COULDN'T DO IT WITHOUT YOU.

Welcome to our 2023 harvest survey, where we report on average yields, split by land types for the 2023 harvest. We also publish final benchmarking results from the 2022 harvest down to net profit.

This year we have a guest article prepared by Graham Redman from agricultural business consultants The Andersons Centre. Graham discusses farm returns and the outlook for 2024.

We hope you find the information interesting and of use.

HARVEST 2023

A questionable 2023 British Summer played havoc with harvest progress from the off. After such an early finish in 2022 the lack of progress was frustrating.

The wet harvest resulted in many cutting crops above specification levels. Survey responses indicated that wheat was harvested at an average moisture of 18%. While the cost of fuel over harvest may have been lower than the same time last year it is still a significant extra cost, especially considering many had little or no drying costs in 2022.

The farming press regularly reported on grain quality issues, particularly towards the end of harvest, with milling wheat quality being hugely variable across the county. Our survey saw over 60% meeting milling specification (some with a few claims!) and 30% of respondents with at least part of their harvest making spec.

PROFITABILITY

OUR GROSS MARGIN FORECAST IS BASED ON A 240 HECTARE FARM, WITH A PROFILE OF OUR AVERAGE CONTRIBUTOR, ASSUMING ALL 2023 CROP IS SOLD AT CURRENT SPOT VALUES.

COMBINABLE CROPS	2023 FORECAST £/HA	2022 ACTUAL £/HA
OUTPUT	£1,478	£1,837
INPUTS	£755	£592
GROSS MARGIN	£723	£1,245

In 2022 the forecast gross output was £1,259/ha. Our final results shows a similar result of £1,245/ha.

The predicted gross margin for 2023 is £723, a decrease of 42% on 2022. While yields are reasonable, lower sale prices and higher costs result in the anticipated squeeze on margins.

Last year many had been able to buy inputs early, whereas the 2023 harvest sees the effect of fertilizer and other input purchases made at higher prices.

The higher tax liabilities following the 2021 and 2022 harvests add to the impact on working capital requirements. While farms have used the higher profits as an opportunity to invest in machinery, maintenance and debt reduction this could leave many short of cash.

WHEAT

The total 2023 English wheat production is estimated to be 12.80 million tonnes (DEFRA). This is a decrease of 10% from last year and due to both lower yields and a smaller planted area. The estimated English wheat yield is 8.1t/ha, lower than the results from our survey. This is usually the case as our region fares better than the north and west.

Our harvest survey shows feed wheat averaged 9.08t/ha and milling wheat 8.89t/ha. The average across all land types was 9.03t/ha a 6% increase from the 2022 8.49t/ha.

In China and the EU more wheat is being used as feed after heavy rain and floods. This coupled with a decline in global wheat production and stocks could result in more reliance on Russian wheat which is already dominating markets.

February 2022 saw the start of the Russian invasion of Ukraine and for over four months Ukrainian exports were blocked leading to significant increases in food prices across the globe. The Black Sea Grain Initiative in July 2022 saw some 33 million tonnes of grain and agricultural products exported, benefitting global markets and food security. Russia's withdrawal from the initiative in July 2023 resulted in more uncertainty. At the time of writing the ex-farm price for wheat is around £180/t.

The average contracted price in our survey is £208/t for feed wheat and £265/t for milling wheat. The percentage already contracted for sale is less than previous years suggesting farms are holding out for higher prices.

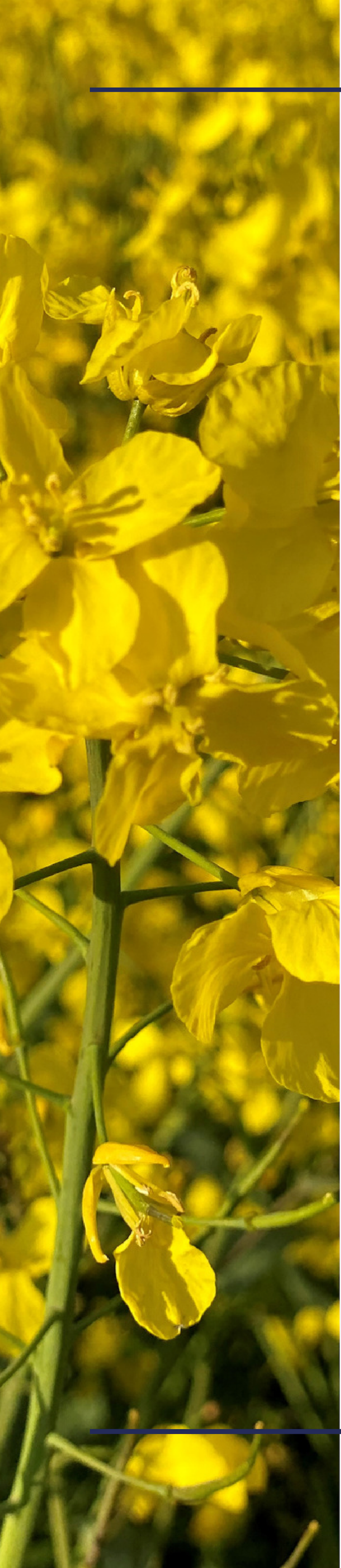
BARLEY

Barley did not fare as well as wheat. The overall yield was down 17% from 7.16t/ha in 2022 to 5.92t/ha in 2023.

The output per hectare is predicted to be £1,353 for feed and £1,022 for malting crops.

The English barley harvest is estimated at 4.80 million tonnes, a decrease of 5.8% on 2022. Poor quality grain for the 2023 barley harvest was also reported with lower specific weights.

At the hand of several storms, there has been a wet start to preparations for 2024 which has hampered drilling progress and cultivations across the country. More fields than initially planned may already be destined for spring cropping. At the time of our survey responses suggest 12% of land is planned for spring drilling. As always much is at the hands of the weather and down to luck rather than any strategy that could be put in place.



OATS

The provisional 2023 English oat harvest estimated by DEFRA is the smallest for several years. This is reflected in the spot price. Our survey shows the oat price achieved for grain contracted for sale is £196/t. This is much higher than usual when compared to feed barley at £168/t.

The average yield in our survey was 6.22t/ha a 6% increase on 2022 which yielded 5.74t/ha, The price coupled with yield results in a reasonable return of £1,219/ha (2022 £1,399).

The planned cropping area for oats remains similar to previous years at just over 4%

OILSEED RAPE

The predicted output for oilseed rape is £1,069/ha, much lower than the previous two years (2022 £1,732/ha and 2021 £1,329/ha). The cause is two fold; firstly the overall yield across all land types down 9% from last year to 2.77t/ha. Secondly after the huge prices seen last year, with most selling in our final published benchmarking figures at over £500/t, oilseed rape has been trading more recently at below £400/t.

Oilseed rape accounts for just over 5% of our overall area in the survey and the planned cropping for 2024 shows there is no expected return to cropping it. 8 years ago it used to represent over 20% of the cropped area.

The provisional results from DEFRA estimate production has decreased by 14% to 1 million tonnes driven by a fall in yield of 19%.

PULSES

Pulses performed poorly this year with the pea yield down 15% to 2.74t/ha and beans down 34% to 2.26t/ha across all land types. The output is estimated to be £666/ha for peas and £522/ha for beans, both well below last year and the 5 year average.

We can also see a drop in planned pulses cropping, which usually makes up 10-11% of our cropping area to 8% for 2024. This was before the bad weather so may well end up being higher as cropping plans are forced to change.

OUTLOOK

We have seen some great results for clients in 2021 and 2022 across both contracted farms and those farmed in hand. The final management profit figures for our mixed land type group over the last 5 years are summarised below. The average 2022 management profit is 50% higher than the 5 year average. Within the results there are variations with some farms more than doubling their return. This could make the expected fall in returns over the next few years harder to swallow.

Harvest year	Management profit £/ha
2022	£540
2021	£489
2020	£258
2019	£267
2018	£247

Management profit - Mixed land. 5 year average £360/ha

Although falling profits are concerning, high profits can also result in cash flow difficulties. After two profitable years many farms are going into leaner years with significant tax bills. Responses to our harvest survey showed that 95% of farms felt their borrowing in 2023 had either stayed the same or decreased. We expect the reality to be very different this time next year.

DEFRA reported the price index for agricultural inputs had decreased by 11.9% in the 12 months to August 2023 with the largest fall being to fertiliser and soil improvers. While cost inflation may be easing there is still obvious pressure on margins. During the same period the Bank of England base rate has increased from 1.75% to 5.25% putting additional demands on working capital.

We will be looking at clients payments on account to see if they can be reduced in anticipation of lower profits. Farmers averaging can be used for sole trades and partnerships to help smooth profits over two or five years. If you do have a large tax liability that you are worried about paying, a payment plan with HMRC can be put into place. However interest will be charged. This was set at 7.75% from August 2023 so it is worth comparing what banks are offering.

2024 will be a challenging year. If you have any concerns or would like to discuss your business, lets start the conversation. Please get in touch with your usual Hardcastle Burton contact.

FARM RETURNS IN 2024

THE ANDERSONS CENTRE - GRAHAM REDMAN M.SC., CENV, PFIAGRIM

WHEN DID YOU ACHIEVE YOUR BEST FINANCIAL YEAR?

Many farmers outperformed their own personal financial records in 2022 already having achieved high profits in 2021. Defra provisional figures support this, showing that the agricultural industry achieved its highest profit in real terms for a whole generation (since 1995 in fact). Moreover, as there are fewer farms now than then, meaning the returns are spread among a smaller group of businesspeople, the returns per farmer are the highest on record. This has been particularly so for combinable crop and dairy farms.

GRAHAM IS A PARTNER OF THE ANDERSONS CENTRE AND AUTHOR OF THE FARM MANAGEMENT POCKETBOOK.

IT IS THEREFORE NO SURPRISE THAT PROFITS FOR THESE FARMS ARE, OVERALL, LIKELY TO BE LOWER IN 2023, AND 2024 TOO; PROBABLY SUBSTANTIALLY LOWER FOR MANY FARMING TYPES

When a business sector is based on commodities, which fluctuate in value more wildly than any other asset group, we must expect profits to be equally volatile. Projections produced by The Andersons Centre suggest overall farming profitability in 2023 will be close to the average of the last decade, and considerably lower than the last 2 years for broadacre and dairy farming. But after such high levels of success, the reduction in farm profit is hard to accept. Doubling and halving of profits is not only difficult for business planning and cash flow but also for the state of mind. (It also requires a good accountant!) Perhaps, because of the sharp movement in returns many farmers are experiencing, this year may be the year when the decline of the BPS is hardest felt, falling by a third from its peak in 2021 on the smallest of farms and a half on the largest. There are other ways to attract public money and it should encourage all farmers to investigate the merits of Defra's new agri-environmental policy if they have not done so already.

Harvest or Milk Year	2022 Budget	2023 Budget	2024 Budget
Combinable Crops	317	882	330
Dairy	93	374	287

Table 1 - Results of Whole Farm Costings – Source: Farm Management Pocketbook £/Ha Profit

The recently published new Edition of the Farm Management Pocketbook displays the same pattern of high performance in 2023, then falling for 2024. The table shows the budgeted figures from the respective Pocketbooks, published ahead of each year as a planning tool. This means that any extraordinary event that subsequently moves the market is not picked up in that year. It is clear to see the large swings in performance from one year to the next.

The paragraphs above are a simplification. Looking at the farming sectors individually, the stories become diverse. Dairy farming profits tripled in 2022-2023 compared with the 4 years to 2021. Cereals and general cropping (combinable cropping plus other field crops such as vegetables or roots) farm returns approximately doubled. Beef & sheep farmers benefitted from rising output prices through to 2021-2022. But intensive livestock farm systems lost out, and in many cases lost money, even after support payments (which are small in this sector anyway). This was largely as feed costs rose in line with the arable output, whist the value of pig and poultry products did not rise in price. Only now are these businesses returning to some kind of profitability for the average producer.

Within farming sectors, we also see considerable variation in financial performance. The figures within this publication and others like it make it easy to believe that all farmers are achieving figures at the average level. But the truth is very different. Two neighbouring farms, on similar land with similar resources can generate totally different financial figures. It is our observation that the diversity of performance between top performing and bottom performing farms is growing, regardless of the metric used to measure financial performance. Some farmers will occasionally make big decisions without the benefit of foresight, which at the time might be sound decisions based on the information available, but with hindsight turn out to have been incorrect decisions when more information comes to light. Such examples could be selling or not selling grain at a certain price or buying machinery in the anticipation of a land tenure being continued. Beyond these movements in performance or other unforeseen incidents, most farmers tend to remain in the same performance quartile each year.

How can this be? It transpires from recent work, that a relatively small proportion of the variation is due to the uncontrollable factors such as soil type and farm location. Some farmers make more efficient use of their resources. Some farmers know how to motivate their staff better and make smarter machinery investment choices. Much of the correlation lies behind the cohesion of the decision-making body. Few people farm totally on their own and decisions are made as a group. This could refer to the functionality of the family, the effectiveness of the board of directors or the impact of the farm advisor. The relationships between these individuals makes a considerable difference to farm performance.

WE ALL KNOW THE AGRICULTURAL WORLD WILL REMAIN TURBULENT. WHICHEVER WAY YOUR BUSINESS HAS RESPONDED TO THE EVENTS OF THE LAST COUPLE OF YEARS, YOU MAY NOT HAVE FINISHED THE LAST COUPLE OF YEARS WITH YOUR ACTUALS THE SAME AS YOUR BUDGETS. HOWEVER, THE RESILIENCE OF THE FARMING SECTOR IS GREATER THAN THAT OF MOST OTHER INDUSTRIES FOR VARIOUS REASONS, AND MOST FARMS WILL REMAIN STRONG INTO THE FUTURE, ESPECIALLY THOSE THAT PREPARE FOR IT SENSIBLY.

THE ANDERSONS CENTRE

The Andersons Centre traces its origins back to 1973 when Andersons the Farm Business Consultants started providing business advice to British farmers.

Today, their consultants support around 2,000 farmers across the UK, advising on a range of issues including managing costs, financial planning, joint ventures and succession planning to maximise profitability and performance.

Graham Redman

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SURVEY RESULTS

BENCHMARKING

Included within our report are the average yields by land type for the 2023 harvest together with information on the percentage of crops contracted for sale by September. You will also find the final results from the 2022 harvest. These include averages for the past three years for yields, prices, costs and profitability split by land type.

We provide our clients with harvest year management and benchmarking figures annually as part of the year end accounts. These are discussed alongside financial information to provide truly meaningful figures.

KEY POINTS FROM THE FINAL RESULTS

Returns across the board for all land types were the highest we have seen in the history of our benchmarking report.

Last year the UK went nearly 12 months from February 2022 to February 2023 without a storm. So far we've already had six to contend with over the 2023 drilling season with storm Agnes, Babet, Ciaran, Debi, Elin and Fergus making themselves known!

The harvest survey provides us with an early estimate of yields for the year. This will vary from the final published result once everything has been over a weighbridge. In 2022 the harvest survey reported an overall wheat yield of 8.49t/ha compared to the final result of 8.61t/ha. So the estimated weights off the combine were pretty good!

The progressive reduction in subsidies is starting to bite. There is a drop in income from subsidies with new schemes not providing replacement income at the same level of BPS. In such a profitable year the bottom line still looks healthy. The full impact will be seen over the next couple of years.

MEET OUR AGRICULTURAL TEAM

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