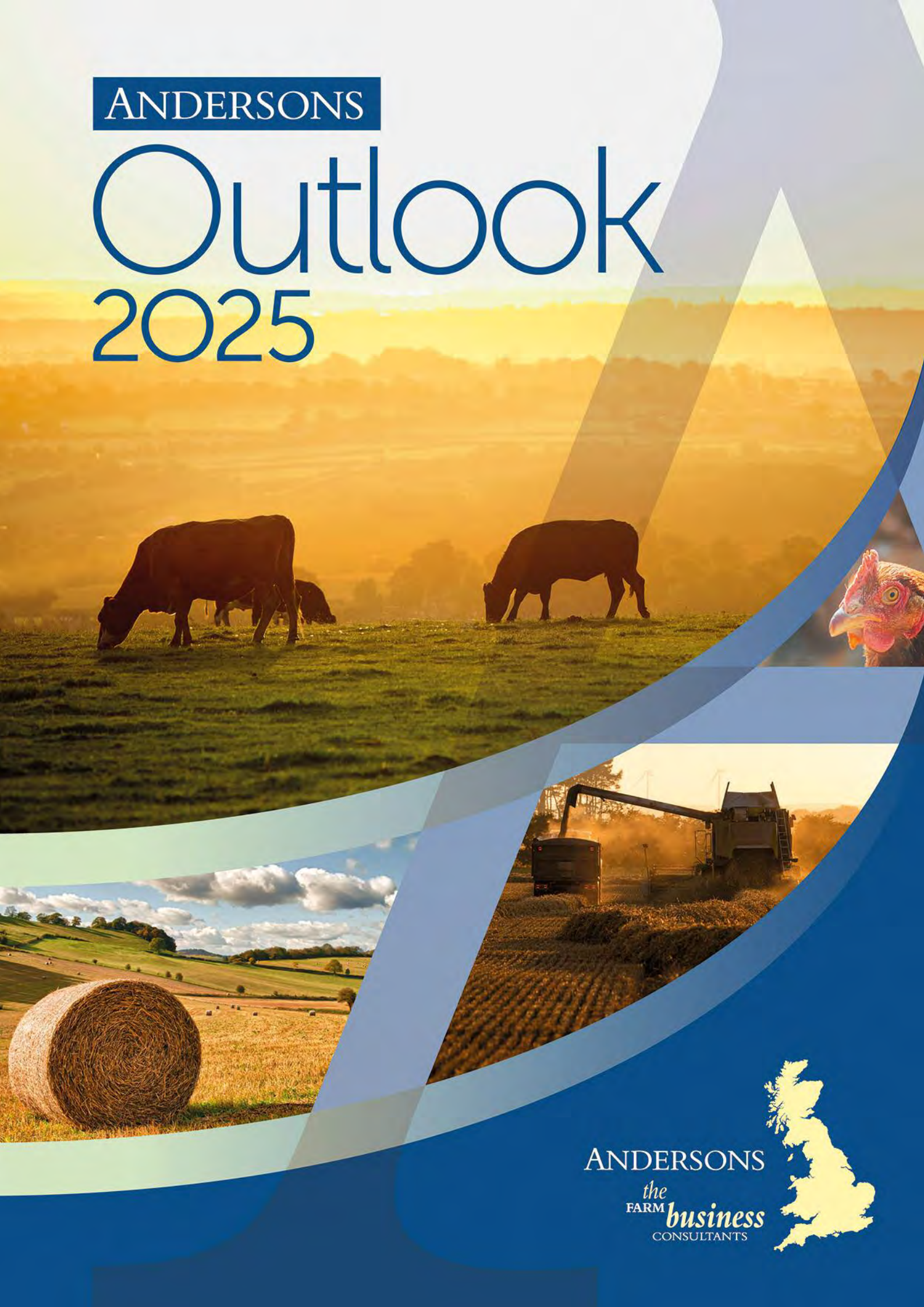


ANDERSONS

Outlook 2025



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FARM *business*
CONSULTANTS



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Editor: Richard King, Head of Business Research The Andersons Centre

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INTRODUCTION TO Outlook²⁰²⁵

Welcome to the 2025 edition of Andersons' Outlook. We hope you find the latest issue of our long-running publication looking at the prospects for UK farming both informative and stimulating.

As the title suggests, our objective with Outlook is to be forward-looking. This year, however, we perhaps should start by looking back; specifically reflecting on the very challenging weather many UK farmers have had to deal with over the past 12 months. This has always been a prime topic of concern (and conversation) for farmers. However, there is a strong sense that climate change is causing greater extremes for our industry to deal with.

This may require a shift in the way farming businesses are operated in future to make them more resilient, possibly in a number of areas. The first is around physical infrastructure - for example, buildings that are resistant to high winds, improved field drainage, sun shelter for livestock, systems to cope with high rainfall - the list is potentially long. Then there are farming systems. Robust rotations that spread risk, the maintenance of soil health, perhaps new crops, or a shift to cope with a lack of summer grass. Finally, there is the need to be financially robust. Not all farming risks can be mitigated - and it may not be cost-effective to do so. Therefore, businesses should have (or seek to develop) the capability to absorb the financial impact of a weather-affected season.

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 over 50 years to help them make the right decisions, whatever the weather.

We wish you all the best for a successful 2025.

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

Farm Profitability Prospects

JAMES WEBSTER-RUSK



Following Defra’s surprisingly high provisional figures for 2023, farm profits in 2024 are expected to fall. Whilst the outlook is for profits to be in line with some of the better recent years, there may be a perception that returns are poor due to the memory of the 2021 to 2023 period. Farm finances can also feel under pressure due to the backdrop of historically high costs.

Elevated levels of inflation have plagued the wider economy for the past two and a half years. Agriculture has not been immune to these high inflation levels, although some variable costs have now fallen - most notably for fertiliser and animal feed. The drop in animal feed costs is both a blessing and a curse for UK farming; prospects have improved for livestock farming, but low cereal prices will prove especially challenging in light of the difficult growing season for harvest 2024.

Whilst variable costs have fallen, it is the fixed costs of many businesses which are the most challenging. These are often costs that rise with a ratchet effect, whilst quick to increase they are difficult to cut without structural change. For example, there are not many people who would willingly take a pay cut! Furthermore, with inflation expected to continue at above 2% for the coming two years,

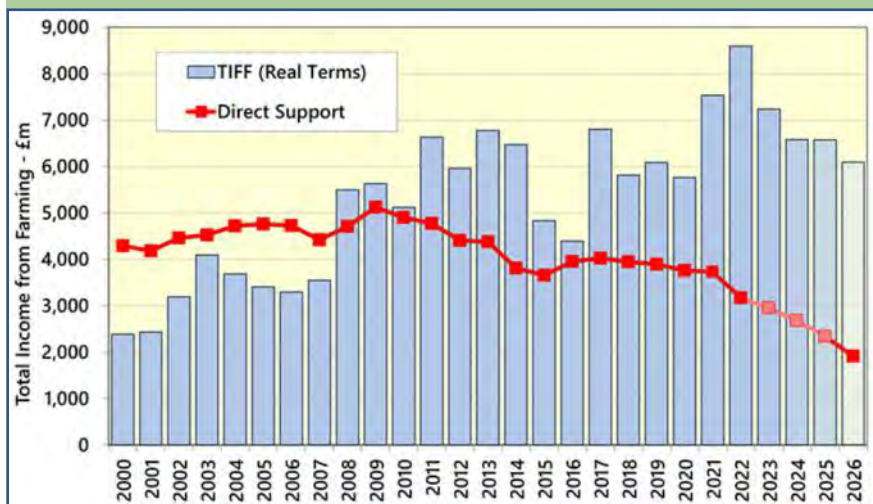
we would expect key fixed costs such as labour and machinery to continue to rise.

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 2023 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, most notably it

does not reflect the variability that can be seen between sectors and individual farms, which is becoming increasingly significant in light of volatile weather conditions. That said, it provides a useful benchmark for the overall financial health of farming. Figure 1 shows the results since the Millenium. The figures to 2023 are Defra’s, those for 2024 onwards are Andersons’ estimates.

Defra’s provisional TIFF figures for 2023 show the third highest level on record. This is surprising as a much larger decline was expected following the exceptional years in 2021 and 2022. Last year we mentioned that Defra has a history of “refining” these

Figure 1 Total Income from Farming and Support: 2000 to 2026 (Real terms, 2023 prices)



Source: Defra / Andersons

“
Our estimates suggest a further drop in profits, by 9%, for the current year. This places TIFF at the top end of the range observed between the Financial Crisis in 2008 and the UK leaving the EU at the end of 2020
 ”

figures. There is disparity in Defra's figures for the UK and England. The UK figure for 2023 is down 10% year-on-year (current terms), whilst the English TIFF estimate released one month after the UK figure is down by 19%.

Our estimates suggest a further drop in profits, by 9% for the current year. This places TIFF at the top end of the range observed between the Financial Crisis in 2008 and the UK leaving the EU at the end of 2020. The long-term decline of direct support for farmers in the UK, in real terms, is very noticeable. This is mainly due to inflation - which has

been especially high in recent years. But the decline is also due to changes in the structure of support, and Defra underspends.

Looking to 2025, overall profitability is forecast to be little changed in real terms. Crop output is tentatively forecast to improve from 2024, although this is contingent on a better period for crop establishment this autumn. Dairying is benefitting from increased milk prices, but is a sector that is increasingly exposed to labour cost pressures. Returns for grazing livestock have been exceptionally strong in 2024, and prices are expected to remain ahead of the long-term average in 2025 but, of course, within the context of margins from grazing livestock being historically thin.

Overall output is expected to rise in real terms in 2025, however costs are also forecast to increase. Many inputs are predicted to continue rising at or above inflation, including finance, wages, and wider services. Key inputs such as fertiliser and feed look set to

be relatively stable in 2025.

A tentative forecast for 2026 might anticipate output prices remaining largely unchanged, whilst costs will continue to rise and farm support (in real terms) falls. Overall, profits remain at circa £6bn. This is slightly below the average of the past 15 years. These levels will likely feel uncomfortable for many given the exceptional profits seen between 2021 and 2023.

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Looking to 2025, overall profitability is forecast to be little changed in real terms.
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Economic Prospects

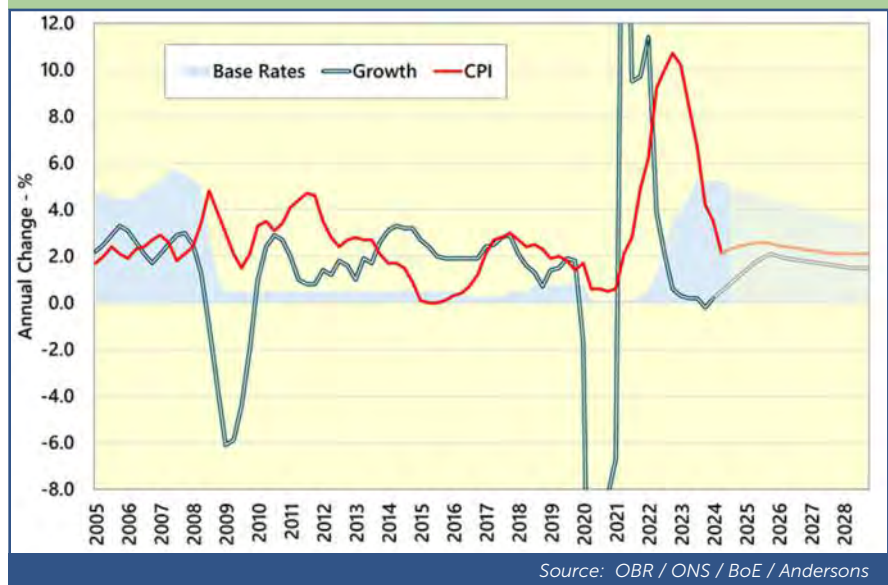
GRAHAM REDMAN

The world is changing. It is not as safe a place to be as last year or last decade.

International markets are nervous. Protectionism is on the rise. On the surface, that sounds good for British farming. The, as yet unknown, outcome to a forthcoming US Presidential Election could shift this trend faster or more slowly, but probably not reverse it.

Politicians are protecting home markets in a bid to retain domestic business and suffocate overseas competition. It is a policy that does not work. Retaliatory tariffs scupper such plans, and all the while, the consumer gets higher prices and less choice, meaning potentially quality falls at the same time. This is not the same as the efforts to encourage consumers to buy domestic produce, that's called patriotism and is a useful marketing tool. It is different again to buying local which carries messages of freshness, community loyalty and therefore personal identity. Whilst the UK has not directly adopted these protectionist policies, in a globalised world we will be affected by the decisions of others. Trade flows may change in coming months and years, and we need to embrace that as best we can. It is perhaps inputs that could cause most trade concern, though, as some come from mines in few areas

Figure 2 Growth, Inflation and Interest Rates: 2005 to 2028



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Trade flows may change in coming months and years, and we need to embrace that as best we can
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of the world, that many depend on.

The chart shows some key economic indicators for the UK. Following the Financial Crisis in 2008/09 the UK had a long period of record-low interest rates. The Bank of England then raised them from 2021 onwards to deal with inflation. We expect a series of cuts over the next three years with base rates settling

around 3.5% in the medium term (barring any more economic shocks). After the price surge post-lockdown and the start of the Ukraine war, inflation is now back near its target level of 2%. The effect of Lockdown on economic growth, and the subsequent bounce-back can be clearly seen in the chart. Since the Financial Crisis, the average level of UK growth has been below 2% - lower than long-term trends but much higher than the last couple of years.

The UK has muddled through the global unrest and infections just discussed. The economy is now in a period of falling and potentially low

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**The risks to
 business-people
 are rising and
 managing labour
 is one of those**
 ”

inflation, but is also experiencing stagnating output. UK economic growth is currently lacklustre, at an insipid 1% or thereabout. This is despite the Government's rhetoric about boosting growth. Lower inflation bodes well for further reductions in base rates. This will boost growth prospects as companies (and private individuals) pay less for cash, so become more receptive to productive investments. This might also help rebuild living standards, which have been in decline in 2023 and 2024. Yet the population is growing whilst the workforce is not, meaning the tax burden per worker is rising. This is likely to drag on economic growth. This is not likely to suddenly alter because of a change in Government or the recent Budget.

Economic objectives are varied. The Bank of England needs inflation to steady at 2%, ideally with some growth. The UK Government is more focussed on growth so it can afford to settle its mounting debts (the three alternative ways being unsavoury options; higher taxation (which is already happening), inflation or default). That will not be easy or quickly solved, it will take a generation.

Wage costs are likely to continue rising above inflation in the coming year for availability reasons.

Unemployment hovers above 4% in the UK, not historically high. This is about 1.44 million people. But the Office of National Statistics reveals that a far greater proportion of people, a record 2.83 million people, are technically in the labour market, but off work on long-term sick leave. This figure has risen by 50% in four years. The timing of the rise has encouraged commentators to suggest mental health issues and long Covid. This may hold a sliver of truth, but it also happens that welfare payments for sick workers are, as of recent changes, now higher than unemployment benefits. From an economic perspective, Government is incentivising people to be ill. Welfare is a necessity, but it generates perverse incentives. The Institute for Public Policy Research claims this increase in sickness costs the Treasury alone a significant £5 billion per year in tax receipts. Curiously, public sector workers are over 50% more likely to be ill than private sector workers. Does Government appoint sicker people, or are their sick leave benefits more generous? But part-time staff are also 50% more likely to have time off work ill. Agriculture is far from immune, with sick leave rising 11% in 2023 alone, and 44% since lockdown.

However, for the employer, it is the skills shortages that matter more than

finding a (willing) worker. Employers pay for value generated and jobs done, rather than simply people's time. If one member of staff creates more money for the business, they end up earning more money themselves. The last few years has favoured the labour force, and not the entrepreneur and this is not changing. Governments are not protecting dividends or incentivising start-ups. The risks to business-people are rising and managing labour is one of those. There are risks to employing people; you have to pay staff before yourself. But the right person with proper training and a clear focus is worth more than most other resources. Labour is a critically important resource on most farms, especially as farm sizes increase - the proportion of employed rather than family labour goes up. The talented business leader can generate more loyalty, commitment and therefore value out of their workers than the average. And the poor managers do not see their staff as a resource at all. This is a section of farm management that parts of the industry should spend more time and resource developing. The current economics should focus our minds on what we have control over in our businesses.

Farm Policy

CAROLINE INGAMELLS AND
ALEX BENBOW

Record rainfall and changes to the Basic Payment Scheme (BPS) have created the ‘perfect storm’; many are thinking about how to de-risk their businesses and are looking more closely at what farm support is, or will be, on offer under the new schemes.

In Scotland a new four tier framework is planned to commence in 2026, although in 2025 Scottish farmers will have to meet ‘conditionality rules’ to receive their BPS. In Wales, the Sustainable Farming Scheme (SFS) has been delayed by one year due to concerns over scheme design and will also not commence until 2026. The BPS and further interim support will be available in 2025. More details on Welsh and Scottish agriculture support can be found in the regional articles later in Outlook.

In England, the Agricultural Transition continues. With the change of Government there could have been a change in agricultural policy, but the new Defra Ministers have confirmed that they are ‘fully committed’ to Environmental Land Management (ELM). However, following the Budget, Defra has announced the deductions to delinked (BPS) payments will be far deeper than we, and many others, forecast. Defra has said, for 2025, it plans to apply a 76% reduction to the

first £30,000 of a payment; we had previously estimated 65%. Importantly though, for amounts above £30,000, there will be no payment at all - the deduction will be 100%. This means that all English farms will receive a maximum of £7,200 in direct payments next year. The precise level of BPS deductions for 2026 and beyond is still unknown.

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Many are thinking about how to de-risk their businesses and are looking more closely at what farm support is, or will be, on offer under the new schemes
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There have (again) been significant changes to the first component of ELM - the Sustainable Farming Incentive (SFI). The SFI 2023 closed to new applications in June and the ‘expanded’ SFI 2024 offer has been introduced. In total there are 102 actions currently available. This includes the 23 actions available under the SFI 2023, over 20 brand new actions, and more than 50 actions that were previously available via Countryside Stewardship (CS) Mid Tier. All of these are merged into one scheme and are available through a single application which is open all-

year-round. Over 90 actions are for 3-years with payments made quarterly in arrears. Furthermore, the expanded offer is open to those who have not previously claimed the Basic Payment Scheme.

New actions include support for precision farming and agroforestry for the first time. There is also an increase in funding for moorland. Support for organic farming, previously available under CS Mid Tier, has moved to the SFI.

The roll out of 2024 SFI has been slower than expected. This is probably not surprising considering the increase from 23 options to 102 and all using the legacy Rural Payments computer systems.

Some of the SFI actions will be ‘endorsed’ options; these target certain priority habitats or species and heritage features. These options need approval by Natural England or Historic England and the RPA has warned this may slow down the application process. It may be wise to apply for two separate SFI agreements; one for those with actions that do not need approval and another application with the endorsed actions. Only one endorsed action is available at present (GRH6: Manage priority species-rich grassland). But other endorsed actions are expected to be added shortly including ones on

wildlife, heritage, wood pasture, orchards, coastal habitats and waterbodies.

Unfortunately, there will not be the facility to add options or land on the annual anniversary of an SFI agreement as promised when the scheme launched. This was seen as one of the 'selling points' of the SFI; giving agreement holders more flexibility to increase their 'ambition' each year via a relatively simple procedure and the agreement still finishing after the original length of time. Under the new rules, if farmers wish to include new actions or additional land they will have to apply for a separate agreement - adding to complexity of management.

Whilst there has been no official announcement, it is strongly believed that there will be no major changes to the SFI for 2025 - or at least in the early part of the year. There may be the now-usual ongoing tweaks, but we do not expect a further tranche of options to be added - beyond the

endorsed ones outlined above. This is especially likely to be the case if the new Government wishes to see how the present scheme performs.

Countryside Stewardship (CS) remains the second component of the ELM offer. The scheme is also seeing some changes, not least because most Mid Tier elements have been subsumed by the SFI, effectively leaving the CS as Higher Tier only. The aim is to focus CS on the most environmentally important land, such as Sites of Special Scientific Interest, commons and woodlands. Higher Tier is being kept separate from SFI as these agreements are usually more complicated and require specialist advice from Natural England (NE) or the Forestry Commission (FC).

The expectation was that applicants would be able to start working with NE or the FC to draw up their applications this autumn, with eligible farmers being able to submit applications online via Rural Payments during the 'winter' with the first

agreements commencing in early 2025. After this, applications will be possible all year round, with agreements normally starting the month after applications are approved, with quarterly payments.

However, things have gone very quiet with regards to CS. More details of the revamped scheme are expected to be released in December as Outlook is falling onto readers' desks. This is very frustrating - especially for those with an existing scheme ending soon. In addition, the long-awaited process for those in legacy HLS agreements and those farming on Commons to transfer into new schemes, which was supposed to have been available from September, has been pushed back until 2025. Farmers who have expiring HLS or Higher Tier agri-environment agreements this year are being offered an extension to their existing agreement.

Capital grants will be available as part of a CS Higher Tier agreement,

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 receive a maximum
 of £7,200 in direct
 payments next year**
 ”



but there is also a comprehensive standalone capital grant scheme which can be used to support SFI or other existing agreements, or where there is no agri-environment agreement at all. There are now over 70 standalone capital items which fall into four groups: boundaries, trees and orchards; water quality; air quality; and natural flood management. A further eight items have been added to support the new SFI Agroforestry and Moorland actions. Applications can be made all year round and agreements run for three years.

The final element of ELM is Landscape Recovery (LR). This funds a smaller number of longer-term (20+ years), and larger-scale (500Ha - 5,000Ha) projects. These tend to involve several land managers working together on bespoke schemes to enhance the natural environment and deliver significant benefits. Defra had said it aimed to open the scheme annually, but at the time of writing it had not been available in 2024. There is also a question on the future of existing LR projects. Defra funding was initially meant to be short-term, with the schemes drawing-in private

funding for the longer term. It is not clear to us that there is enough private finance for nature to support all these projects.

In addition to the environmental capital grants, there is funding for grants aimed at improving the productivity on English farms via the Farming Investment Fund (FIF). In our experience these have been well received, with many taking advantage of funding under the smaller strand which provides grants to help buy items from a set list under three themes - Improve Productivity, Manage Slurry and Improve Animal Health and Welfare. Earlier in the year Defra had said each theme would be open three times each during 2024, this has not been the case.

Larger grants under the FIF are for funding of between £15,000 and £500,000 (based on a 40-50% grant rate). They previously came under the Farming Transformation Fund (FTF) but Defra has dropped this title. Funding falls under the following themes which open in rounds:

- Water Management
- Improving Farm Productivity
- Adding Value

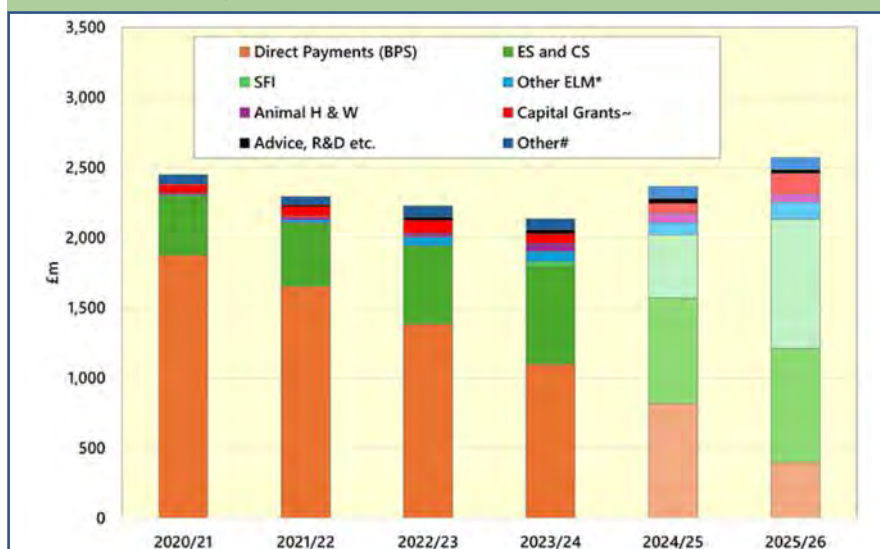
- Slurry Management
- Calf Housing for Health and Welfare
- Laying Hen Housing for Health and Welfare (funding for housing is expected to extend to adult cattle, broiler and pig housing at some point)

Under the new Government the capital grants offering has been limited. Following the Budget, Defra announced 'We will simplify and rationalise our grants offer to prioritise the initiatives that deliver the most critical support for food security and environmental goals in England. We will confirm the plans for our grant rounds in due course'. This might suggest not all of the grants outlined above will be available in the future.

Away from schemes and grants, the current outbreak of Bluetongue highlights the increasing threat of disease, the pressures this puts on businesses and the expectation of higher biosecurity measures. Over recent years Avian Flu has been prominent, but there is also growing concern over African Swine Fever (ASF) in pigs and new controls came into force in England and in Wales from August to safeguard Britain's sheep and goat populations from outbreaks of Peste des Petits Ruminants (PPR). Bovine TB continues to wreak havoc in the industry and divide opinions. The new Government has already said it will be moving to phase-out badger culling in favour of vaccination. Its aim is to eradicate the disease by 2038 and future measures are likely to include more on farm biosecurity and movement restrictions.

In terms of what we can expect from the new Labour Government, over 35 potential Bills were announced in the King's Speech - a number of which will be relevant to the agricultural sector. Boosting economic growth by easing Planning rules was the centrepiece of the programme. A Planning and

Figure 3 Defra Spending Under Farming and Countryside Programme: 2020/21 to 2025/26



Source: Defra / Andersons

Amounts are in current prices, not real terms. 2024/25 onwards are Andersons estimates
 * Other ELM: Landscape Recovery; Farming in Protected Landscapes; Woodland; Pilots; Tests; Advice
 ~ Capital Grants: Farming Investment Fund + Rural England Prosperity Fund
 # Other: Producer Organisations + Technical Assistance

Infrastructure Bill will be introduced which aims to 'speed up and streamline the planning process'. This may well include provisions to limit the valuation of land where it is compulsorily purchased. The transition to clean energy is a wider theme of the new Government. A Bill will be enacted to set up GB Energy, with the aim of accelerating investment in renewable energy. There will be increased protection for workers (and possibly cost for employers) under a new Employment Rights Bill. A Renters Rights Bill will give greater rights to tenants in England, including ending section 21 notices to quit. New legislation will strengthen the powers of the Water Regulator - partly to improve water quality in rivers. There will also be an English Devolution Bill aiming to pass power from Whitehall to the regions - but seemingly requiring Councils to come together in larger administrative units. Steve Reed, Defra Secretary of State, has also announced that a 3-month consultation on the long-

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Prices will be 30% higher in 2026 than they were in 2020 - thus farming effectively faces a circa 30% funding cut
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awaited English Land Use Framework should start before Christmas.

Lastly, but perhaps most importantly, is the agricultural budget and how much funding there will be from 2025 and beyond. Following the Budget, the current farm support in England of £2.4bn per year has been maintained for this year and the next. The amount for 2025/26 is going to be increased as a one-off to £2.6bn as £200m of underspend from previous years will be added. In 2025/26, £1.8bn will be allocated to ELM.

A continuation of the current budget (in nominal terms) is not unexpected. But it should be remembered there has been significant inflation since the £2.4bn for England figure was set in 2020.

Using the OBR's forecasts going forwards, prices will be 30% higher in 2026 than they were in 2020 - thus farming effectively faces a circa 30% funding cut. Furthermore, farm spending was never updated for inflation when we were part of the EU. The £2.4bn figure has been almost the same since 2007. Agriculture is being asked to do more for less. The settlement is far lower than the £4bn for England the NFU calculated as being required to meet Government policies.

Looking beyond 2025/26 (the 2025 'subsidy year') the Comprehensive Spending Review will set Defra's budget for future years - likely 2026 to 2028. If public finances remain under strain, there is no guarantee about future funding even remaining at current levels.

We can only touch on some of the current issues in this article, if you require assistance with scheme applications or have any questions arising from this article we would be happy to hear from you.



Agricultural Trade Issues

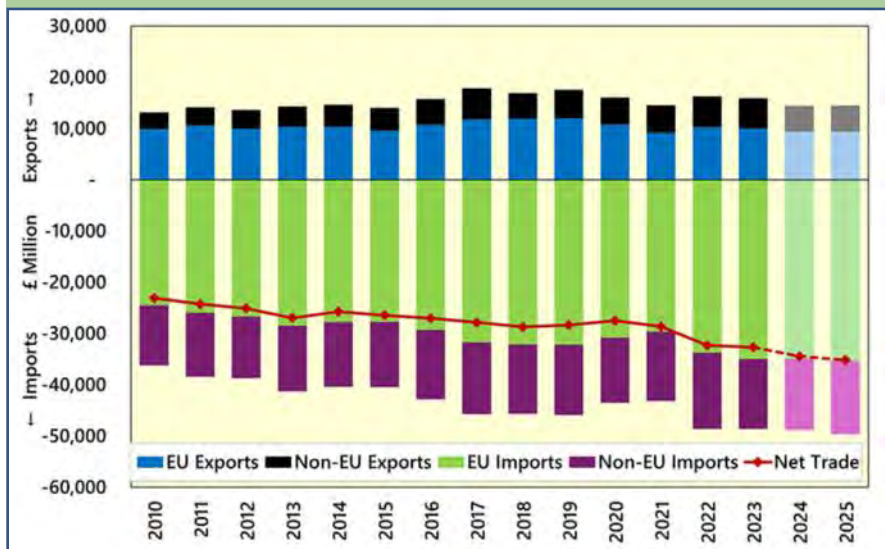
MICHAEL HAVERTY



Whilst the new Labour Government is intent on resetting the UK-EU relationship, it is also clear that the UK will neither re-join the EU Single Market, Customs Union nor re-introduce Free Movement. Change is also afoot in Brussels with a new EU Commission being put in place. In this context, this article assesses how the UK-EU Trade and Cooperation Agreement (TCA) could be built-upon from an agri-food perspective and how trade friction could be reduced in the years ahead.

Firstly, it is important to look at current trade trends. Figure 4 shows how the UK's agri-food trade with the EU and Non-EU partners has evolved since 2010. The data are expressed in real-terms using a GDP deflator as there has been some significant inflation over the period. With the introduction of the TCA in 2021, unsurprisingly UK-EU trade dropped significantly. UK exports to the EU reduced by 15%, whilst imports from the EU reduced by 4%. This difference is primarily due to non-tariff measures being imposed on UK exports to the EU from the outset, whilst the UK has still not fully implemented its Border Trade Operating Model and associated infrastructure to regulate imports coming in from the EU.

Figure 4 UK Trade in Food and Live Animals (Real Terms): 2010 to 2025



Sources: HMRC, ONS and Andersons

This has disadvantaged UK agri-food exporters quite significantly and it is, rightly, a key focus of the Labour Government to reduce friction on exports to the EU. Accordingly, Labour's intention for some time has been to negotiate a veterinary agreement with the EU. In recent months, this has shifted to pursuing a more wide-ranging Sanitary and Phytosanitary (SPS) agreement, so that plants and fresh produce could also be covered. Given Labour's Red Lines, there are several areas where, from an agri-food perspective, the UK-EU trading relationship could be improved.

SPS Agreement: As noted above, UK agri-food exports to the EU have faced stringent regulatory controls since 2021, whilst similar controls on imports into the UK from the EU are only gradually being implemented. These controls, which encompass export health certificates, documentary and identity checks, are costly. These costs often equate to 2-5% of the value of products traded for many agri-food products - which in some cases is equivalent to processors' profit margins. Labour's intention to pursue an SPS agreement with the EU is welcomed by most in the agri-food industry.

The impact of such an agreement on reducing the regulatory burden depends on its nature and what the EU would agree to. If the UK dynamically aligns with EU legislation, most checks could potentially be removed.

However, alignment does not mean frictionless access as the EU will not grant that level of access to a country that is not part of the Single Market. Furthermore, as the UK economy is much smaller than the EU, it has significantly less bargaining power. This means that it will likely have to sign-up to EU rules without having a formal vote on them. Therefore, caution is needed. The UK does not want to end up having the 'worst of both worlds' in terms of aligning with EU rules which might go against UK interests in some areas (e.g. gene editing) whilst still having restricted access.

The UK could opt for pursuing 'equivalence', similar to New Zealand for red meat. This would mean that UK and EU rules are recognised by both parties as being equivalent in terms of offering the same level of protection, but not necessarily identical (as with alignment). With this option, checks could be reduced but will still exist on UK-EU trade, whilst the UK would maintain control over its rules.

The EU also has its own perspective and is keen to avoid the UK 'cherry-picking' the parts of the EU Single Market that it would like unfettered access to. An SPS deal would also benefit agri-food goods moving from GB to Northern Ireland.

A recent Resolution Foundation report estimates that a veterinary/SPS agreement with the EU would lead to a 0.4% (£3.5 billion) improvement in the UK's overall trade with the EU. However, in 2023, UK-EU agri-food and fisheries trade (£92 billion) accounts for a small proportion (9%) of UK goods' trade with the EU (£1.06 trillion). Therefore, the impact of an SPS agreement on agri-food trade specifically would be much higher (circa 4% increase in trade). It would

also remove a significant proportion of the potential for delays at major trading routes such as Dover-Calais.

Other areas where UK-EU relations could also be improved, include:

- **Mutual Recognition of Conformity**

Assessment: currently, UK products like machinery exported to the EU require EU-based certification, as UK labs can no longer perform this role. This adds costs and complexity. The UK could negotiate an agreement, similar to those the EU has with Australia and Canada, to allow mutual recognition of conformity assessments and reduce these burdens.

- **Safety and Security Declarations:**

post-Brexit, UK exporters must submit new export summary declarations to the EU to verify that such products do not pose risks. The UK could negotiate an agreement to remove these requirements, similar to deals the EU has with Switzerland and Norway. Again, this would require some alignment with EU rules and regulations.

- **Temporary Labour and Youth**

Mobility: the EU has already dismissed Labour's attempts to create visa-free arrangements allowing UK performers and artists to work temporarily across the EU. The EU is more interested in a reciprocal youth mobility agreement, allowing young people to work temporarily in each other's countries. Previous EU labour mobility proposals were rejected by the Conservative Government. Whilst Labour has shown limited interest, it may need to offer concessions (e.g. an SPS agreement) to secure progress in this area.

- **Mutual Recognition of Professional**

Qualifications (MRPQs): Labour is also keen to encourage mutual recognition of professional qualifications, easing the movement of professionals between regions. There will be difficulties here though as, within the EU, the competence

for granting such recognition partly rests with Member States, so negotiations would be complex.

- **Linking Emissions Trading Schemes**

(ETS): aligning the UK and EU's carbon pricing systems would simplify processes and address challenges posed by the EU's Carbon Border Adjustment Mechanism (CBAM), which affects carbon-intensive UK exports. Although CBAM currently excludes agricultural goods, this could change by 2026, potentially adding costs for products like fertiliser. A joint approach would reduce complexity and could lead to a global standard which stretches beyond Europe. The UK and EU should take the lead on this, particularly in the agri-food sector.

Significant improvements to the UK-EU relationship are possible, but there will still be a trade-off between alignment, access to the EU Single Market and the UK's control over its own rules. Even with new arrangements, agri-food trade will still face more friction than if the UK rejoined the EU Single Market and Customs Union, as some advocate. Sir Keir Starmer is known for seeking incremental improvements and only considering radical changes if gradual measures fail. Given agri-food's small size relative to the UK economy and its still strong degree of alignment with EU rules, an SPS agreement is the best place to start. A comprehensive agreement will make a notable difference on easing agri-food trade friction as well as limiting any congestion on UK-EU shipping routes - which does arise from time-to-time. Such an agreement will also make the Windsor Framework deal for Northern Ireland much easier to implement. Whilst an agreement is achievable, its comprehensiveness, and the extent to which regulatory burden is removed, remains uncertain. Also, 2025 will see if there is the political will to make a deal happen.

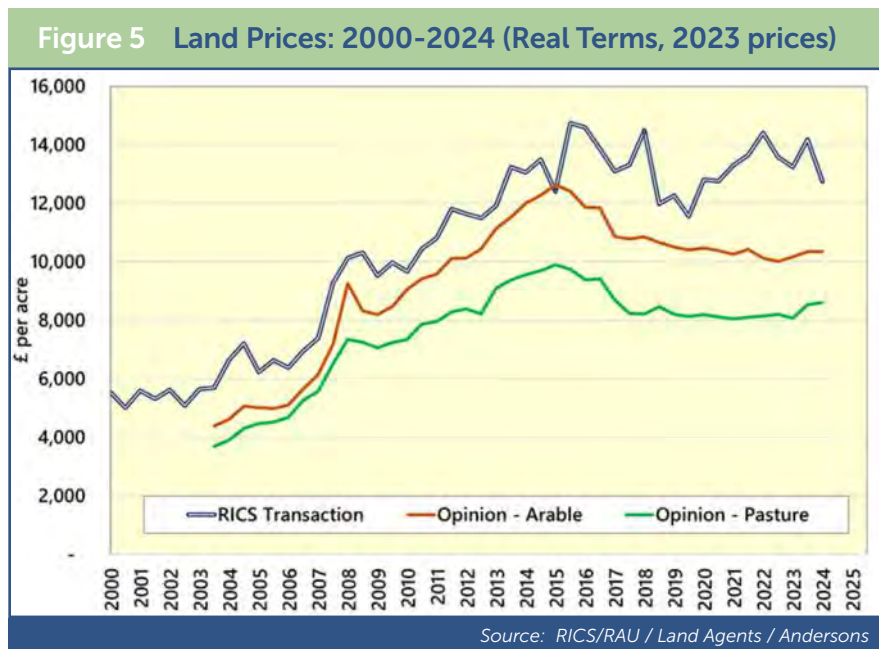
Land Prices and Rent

GEORGE COOK AND
AMELIA ROME

The combination of unexciting ex-farm prices and another wet autumn drilling period for many, resulting in a larger area of spring cropping for a second year in a row, has led to a significant reduction in arable farm profitability. Livestock sectors are generally faring better, but perhaps not to the extent to generate enough confidence (and cash) to really drive land purchases.

According to the benchmark RICS-RAU Land Market Survey, the weighted average price for land was £12,743 per acre in the first half of 2024. The measure includes dwellings and buildings so can be slightly erratic for period-to-period depending on the properties sold. The latest figures showed a slight fall from the previous half-year. However, in the five years from 2019 the price has increased by around 30%, although it should be remembered that this period has seen significant inflation. If the figures are adjusted to a real-terms basis, the rise is only around 4%. *N.B, we still tend to refer to land prices in Pounds per acre, even though we generally use hectares elsewhere in Outlook.*

Rising interest rates, especially during the latter part of this period are likely to have contributed to the stagnation. However, there has been



indication of an increasing demand for land due to a combination of Capital Gains Tax Rollover Relief and increased farm profitability in 2021 and 2022. Figure 5 shows the trend in prices (in England and Wales) over the past few years.

The supply of land being publicly marketed remains tight, although it is reported that there was a notable spike in the number of parcels for sale

ahead of the General Election. The main reasons for marketing land are typically the agricultural transition, succession / death, and debt restructuring. However, it is worth noting that not all land is marketed publicly, and a large proportion of land transactions happen privately.

There continues to be a substantial demand for small paddocks or amenity land. For the first half of 2024, 76% of all land transactions were for areas of 50 acres or less, according to RICS data. These small area transactions can achieve very high prices per acre. Just five farms over 1,000 acres were brought to the

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The supply of land being publicly market remains tight
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market in England in the same period.

It is however also worth noting who is purchasing agricultural land. There is a diversity in the type of buyer in the farmland market, which can both be considered a strength and weakness of the market depending on your outlook. The main purchasers of agricultural land in the UK are farmers looking to grow their balance sheets, investors who are motivated by IHT relief, those who are Rollover Relief driven, and environmental / lifestyle buyers. Rollover continues to drive prices paid per acre and, with the Labour Government's house building agenda, it is likely we will see this continue.

The October Budget saw the biggest change to Inheritance Tax reliefs for at least a generation, with full Agricultural Property Relief (APR) and Business Property Relief (BPR)

being limited to a combined £1m. After that threshold, farming business assets will be taxed at an effective 20% on death. The limit may have been designed to protect 'family farms' but, at current land prices, the tax change will affect those with more than 100 acres being inherited. It is difficult to see how 150 acres is a large farm.

It is too early to tell what the effect on the land market may be. There could well be a hiatus in sales whilst the industry digests the effects of the change. It may limit the appetite of a certain category of buyer who will no longer be able to use farmland to shield assets from IHT. The tax change, coupled with interest rates that are still high in the context of recent times, plus a general lack of optimism in the sector, may see land values stagnate or even fall in the

coming year.

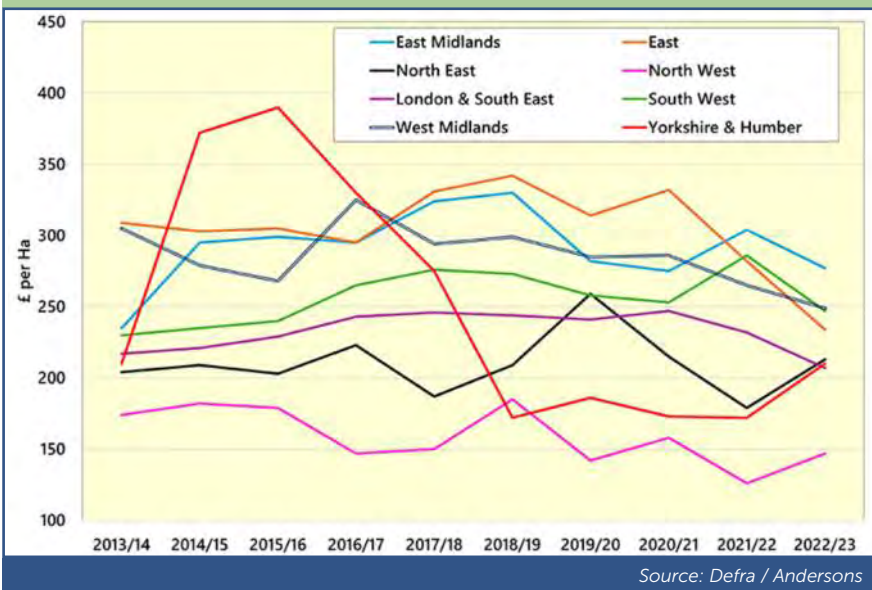
So, where to with rents?

Farm Business Tenancy (FBT) rents are determined by the open market. There continues to be significant variation in these rents across the country, with the highest still generally in the east. Here, a desire for scale, environmental requirements, and in the case of some veg growers, the need for 'clean' land, continue to sustain high figures, despite the continuing progressive reductions in BPS rates. Perhaps also a lack of understanding of a business's true costs and income, or the 'foot in the door' mentality may also push up bids beyond what is affordable. If any figures are done, they appear to be based on first wheats - however, autumn 2023 and 2024 prove this not to be reflective of reality.

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 the opportunity posed by the SFI scheme to recover some of the lost income. 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 business's costs and having a long-term strategic plan to complement the day-to-day have never been more important.

Figure 6 FBT Rents by Region: 2013/14 to 2022/23



Finance and Banking

PAM JACOBS AND ANNABEL GARDINER

In the past five years, we have seen a significant increase in production costs. This, coupled with increased interest rates, have created cost structures within some farm businesses that cannot be sustained by the current level of output without direct support or income from other enterprises. This is especially evident in the combinable crop sector.

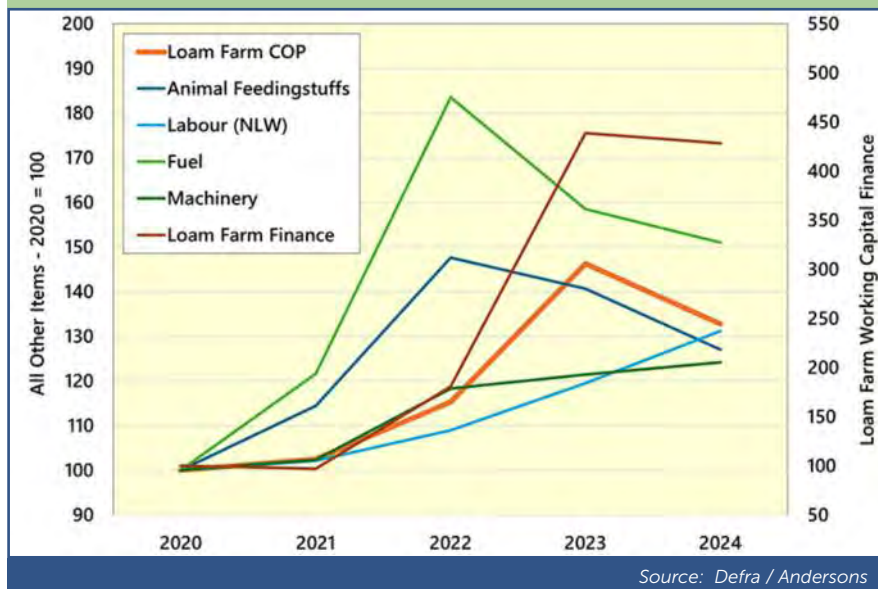
30%, the cost of finance, in isolation, has increased by over 400%.

Businesses that generated 'average' returns for 2023 & 2024 will feel the effect of BPS being at least 50% lower than 2020, the increased working capital requirement, including finance, as well as legacy tax charges from profitable years going back to 2020-2022. This will unfortunately create

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This will unfortunately create significant cashflow pressure over the next 12-18 months
 ”

- **Advance payments for crop sales:**
 These are often offered at competitive rates, exclude an arrangement fee, and can be accessed quickly
- **Delayed input payment terms:**
 These are likely to come at a cost which reflects the interest charge
- **Change in crop marketing strategy**
 Commit crops earlier to potentially reduce the peak overdraft requirement and interest costs. It is important to take into account potential income foregone, in the form of market carry. *For example, if feed wheat at harvest is worth £180 per tonne, the monthly carry value has to be in excess of £1 per tonne, assuming an interest charge of 7%.*

Figure 7 Cost Movements: 2020 to 2024



Using the Andersons Loam Farm Model (the total operating costs of which are included in the above graph), between the 2020 harvest and 2024 harvest the overall cost of production has increased by over

significant cashflow pressure over the next 12-18 months.

Looking ahead, there are a number of short-term options which businesses could consider to mitigate the pressure:

To create longer term mitigation, businesses may look to restructure their debt. This could be by converting the 'hard core' element of an overdraft, i.e. a proportion of the cashflow that is constantly overdrawn, to a term loan. A term loan can offer

more competitive interest rates, avoids an annual arrangement fee, and is unlikely to be repayable on demand. However, it does still need to be affordable.

Where short term solutions are inadequate, longer-term options need to be considered. This could include asset disposal. This should be carefully considered, reviewing the net cash proceeds, after tax and any associated costs, against the potential income foregone and interest saving. If an asset is sold to clear all or partial debt, but the result is still a cash deficit, it is only a matter of time until the business is back in the same position.

Although there were opportunities to fix interest rates at historically low levels in 2021, it is worth considering the cost of fixing versus variable rate over time. Based on historic information, as shown in Figure 8, as base rate drops, the cost of fixing tends to be slow to react, making it expensive compared to variable rate. At present, variable rates are higher than fixed rates - quite unusual over the past 20 years. The market seems to be pricing in a reduction in base rates over the coming months - which is already reflected in current fixed rates.

Figure 8 Borrowing Costs: 2000 to 2024



Last year we reviewed diversification projects, and the additional return on capital required to recover increased interest rates. Despite the recent reduction in borrowing costs, they are still significantly higher than five years ago. Due consideration should therefore be given to whether now is the right time to invest, or whether one should focus on existing debt servicing, or even cash retention.

Despite the above, there is a positive side to higher interest rates for those with surplus cash. For the first time in a number of years, holding cash

reserves should generate some form of return, relatively risk free.

Although every business is unique, all managers / proprietors should adopt a similar approach to short, medium and long-term strategy planning. A thorough understanding of the balance sheet and liquidity of your business, along with regular budgeting and evaluation with your advisors, will enable informed decision making, with the objective of protecting/growing the balance sheet.



Combinable Cropping

SEBASTIAN GRAFF-BAKER
AND JOE SCARRATT

Combinable crop production might appear to be relatively straight forward when compared with the more intensive farm enterprises but, of course, the level of complexity depends upon the wider perspective of and demands placed on the grower. The tenant who only has short term access to land, may be focused on yield alone, whereas the grower who has a longer-term interest will need to consider the effect of the current crop on other potential sources of income.

Measuring farm financial performance for a single year is potentially misleading

We have commented in this publication before that measuring farm financial performance for a single year is potentially misleading. If growers are to maximise their incomes in the long term, there are three areas to consider: Soils - Subsidy - Sequestration.

Judging by the increased attendance at Groundswell this year (approaching 8,000), interest in soil health continues to climb. Aside from any current fashion amongst the

wider food chain, many growers have been managing soil health long before the term regenerative was coined. At the time of writing, the weather appears to be recreating the same level of disruption that we saw last year. The consequences of high rainfall for vulnerable soils remains all too apparent for those establishing crops in both the spring and autumn in 2024, and also for those where harvest is late, in particular for those trying to harvest large tonnages of forage maize from saturated land.

The appeal of high returns from short term cropping arrangements creates a challenge for those with long-term interests in land, but an overwhelming need to generate income in the short term to cover expenditure. This challenge is exacerbated when there is limited empirical evidence indicating when and if improvements in soil health will bring about an overall increase in financial performance and what size any improvement might be. Consequently, the number of growers who are both financially able and willing to take a lower return today to pursue a greater return tomorrow is inevitably restricted.

Interestingly, and perhaps inevitably, subsidies are playing a part. The direct effect of soil management

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Unlike the former Basic Payment, the support available through SFI generally requires agreement holders to ‘spend-to-collect’
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options within SFI, together with capital grants designed to encourage less soil movement and more livestock grazing is part of the mosaic that the combinable crop grower must consider. Unlike the former Basic Payment, the support available through SFI generally requires agreement holders to ‘spend-to-collect’ and so care needs to be exercised when looking at the ‘headline’ levels of payment which in some cases exceed £1,000 per hectare per year. Last year’s weather in combination with continuing risks associated with growing oilseed rape

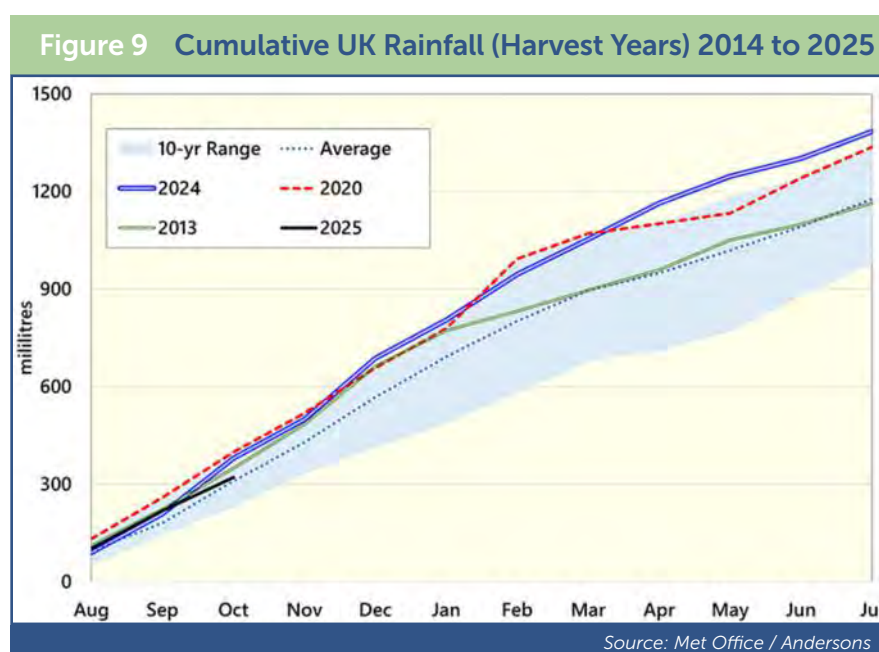
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The number of growers who are both financially able and willing to take a lower return today to pursue a greater return tomorrow is inevitably restricted
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gave rise to an uptake of SFI that may not have happened had the weather been less extreme. It also created an increased level of engagement with SFI by those that were looking to generate some income from land which would have otherwise remained fallow for the entire 2024 harvest season and would have therefore generated no return whatsoever. It is yet to be confirmed, but this combination of circumstances may have brought about a fundamental change in approach by those challenged by heavier soils with ageing grain storage and drying facilities.

As is often the case, subsidies can distort business behaviour and the effect of SFI is, in part, creating upwards pressure on rents and rental equivalents. At the same time, AD plant operators are having to compete with these increased rents in order to secure feedstock for their operations, some of which have been built with subsidy through either capital grants and / or support through incentives such as Feed-in Tariffs.

Although carbon sequestration is not new, the financial effect of an unregulated market has now reached the combinable crop grower in a number of ways. Produce contracts



are now available with carbon-related premia conditional on the adoption of carbon-friendly operating practices; at the same time those with an interest in the land are also needing to consider how to monetize potential increases in soil carbon. Whilst the market continues to be unregulated, with no soil carbon code, there is a choice between measured and modelled carbon capture, each of which carry very different operating costs, and which provide different market prices reflecting the range of integrity.

Whilst the technical demands of growing combinable crops with

reduced synthetic inputs must not be overlooked, the challenge of generating profit whilst navigating soil health issues, evolving subsidy and potential new income from sequestration, highlights the need to not only understand the economics of all three but also how they interact.

Sugar Beet and Potatoes

NICK BLAKE AND
JAMIE MAYHEW



Sugar Beet

When the 2024/25 campaign contract offer was finally announced in December 2023, many growers felt that the headline price of £40 per tonne didn't reflect the futures market, which at the time suggested that the price should be in the region of £60 per tonne. The option to market up to 35% of contract through the futures linked mechanism seemed like a logical approach for the more risk-taking grower base.

Unfortunately, the world sugar price has mirrored the same trajectory as the grain market and fallen. Those who accepted that standing-on at £40 per tonne was still a profitable

exercise are feeling rather content.

Following the incredibly wet winter of 2023/24, seed bed preparation was a struggle and once again, plantings were delayed. Since planting, the sugar beet growing region has had below average rainfall, and above average sunshine hours. So far this appears to have resulted in a lower root yield, but higher sugar contents. Sugar content in the earliest lifted crops were in excess of 17% at Bury St Edmunds, compared to below 16% last year, and a 5-year average of just under 17%. This will help recover the overall adjusted yield. Looking ahead to the harvesting campaign, concerns

are rising again as relentless levels of rain have fallen in a short period of time. For the second year in a row damage to the soil structure could cause serious knock-on effects to following crop performance and undo years of soil management work. The damage to farm infrastructure is also considerable as a result of continuous wet conditions.

Looking ahead to the 2025/26 campaign, surprisingly, negotiations for the 2025/26 season have been quicker than the previous year, with the contract offering being announced in July 2024. Due to the downturn in the profitability of alternative crops, a drop in price was inevitable. A fixed price of £33 per tonne for up to 70% of contract tonnage is the headline. In order to share some of the market risk between British Sugar and growers, growers must choose to market at least 30% of their contract tonnage on either a Market Linked Bonus contract, with a minimum price of £30.70 per tonne, or a Futures Linked Contract (up to 50%), with no minimum price. The mechanism for both options has been rebased for the 2025 drillings.

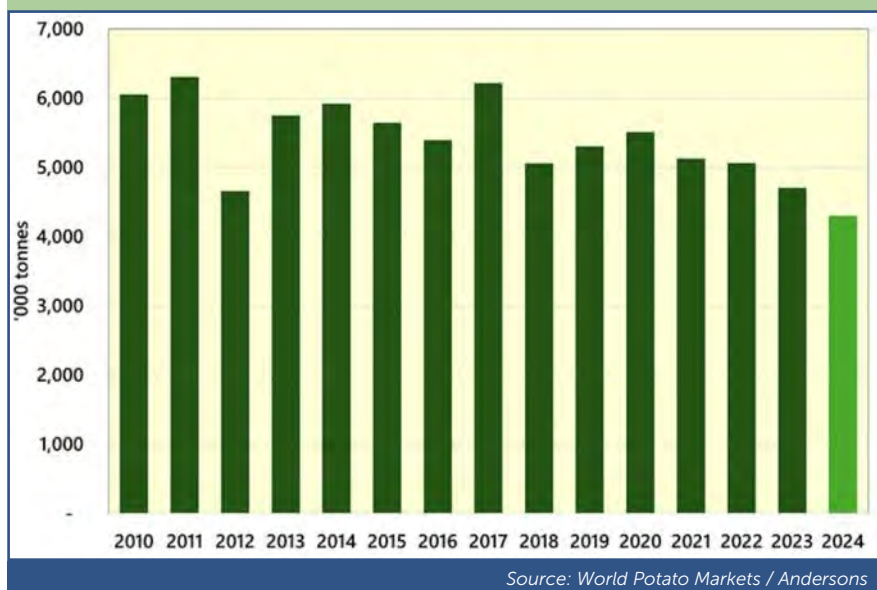
Growers who can afford to live without sugar beet might choose to do so, but despite the disappointing

Figure 10 EU Sugar Price and UK Crop Price: 2010-2025



Source: British Sugar / EU Commission / Andersons

Figure 11 UK Potato Production: 2010-2024



reduction in contract price offered, a dramatic reduction in grower numbers is not expected. Sugar Beet is still one of the few break crops in the rotation that is calculated to be break even at a net margin level. For some growers, this may not be enough due to the knock-on effects from growing the crop as mentioned above, i.e. soil and infrastructure damage and following crop yields. The 2024/25 harvesting campaign may be a decider for some.

Potatoes

According to provisional Defra statistics, the planted area reduced by just under 10% between 2022 and 2023, but the harvested area reduced by 18% which reflects the damage to the crop as a result of the wet conditions which hampered the 2023 harvest. Other than 2012, the 1975 and 1976 harvests were the last two crops which produced less than 5 million tonnes of potatoes. It remains to be seen what 2024 will produce, but a crop under 4.5 million tonnes would not be a surprise. The expectation that price will dictate a significant change in area is less evident than in the past. This is for a number of reasons: a) there are fewer growers, b) the cost of, and access to, additional working capital, c) some

growers are already at the maximum area they are comfortable with - which is possibly lower than before last year, as weather risk is factored in more fully.

There were significant seed quality and supply issues at the start of the 2024 season due to poor weather conditions during the 2023 harvest. The rain arrived much earlier this autumn and, at the time of writing, for many cereal and root farmers progress on the land has been intermittent. This is likely to result in some store quality issues. Yields have been variable to date, but anecdotally, higher than budget. Given the conditions at lifting in the last two seasons, for good reason, growers will be seeking to protect themselves with increased harvest capacity, or a greater return for their efforts - both of which lead to a higher cost of production.

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Total [potato] costs have increased by at least 50% in the last five years
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Costs for the 2025 plantings are likely to continue to climb, despite reductions in fertiliser, fuel (at the time of writing), electricity (for some), and interest rates. The key drivers of cost remain in machinery and labour.

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For the second year in a row damage to the soil structure could cause serious knock-on effects to following crop performance
 ”

There is also significant pressure on seed costs. Total costs have increased by at least 50% in the last five years.

25 years ago, in Outlook 2000, we wrote about the consolidation of packers and the shrinking number of approved suppliers serving the retailers. This dynamic has shaped the market for the intervening period, and only now are we seeing the recognition that retailers have pushed the price and method of dealing with growers to the brink. An acknowledgment of the true cost position and an effort to recognise climate risk alongside a fair dealing contract has been deployed in other parts of the supply chain and is now awaited from the retail buyers.

Remaining growers will be looking closely at the options, including exit, in the present circumstances - particularly where finance is a critical constraint. The volume of capital required to grow the crop now means that there is a real cost to capital in the calculation.

We cover irrigation licenses elsewhere in Outlook. It is vital that growers review their existing licences, past and current usage, and potential risk areas. Where time limited licences are due for renewal, do not delay starting this process with the Environment Agency.

Horticulture

JOHN PELHAM

There appears to be a growing recognition amongst UK multiple retailers of the financial pressure faced by their domestic suppliers of fresh produce as a consequence of unprecedented increases in the cost of production of horticultural crops in the last five years.

This threat to supply, coupled with similar concerns about overseas sources (not least from the effects of climate change) is prompting discussions about new ways of working between retailers and their UK suppliers, whether individual growers or grower groups.

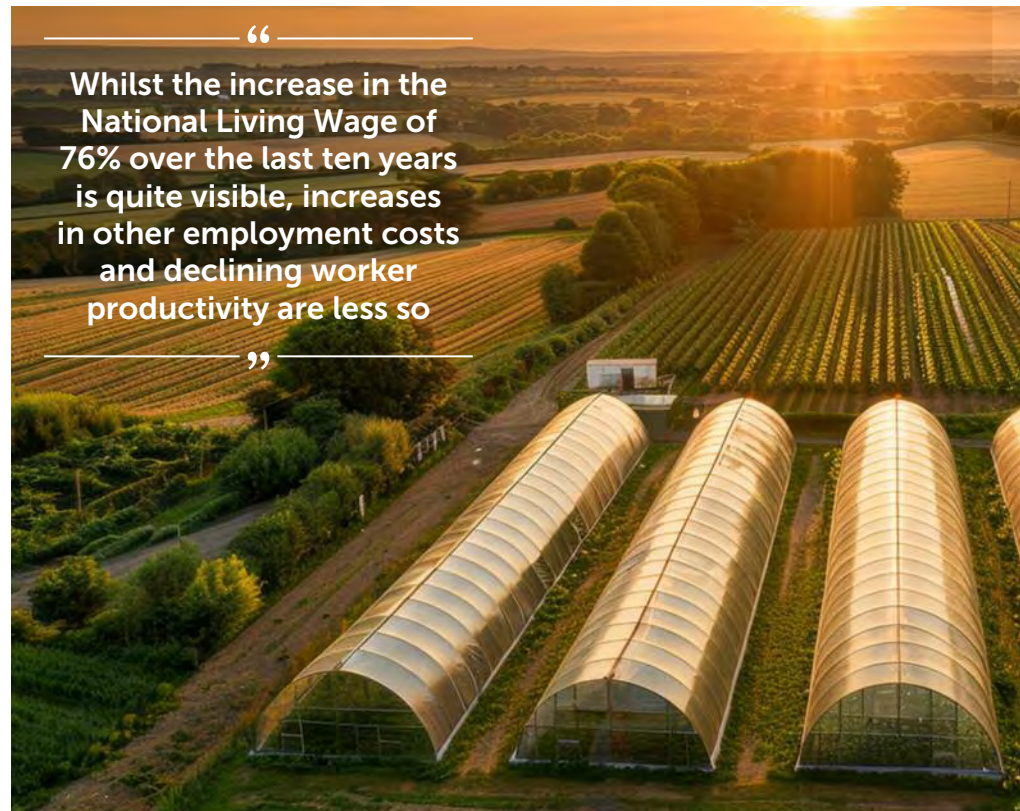
Perhaps the most eye-catching example of this new approach is the recent 20-year agreement between Aldi and AC Goatham and Son, the UK's largest grower of apples and pears. What is unprecedented about this, and other evolving arrangements, is that they are for a period of years, and not just a single season; there is also a recognition that growers face the twin risks of weather and cost inflation and that produce pricing mechanisms need to reflect this, even to the point of risk sharing between the two parties. It will be interesting to see how these arrangements develop.

Previously in Outlook we have reviewed the key contributors to recent horticultural cost inflation, namely wage rates and energy costs. There are however a number of 'covert' increases to costs of production which are also having a damaging effect on grower economics, of which two important categories are other employment costs/worker productivity and customer pack specifications.

Other Employment Costs / Worker Productivity

Whilst the increase in the National Living Wage of 76% over the last ten years is quite visible, increases in other employment costs and declining worker productivity are less so, but both are significant contributors to overall increases in horticultural crop cost inflation.

A decade ago many growers recruited their own staff, at that time



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 Whilst the increase in the National Living Wage of 76% over the last ten years is quite visible, increases in other employment costs and declining worker productivity are less so
 ”



typically from Romania and Bulgaria, with a significant proportion - often 50-70% - being returning workers (or 'returnees'). Since our departure from the EU the proportion of returnees on farms has declined considerably, with new employees only being available through agents under the UK Government's Seasonal Workers Scheme. Agents' fees are now a significant additional contributor to growers' employment costs.

A further consequence of the decline in the proportion of returnees is the increased number of new workers on farms who need to be trained for the first time. Work rates are frequently slower than with more experienced staff. By way of illustration, compare the cost of an experienced apple picker with an output of 6 bins per day with a first-time worker at only 2.5 bins per day. The picking costs of these two workers (at three bins per tonne) are respectively £52.50 and £126 per tonne; the difference of £73.50 per tonne represents the majority, if not all, of potential grower profit.

The financial consequences of declining worker productivity (in large measure due to reduced returnee numbers) for UK horticultural businesses should not be underestimated.

Customer Pack Specifications

One of the consequences of the cost-of-living crisis has been the adoption by multiple retailers of smaller pack sizes - for a range of products and not just fresh produce -

to avoid or mitigate sale price increases. Smaller packs typically incur higher labour costs for packing, as well as higher packaging costs - additional costs borne exclusively by the grower.

To illustrate the labour issue, let us assume that the cost for packing a 400-gram strawberry punnet is 12 pence, with a cost per tonne, for 2,500 punnets, of £300. A reduction to 300 grams has little effect on the 12 pence cost per punnet, but the cost for the now 3,300 punnets increases to £396 per tonne - or a cost of production uplift of 32%.

With reduced pack sizes has come a proliferation in the number of individual pack formats (stock keeping units, or SKU's), with additional downtime when packing lines are changed between formats; a particular issue for the packhouse supplying a range of retail customers, with a large number of SKU's.

Let us hope that the developing arrangements between multiple retailers and their suppliers better identify the financial consequences of these changes in specifications - the prize being lower costs of production, better value for customers and, perhaps most importantly, protection of the financial viability of UK growers.



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Smaller packs typically incur higher labour costs for packing
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Topical Issue: Irrigation

JAMIE MAYHEW

In 2017, Defra released its Water Abstraction Plan to outline its vision to reform water abstraction management and address unsustainable abstraction. Over the past few years, we have seen abnormal weather patterns becoming the new normal, with less steady rainfall, greater occurrence and severity of drought, and intense rainfall events. In addition to changing weather patterns, the demand for water is ever increasing.

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In addition to changing weather patterns, the demand for water is ever increasing
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In spring 2025, the National Framework for Water Resources will be published. This will explore England's long-term water needs by setting out:

- the scale of action needed to ensure resilient water supplies are available to meet the needs of all users in the future, and
- a greater level of ambition for restoring, protecting and improving the environment that is the source of all our supplies.

In the future, the Environment Agency (EA) will be reviewing Abstraction Licences in catchments where water sustainability is considered to be at risk. This could result in licences being amended by, for example:

- reducing the daily or annual abstraction limit,
- changing the timing on seasonal licences to align better with rainfall patterns and climatic conditions,
- adding or increasing 'hands-off flow' restrictions to protect river life at times of low flow.

From 1st January 2028, the EA will be able to vary or revoke licences without payment of compensation where there is a risk of serious damage to the environment. The EA has written to licence holders located in areas of concern to warn them.

According to EA data, 52% of existing abstraction licences are susceptible to hands-off flow conditions in periods of dry weather, or vulnerable to restrictions during drought. With changing weather patterns, this could leave abstractors exposed if they do not have any storage facilities. Only 20% of licences are abstracted from reservoirs, which in theory is the most resilient method

of abstraction; however, they still need filling.

New regulations allow licence holders to increase the rate of abstraction (additional 60 litres per second) during flood events (not before), but daily rates still need to be within licence constraints. This could be seen as too little too late during a flood, assuming that it is still practically possible to abstract in such conditions.

It is understood that the EA are considering the introduction of a 'High Flow Threshold' that would give abstractors the ability to alter their licence to only take water during high flow periods, not just flood events. This could allow an increase in the total quantity in a high flow year, but there is a risk that in drought years an abstractor will be restricted to reduced quantities.

Water Abstractor Groups (WAGs) have been created to improve communication between farmers, the EA and other interested parties, such as Internal Drainage Boards and wildlife groups. These organisations

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Only 20% of licences are abstracted from reservoirs
”



are well placed to represent the needs of agricultural abstractors where there is a risk of diminishing water resources. There are currently six officially recognised WAGs - four in East Anglia, one in Lincolnshire and one in Northumberland.

In order to future-proof access to water, for many the most logical step is to invest in on farm water storage (either individually or shared), harvesting high flows during the winter and storing for use the following summer. But the cost of construction, associated costs such

as new pumping systems, electric grid connections and underground connecting mains will be unaffordable for some.

To encourage growers to improve their water security, grant funding has been made available in England providing up to 40% of funds. However, the RPA would expect changes to justify their investment, such as altering summer abstraction licences to winter, or reducing surface water abstraction. It is considered likely that there will be another round of these grants in the

future, although this is yet to be confirmed.

It is clear that the upcoming changes to water abstraction legislation will affect many growers. Readers are encouraged to review their existing licences, historic usage, and familiarise themselves with the sustainability of their own catchment. Along with the WAGs, there are a number of independent advisors who are well placed to provide advice on this subject.





Dairy

MIKE HOUGHTON, OLIVER HALL AND TOM CRATCHLEY

The dairy rollercoaster has been a tough journey over the last 18 months. The majority of our clients experienced a 10.0ppl milk price drop between the year ending March 2023 and March 2024. The decline in the cost of production was significantly less than this, and many are still living with the negative cashflow legacy of that tough winter. The milk price is on the rise again (which is essential for most producers), but future milk supply will be a critical component in determining what happens to price.

Dairy farmer numbers continue to reduce; 440 producers (5.8%) left the industry between April 2023 and April 2024 and total GB numbers have reduced to 7,130.

SSAFO (Silage, Slurry and Agricultural Fuel Oil) compliance is still a major issue for many businesses and slurry store cover legislation is due to come into force by 2027. In Wales, the new 'all-Wales NVZ' rules are imposing a need for investment and more forward planning. Many Welsh dairy businesses are finding they are now 'overstocked' according to the regulations. This issue is covered in more detail in the Wales article later in Outlook.

Overall, dairy farm numbers leaving could well accelerate, potentially

reducing the critical mass of GB dairy producers back to between 5,000 - 6,000 within the next two years. The key question is whether or not the remaining producers can or will increase output to maintain the national milk supply, at or around 14.8 - 15.2 billion litres (UK).

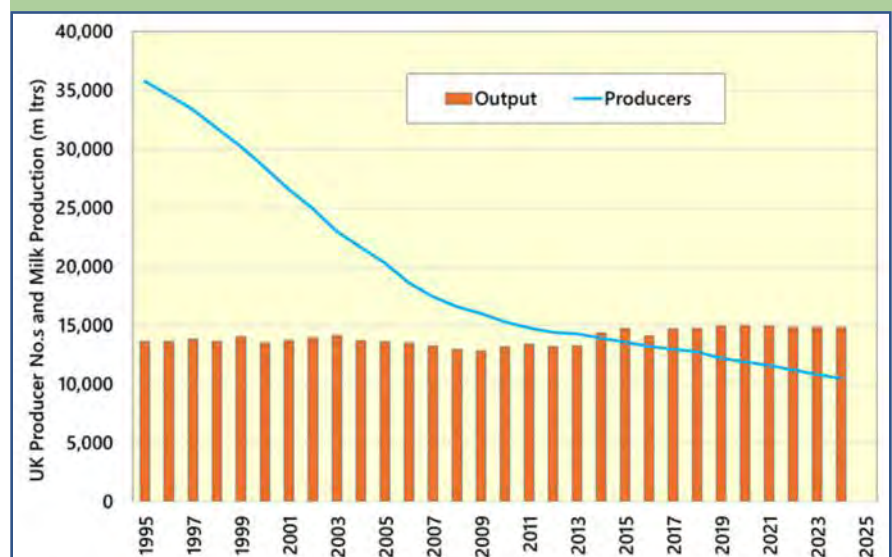
Looking ahead, future-proofing the business is likely to become a key priority. Not only has the milk price been volatile, but there are unprecedented changing weather patterns, as illustrated by Met Office data. Conditions are becoming

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[Weather] conditions are becoming warmer and wetter and more extreme
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warmer and wetter and more extreme. This is impacting forage quality and yields and overall utilisation of the lowest cost feed available.

Adapting to the future will require dairy farmers to invest in resilience against the weather. More housing, better tracks and grazing

Figure 12 UK Dairy Farmer Numbers and Milk Production: 1995 to 2024



Source: Defra / Andersons



infrastructure, more rainwater separation (potentially for re-use) and heat stress mitigation.

Focusing on sustainability and self-sufficiency could well drive greater collaboration between expanding dairy businesses and arable producers who are seeking more profitable and beneficial break crops. Forage crops combined with straw-for-muck agreements are likely to become more common-place in the future.

Producers will need to become aware of milk contract regulations and address these over the winter.

New contracts are already governed by this legislation, but all existing agreements will need to be updated to reflect the new regulations before July 2025. There is currently very little discussion at farm level on the impact of these regulations, but all milk processors need to be considering this, and revised proposals are likely to be put to dairy producers over the winter.

The dairy outlook is positive, with milk prices currently increasing beyond 43.0ppl and most of the major UK processors continuing

an investment programme. Greater weather resilience and investment to comply with legislation are probably the immediate challenges, but demand for high quality milk and milk products appears to remain strong, which should underpin a profitable future for those who remain in UK dairy production.

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The dairy outlook is positive, with... the major UK processors continuing an investment programme



Beef

CHARLOTTE DUN AND
BEN BURTON



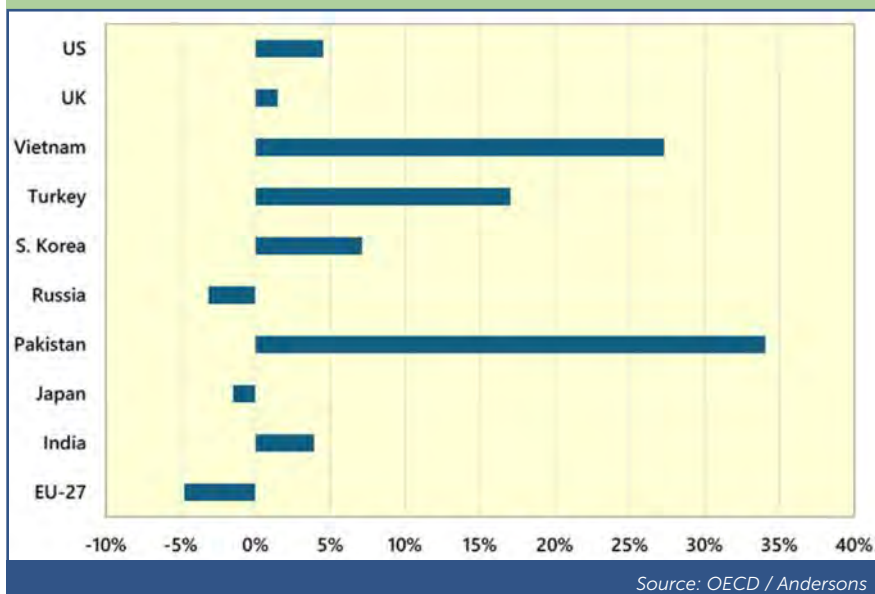
The UK breeding herd has once again contracted, with 2023 seeing the greatest decline in female beef breeding age animals in over 10 years. This continues to be driven by reducing suckler herds and a shift to dairy beef. Growth of dairy herds in Scotland and Northern Ireland have outweighed the reduction in England and Wales. Forward projections suggest that the UK dairy herd will continue to increase its share of the overall UK cattle herd.

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The UK dairy herd will continue to increase its share of the overall UK cattle herd
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British Cattle Movement Services (BCMS) data projects a tightening of GB beef supply. 2023 calf numbers fell by 4.3%, driven predominately by contracting suckler cow numbers. Suckler-born calf registrations have reduced at an accelerated rate, outpacing the growth in dairy born beef calf registrations. Tighter supply will likely support buoyant market prices in the year ahead.

Global beef markets have remained well supported through 2024 so far, with firm demand and lower supply

Figure 13 Projected Growth in Beef Consumption to 2030: Selected Countries



levels across most parts of the globe. Within the UK, producer prices have been strong, supported by consumer demand and growth in exports. Considering the current price position, the UK is competitive on the global market. Negative supply projections for 2025 in the UK and across key global markets, suggests support for cattle prices is likely to continue.

Robust beef prices will have incentivised the culling from herds and will continue to do so going forward. Pressure on margins within

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Support for cattle prices is likely to continue
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the beef sector has intensified over recent years, paired with volatile global markets and testing weather conditions, profitability remains uncertain for beef producers even with high prices.

Global demand for red meat is expected to grow in the coming decade due to sustained demand from developing regions. Developed



countries, such as the UK, forecast minimal growth, however the increased global demand is encouraging for UK export prospects. Due to its climate, weather and extensive production systems, the UK is one of the most sustainable places in the world to produce red meat.

Beef producers have an opportunity to ride the wave of an expanding global market, however they must remain focused on efficiency and performance within their herd. Buoyant prices are not enough to offset recent agri-inflation and rising overheads; resilient profitability is driven by controlled margins and good technical performance of stock.

Consumer preferences are evolving. Whilst population growth drives total world consumption, trends such as

health and sustainability concerns are expected to increase. In higher-income countries, consumers are becoming more concerned about health, the environment and animal welfare, particularly when it comes to beef. Products that satisfy environmental and welfare concerns typically come at a higher price which often has greater influence on consumer choice.

Consumer views around red meat, especially processed categories, may limit long-term growth because of this focus on health. Retailers may need to consider reminding younger consumers of the benefits of consuming lean red meat.

As public health challenges increase, Government intervention - such as high in fat, sugar or salt (HFSS)

regulation - has potential to shift demand away from processed categories which fall within these descriptions.

The UK beef industry has an opportunity to improve demand by promoting the health benefits for beef, such as B12, iron and protein, and demonstrating UK farming values.

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Profitability remains uncertain for beef producers even with high prices
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Sheep

DAVID SIDDLE

December 2023 survey data reported a 4.3% decline in the UK breeding flock to 13.8 million head, the lowest breeding flock since the current data series began in 1996.

Record high lamb prices in the first two quarters of 2024 have resulted in many ewe lambs intended for breeding being slaughtered. In addition, high cull ewe prices look to be resulting in many younger ewes, which in previous years may have been sold for further breeding, going for slaughter, hence a further fall in the breeding flock looks likely going into 2025.

AHDB is forecasting a 2.9% decline in UK sheep meat production in 2024 compared with 2023. A reduced carry over of lambs from 2023 into the first quarter of 2024 meant supplies were tight running up to Easter. A smaller crop of new season lambs due to poor weather at lambing, and the reduced breeding flock, further tightened supply.

With around 30% of total sheep meat production exported, 95% of which goes to the EU, another factor supporting prices has been declining EU production which is forecast to fall by around 5% in 2024.

New Zealand and Australian supplies appear tighter at the present

time and prices are rising. This reduces to some degree the attractiveness of these supplies to both our own and EU markets; their focus for the time being remains on supplying the nearer Chinese market.

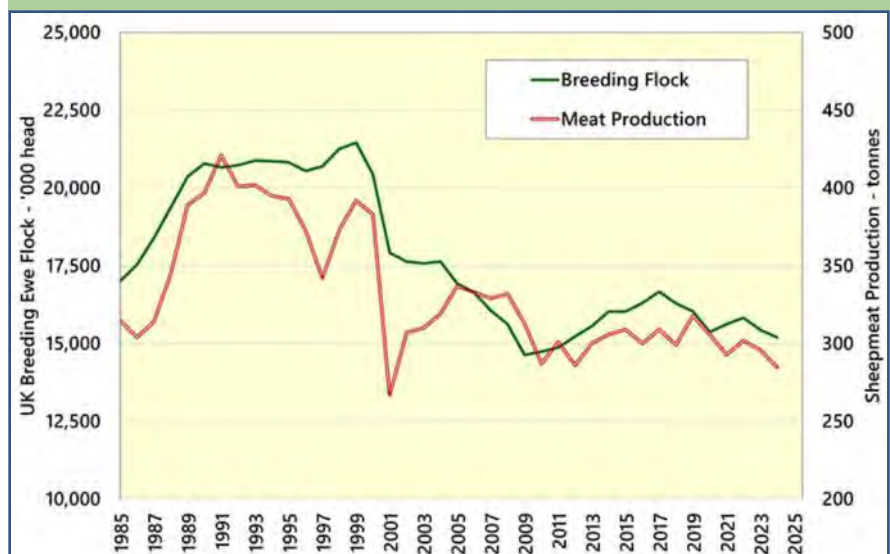
Looking forward to 2025, price prospects remain positive with reduced supplies likely to more than

offset the effects of the high price of the product to the consumer and long-term reducing trend in consumption.

Unlike, for example, dairy or pig enterprises, total cost of production data is hard to find in the sheep sector. However, we would estimate efficient and productive sheep flocks selling lambs through the summer and autumn period might have total costs of production of around 235p per kg liveweight as compared with market prices of perhaps 300p per kg, suggesting a positive margin from

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A further fall in the breeding flock looks likely going into 2025
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Figure 14 UK Breeding Flock and Sheepmeat Production: 1985 to 2025



Source: AHDB / Andersons



production which, historically, has not always been there. Committed producers will hopefully be in for another year of good returns in 2025.

There are opportunities arising for new entrants with arable businesses looking to incorporate grass back into their rotations or to consider the winter grazing of combinable crops as part of a more regenerative approach. Despite record sheep prices, net margins from such ventures are not huge and such arrangements need to be carefully structured if they are to last.

As Figure 14 shows, the production of sheepmeat has closely mirrored the changes in the national flock. This suggests that there has been little productivity improvement in the sector over the past decade - i.e. each ewe is delivering the same weight of lamb to market as it did 30 or 40 years ago. This is in marked contrast to the pig and poultry sectors.

The best producers continue to reduce their reliance on concentrate feeds and are looking to make more use of forage, often via adopting modern grazing techniques such as

rotational grazing or deferred grazing and perhaps incorporating grazed winter fodder or arable cover crops.

We are seeing more use being made of legumes and less use of inorganic fertiliser, which in England can go hand in hand with the Sustainable Farming Incentive.

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The best producers continue to reduce their reliance on concentrate feeds and are looking to make more use of forage



Pigs

HARRY BATT

At the time of writing, it isn't the pig industry that's squealing (loudest!) with positive margins for six consecutive quarters for the first time in over four years. That said, the volatility of the last three years, has created significant changes to the structure of the UK pig sector.

The AHDB's quarterly cost of production indicates a net margin of over £15.00 per head for the last six months. This is the first time that this has been recorded on their model, which dates back to 2009. However, the reality is that most producers are still recovering from the loss-making incurred during the pig crisis of 2021 to 2022.

AHDB figures show that production costs rose by 54% between the start of 2019 and the second quarter of 2022 when losses were at their greatest. Much of the increase in costs can be attributed to electricity, fuel, feed and more recently, bedding (straw). Producers will have to consider bedding options going forward, if straw prices remain at or around current levels of up to £140 per tonne delivered. Producers should use this opportunity to review straw-for-muck arrangements, especially given the growing pressure on arable farmers to improve their soil organic matter and to try and reduce

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Most producers are still recovering from the loss-making incurred during the pig crisis of 2021 to 2022
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reliance on manufactured fertilisers.

The June 2024 Census showed that the English breeding herd had fallen to its lowest recorded level, with a reduction of 150,000 sows, or 37.5%, in three years. With the English herd accounting for approximately three quarters of the UK total breeding population, have we now fallen below the critical mass of sows

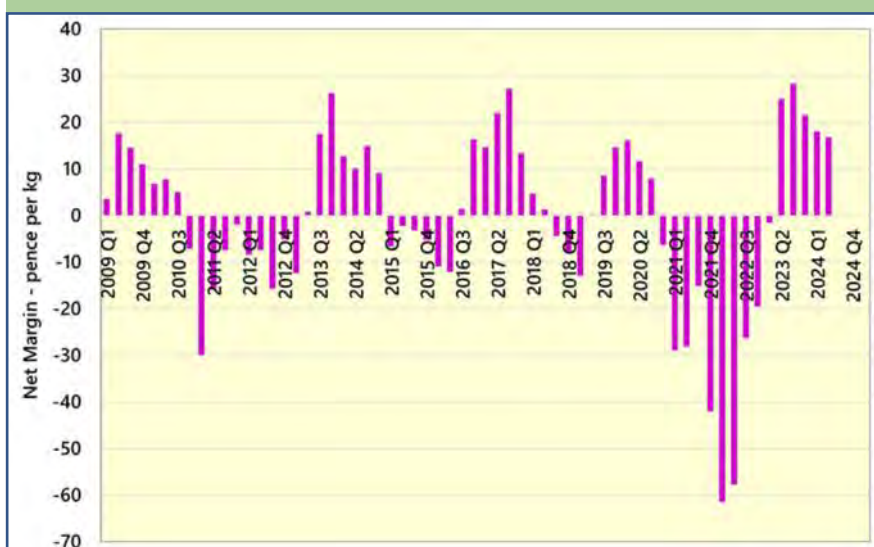
(and producers)?

Despite a number of producers leaving the industry, especially during the recent pig crisis, there does appear to be ongoing investment in facilities on the farms that wish to remain within the industry.

The investment at present appears to be geared around improving efficiency and ensuring compliant facilities, rather than expanding production capacity. This is likely to see an upward movement on the 'average' production efficiencies, i.e. fewer, but better producers.

UK pig meat production is expected to have risen by 2.7% in

Figure 15 Estimated Pig Net Margins: 2009 to 2024



Source: AHDB



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Investment appears to be geared around improving efficiency and ensuring compliant facilities, rather than expanding production capacity

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2024, with more slaughtering due to productivity gains, including reduced piglet mortality and increased carcass weights. The industry's ability to improve the efficiency of pigmeat production can only be seen as a positive, with producers making a better margin on a per head basis, which should improve their financial viability. In addition, the industry's increased pig meat productive efficiencies should enable it to be more competitive in a world that could see more product displacement given the changing geopolitical pressures.

Driving producer efficiencies is resulting in improved greenhouse gas emissions on a per kg of pig meat basis. The industry must also do more to 'shout about' the much improved carbon footprint of production. Since 2021, clean pig slaughtering's have only fallen by c. 5% despite a 38% reduction in the breeding herd.

The sector is also becoming more

vertically integrated. Producer / processor companies such as Cranswick, Pilgrims and the Karro Food Group are responsible for an ever-increasing proportion of pigmeat supply. Some may bemoan the loss of the 'independent' pig farmer but, as has been seen in the poultry sector, integrated supply chains can be powerful in disseminating best-practice and driving efficiencies. The changing structure also opens up opportunities for non-specialist pig farmers to be involved in the sector, with reduced risk, through 'bed-and-breakfast' arrangements.

The industry is very innovative and looking for ways to become more sustainable, which is evident through the Green Pig Research Project. The ability to replace soya with either peas and/or beans in a finisher pigs' diet, without a detrimental effect to body weight gain, carcass weights or back fat measurements, could be important for the industry. It would allow reduced reliance on soya, the use of which could become more challenged, both from regulation and consumer demands, with possible opportunities for UK pulse production.



Poultry

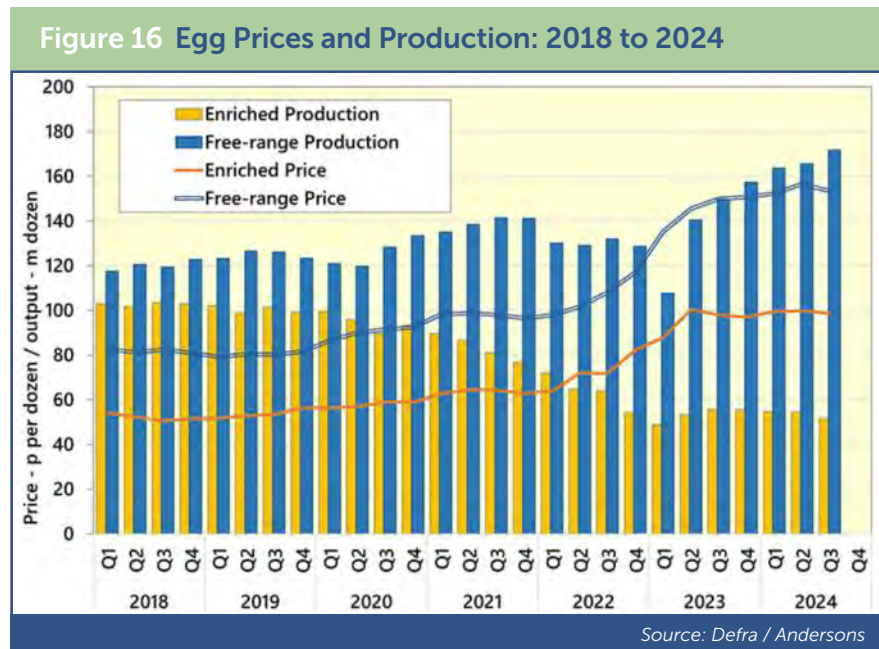
VICTORIA MOXHAM AND
EDWARD CALCOTT



Following the 2012 outlawing of battery cage egg production, by August 2016, Lidl, Aldi, Tesco, Morrisons, Asda and Iceland had set a 2025 deadline to allow for a comprehensive transition to cage-free egg production. Waitrose, M&S, Co-op and Sainsburys were absent from the list after already establishing their own production standards. Most notably, Waitrose haven't sold eggs from caged hens since 2001, whilst M&S have had a 100% free range egg policy for whole eggs since 1997 and processed eggs since 2002.

As the 2025 deadline approaches, German supermarket Lidl has now announced a £1 billion investment into free range egg production following a 34% increase in their free-range egg sales over the last year. The investment is set to be made over five years, supporting existing farmers, while also encouraging and facilitating new producers to enter the sector. In their quest to stock exclusively British free-range eggs and overcome the producer shortage, Lidl have established their own producer group, offering long-term cost of production contracts, guaranteed minimum volumes, funding for new sheds and assistance in securing bank financing.

More than 249 million dozen eggs were produced for human



consumption in the second quarter of 2024, a 6.4% increase on Q2 2023. As well as production, farm-gate egg prices have also increased year on year, with an average price of 144 pence per dozen in Q2 2024 (an 8.6% increase on Q2 2023). The volume of free-range eggs sold has also grown by a further 7.8% in the last twelve months, despite the sector-wide shortages. Colony egg still accounted for 22% of total throughput in Q2 2024 (free range accounted for 67%).

With free-range egg production and prices increasing, heavy investment in this sector, and the ongoing public scrutiny of caged

production, it brings into question the future of the colony egg. Despite being eight years on from the initial commitment to ditch colony egg production, there is still significant uncertainty regarding how we are to meet this commitment by next year. Last year, the British Egg Industry Council (BEIC) predicted that the national flock size will rise to 40 million by January 2025 but within that, it is anticipated that the barn flock size will double to 5.5 million, a further 2 million will reside within organic systems, and the free-range flock will remain static around 28 million birds. Thus, an anticipated c.

4.5 million birds will reportedly remain in enriched colony systems, which is not in keeping with the commitment by multiple retailers.

It is yet to be seen whether Lidl's investment will sway these figures and perhaps be the final straw for the colony egg. According to the BEIC projections, perhaps not. No official start date has been publicised for when the cage free production commitments are supposed to commence - the start of 2025 or the end? Nor has there been any clarification regarding the inclusion or (more realistic) exclusion, of processed eggs in the commitment. The public scrutiny supermarkets will undoubtedly face if not seen to uphold the cage-free commitment once into 2025, might be the final push needed to decide the fate of caged egg production.

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The prospects for the egg industry look to be strong for 2025

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More generally, the prospects for the egg industry look to be strong for 2025, with supply and demand in fine balance and prices at levels that we

have not seen for some years. This provides an opportunity for producers to not only recover past losses, but also begin to build a cash buffer, to accelerate debt repayment, invest in new infrastructure and further improve efficiency of performance.

The broiler sector is also on the cusp of change. All major retailers, with the exception of Asda at the time of writing, have committed to the voluntary initiative of reduced stocking densities from the Red Tractor standard of 38kg per m², to 30kg per m². For the integrated supply chain, this is a 20% reduction in chick placings. This brings good enrichment and welfare benefits for the chickens which can be portrayed to the consumer. Surprisingly, this is not affecting the carbon footprint per kg of meat produced, due to the birds achieving better growth rates, and the rejects and mortality are reduced, meaning there are more saleable birds as a percentage of those placed being processed. The independent retail sector is yet to make a move to the reduced stocking.

In order to meet UK broiler chicken demand with domestic production, more floor area for growing chickens is required. This is not happening at

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In order to meet UK broiler chicken demand with domestic production, more floor area for growing chickens is required

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present. Issues with Planning permission and environmental permitting are making the process difficult, costly and time consuming, most notably in Herefordshire and Powys with phosphate levels in the River Wye from poultry now a significant cause for public concern.

The cost of investing in new broiler facilities has risen dramatically over the last 5 years. There is no longer any benefit through installing RHI payment driven heat sources, which has masked the true income from growing chickens alone. Now, farmers must rely solely on chicken sales to support any future investment. That is assuming that imports are not used to plug the supply/demand gap, but more to balance the carcass. When combined with higher interest rates, investment in broiler sheds and negotiations of contracts need to be carefully considered.



Topical Issue: Alternative Protein Sources

TOM CRATCHLEY AND HARRY DAVIES

The Challenge of Soya

With the collapse of the Peruvian anchovy fishery in the 1970's and the 2001 ban on feeding bone and meat meal following the BSE crisis, soya has cemented its position as the primary source of high protein meal for the UK livestock industry. With its high protein percentage (46% for soya bean meal), exceptional amino acid profile and year-round availability, it has become the pre-eminent protein source for animal feed.

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There has been pressure on the livestock sector... to reduce overall soya bean meal (SBM) imports and to source from more 'sustainable' sources

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There has been pressure on the livestock sector in recent years to reduce overall soya bean meal (SBM) imports and to acquire it from more 'sustainable' sources. This is due to concerns with associated deforestation and conversion of land for soya production in Brazil and Argentina. Recent price volatility of Soya (in 2022 the price hit £570 per tonne) has also slightly dampened demand. This led to a decrease in UK SBM imports from 2.74 million tonnes

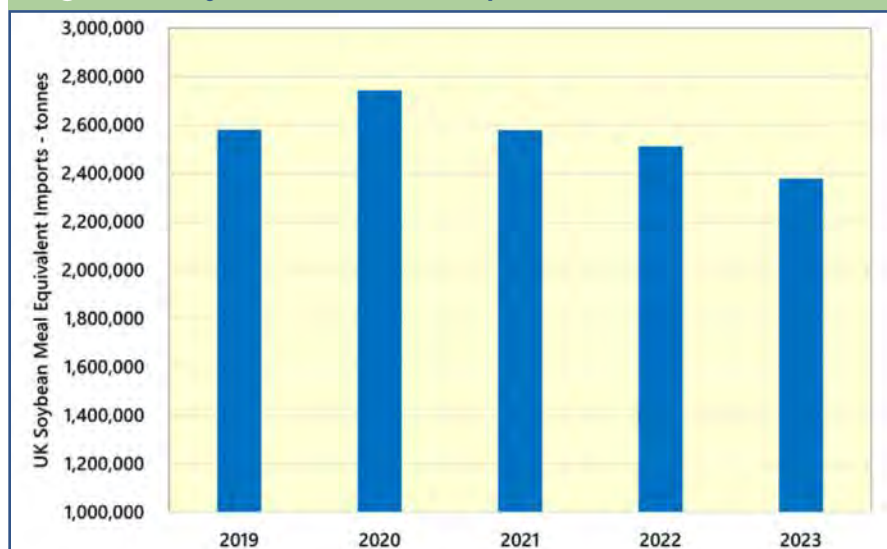
in 2020 to 2.37 million tonnes in 2023.

Argentina and Brazil have consistently provided between 65-70% of all UK SBM requirements in recent years. Of particular concern is land use conversion and deforestation in these two South American countries. In response to these concerns, the UK Roundtable on Sustainable Soya and the 2021 UK Soya Manifesto were set up as industry-led initiatives focussing on sourcing 'sustainable Soya'. As a result of these initiatives, soya imports from the USA and Canada, with a lower risk

of deforestation, have increased to almost 30% of UK soya imports.

The focus on purchasing soya from deforestation and conversion-free sources in South America has also produced tangible results. In 2017 84% of all SBM was purchased from 'unknown' and unaccredited sources. This figure had reduced to 31% in 2022. The UK Soya Manifesto target wants to source all soya from deforestation and conversion-free sources by 2025. UK Government legislation, whilst interrupted with the General Election, will make it illegal for 'larger businesses' to use 'forest-

Figure 17 Soybean Meal (SBM) Imports: 2019 to 2023



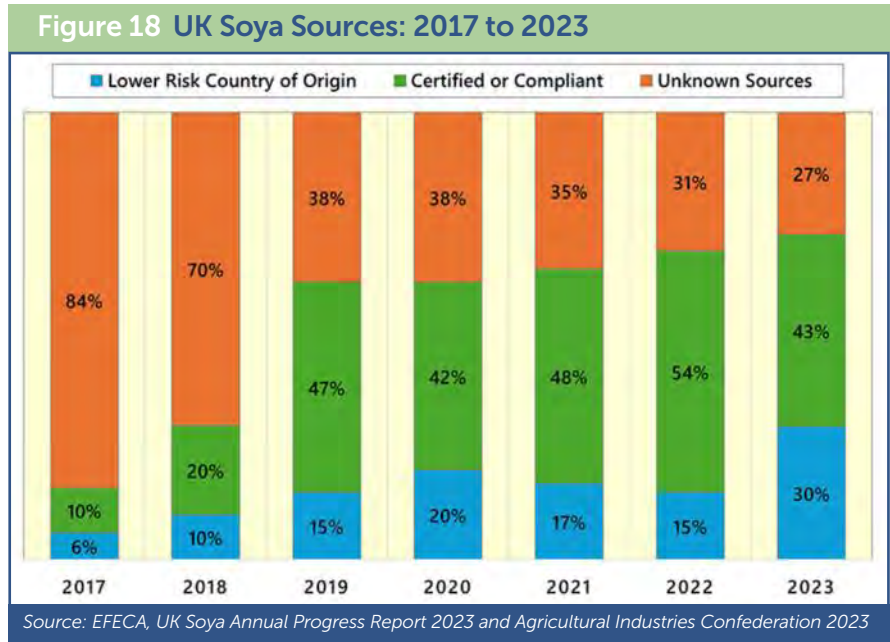
Source: Agricultural Industries Confederation 2023 Report

risk' commodities such as soya from deforested areas. This will also align the UK with the EU's 'Regulation on Deforestation-Free Supply Chains' legislation. This was due to come into force in 2025 but has been delayed a year. Whether through Government intervention or industry led changes, it seems likely that the UK will come close to sourcing all its Soya from 'deforestation and conversion free' sources in the next couple of years.

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The poultry industry uses almost half of the total SBM in the United Kingdom
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The trend towards replacing SBM in livestock diets has been slower. The poultry industry uses almost half of the total SBM in the United Kingdom and this sector has found replacement most difficult, due to the nutritional needs of poultry.

Alternatives such as Faba beans, Lupins and Insect Meal are all being trialled. The development of insect farming is covered in the following section. Due to a combination of pricing, poorer animal performance, prohibitive Government regulations and insufficient scale, these



alternatives have not been taken up by the industry to any real extent. It seems likely, in the poultry industry, that soya will continue to play an integral role, with the focus being on the 'sustainability' of the soya source rather than the replacement of soya altogether.

Other sectors which have been more capable of replacing soya are the dairy and pig sectors. The pig sector halved the use of SBM in pig meal between 2010 and 2020 using rapemeal, peas, beans and distiller's waste. Progress since 2020 has been slower, as any further reduction in

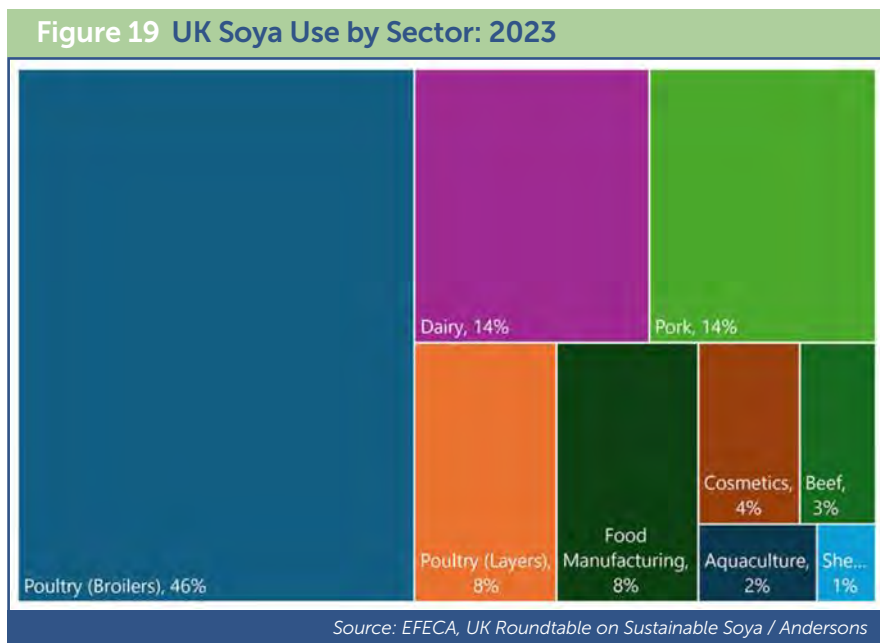
soya usage is likely to affect animal performance and subsequent profitability - in an industry with already tight margins. The dairy sector has seen a more recent shift towards home-grown proteins and reduction in soya use overall through processor initiatives and this trend will continue. With dairy accounting for 14% of UK SBM usage this is likely to have a substantial effect on overall soya usage in the UK.

To eliminate soya from livestock diets in the UK, in particular the poultry and pig sectors, seems a difficult ask, at least in the short to medium term. The focus from both industry and government will be on ensuring the soya the UK purchases are 'conversion and deforestation free'.

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Insect farming offers a resource-efficient alternative to traditional proteins
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Insect Farming

Globally, more than two billion people in 128 countries regularly eat insects, with over 2,000 species used in diets. Whilst insect consumption in Western Europe and North America remains





low, the UK is increasingly exploring insect farming as a sustainable protein source. Insect farming offers a resource-efficient alternative to traditional proteins, reducing the environmental footprint of food and animal feed production.

As the previous article outlined - the UK imports large quantities of soya each year, much of it from South America, where deforestation is a major concern. Insects, which can be locally reared with far fewer resources, offer a nutrient-dense alternative to soya. As the global population is expected to grow by 2.3 billion by 2050, driving the need for a 70% increase in food production, finding sustainable protein sources is essential.

Edible Insects for Human Consumption

The demand for edible insects is driven by their high protein content and increasing environmental awareness. Insects provide a nutritious, eco-friendly protein source. Whilst whole insects like crickets and mealworms are currently the most common form in Europe, the market is expected to grow in processed products, such as cricket flour and protein powders.

However, barriers to adoption remain. Price is a significant issue; edible insects are more expensive than conventional proteins due to high production costs. Cultural attitudes also slow uptake, with many consumers reluctant to view insects as food. Younger, sustainability-minded consumers are more open to these alternatives, and over time, with increased awareness, perceptions may shift.

Insects in Animal Feed

Insects also present a sustainable alternative for animal feed, especially to replace soya, which is widely used in the livestock sector. Supermarkets and Governments are pushing for reductions in soya use due to its environmental impact. Black soldier fly larvae (BSFL) are efficient at converting organic waste into protein, making them an ideal alternative feed for livestock.

“ Regulations limit the use of insects in UK animal feed ”

Despite these advantages, regulations limit the use of insects in UK animal feed. Whilst insect protein is permitted in aquaculture, its use in poultry and pig feed is not yet allowed, although the EU lifted similar restrictions in 2021. Amending these regulations in the UK could reduce reliance on soya and increase the use of insect-based feeds.



Economic Challenges of Insect Farming

Scaling insect farming comes with economic hurdles. High capital costs are involved in setting up vertical farming systems, and feed accounts for up to 70% of production costs. Whilst insects can thrive on waste products like brewers' grains, many farms still use soya-based feeds, which reduces the environmental benefits.

Labour and energy costs are also significant. Maintaining controlled environments for insect growth is expensive, and securing the necessary licenses and permits adds regulatory costs.

Regulatory Barriers

Insect farming in the UK is limited by strict regulations. Currently, only seven species can be farmed under UK law. Additionally, EU animal health rules restrict the feed that can be used for insects, limiting it to plant-based materials and preventing the use of organic waste. These regulations reduce the sustainability potential of insect farming.

Countries like the Netherlands and France are leading in insect farming, with companies like Ynsect in France attracting significant investment. The UK has seen progress in research, but lags behind in large-scale commercial operations.

Future Outlook

Insect farming offers a promising solution to the UK's need for sustainable protein in both the food and feed sectors, but regulatory, economic, and cultural barriers currently exist. Continued innovation and investment could position insect farming as a key player in shaping a more sustainable and resilient agricultural system for the future.

Scotland

BEN KELLAGHER

Constantly changing weather patterns continue to make farming in Scotland challenging. Although winter 2023-24 was wet, crop survival rates were significantly higher than in the southern half of the UK. A late spring threatened to compromise crop establishment, but in a very short period of time, cereals were drilled and potatoes and vegetables were planted - all in surprisingly good soil conditions given the amount of rainfall experienced. The lateness did not help lambing, with higher-than-normal losses reported. With delayed grass growth, winter keep reserves were utilised across all livestock sectors. First cuts of silage were delayed and some were of poorer quality in terms of ME and protein. Second cuts seemed to fare better and, overall, forage stocks appear to be plentiful and of good enough quality for the coming winter.

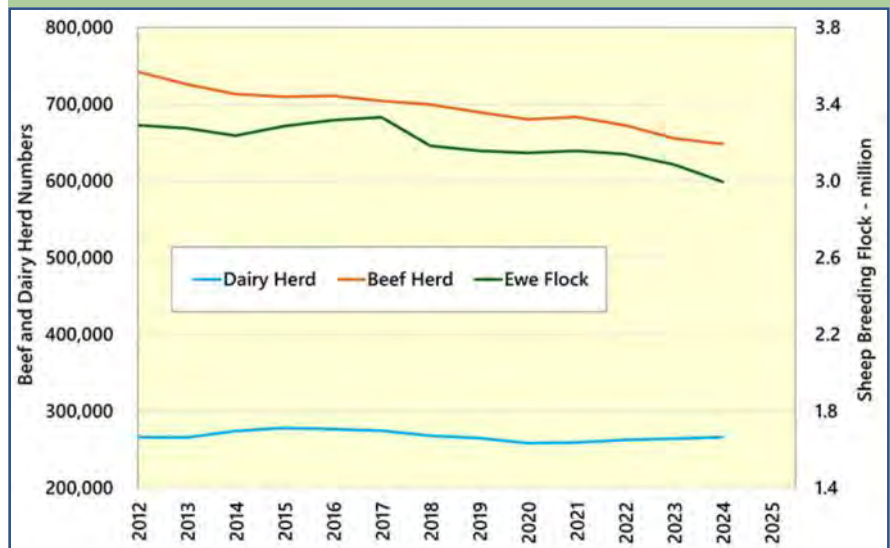
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The indications are that the 2024 [Scottish] harvest was, at best, average

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The indications are that the 2024 harvest was, at best, average. Surprisingly, the stand-out crop appears to be spring barley, with

Figure 20 Scottish Flock and Herd Sizes: 2012 to 2024



Source: Scot Gov / Andersons

above average yields and low nitrogen levels for malting. Returns in the beef and sheep sectors continue their upward trajectory, with prices again in excess of previous years highs and good quality breeding stock in demand. Beef and sheep farmers can look forward with optimism, something they have not been used to in the recent past. It is therefore surprising that beef cattle numbers continue to decline in Scotland, a worrying trend for the industry as a whole and one which is likely to be contributing to current sales price increases, both in store and finished cattle. Sheep numbers are down too -

the June Survey showing the Scottish breeding flock falling 4.3% year-on-year. Whilst we have seen a reduction in dairy herds, cow numbers remain stable, with the average herd size now 233 cows. With a relatively positive outlook for milk price, milk contracts may be the main issue for dairy farmers in Scotland in 2025, with the purchase of Yew Tree by Muller and Lactalis terminating contracts in the south-west of the country.

Scottish farmers continue to receive full BPS subsidy receipts, in marked contrast to our friends south of the border, whose BPS subsidy is now delinked and at least 50% less

than their equivalent full payment. It did not go unnoticed that the day the Scottish Government announced £500 million of budget cuts across all public sectors was the same day BPS subsidy payments were announced. The rural contribution to the cuts was less than a third of 1% but greater contributions have been made in previous years and we are likely to see ongoing pressure put on the Scottish Government to return millions of pounds of funding that was ring-fenced for the rural economy. Although we have seen an early start to BPS payments, the system appears to have stalled, with many farmers still waiting for their receipts and it seems, a greater scrutiny over applications. Budgetary pressures may be having an impact after all.

We have the Land Reform (Scotland) Bill 2024 passing its way through the Scottish Parliament. Proposals include measures which will apply to large landholdings of over 1,000 hectares; prohibiting sales in certain circumstances until Ministers have considered the impact this will have on the local community. This could result in large holdings being split into smaller lots to help local community purchase. Advance notice of the sale of some large landholdings is also proposed. The Bill will also place legal responsibilities on these largest landowners to show how they use their land and how that use contributes to key public policies. Other proposals include an obligation for Scottish Ministers to publish a model lease for environmental purposes, an expansion of the role of the Tenant Farming Commissioner's functions, and revision of tenancy legislation. The latter will cover compensation for improvements, extending tenants' diversification rights, compensation for game damage, rent reviews, and amending the rules of good estate management and good husbandry to include

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BPS in 2025 will continue as in previous years, with the main change being 'conditionality' added
 ”

references to sustainable and regenerative practices.

2024 also saw the passing of the Agriculture and Rural Communities (Scotland) Bill. Amongst other things, this Act provides the powers for the Scottish Government to run its new farm support system. BPS in 2025 will continue as in previous years, with the main change being 'conditionality' added. Carbon audits, soil sampling and animal health and welfare appear to be the chosen route to securing BPS in 2025, but it feels like a box ticking exercise rather than an opportunity to improve efficiencies and cut emissions within businesses. Beyond 2025, the Scottish Government's route map indicates major changes to agricultural policy,

but with budgetary pressures, we are likely to see little change in the current model to deliver support to farmers, with the retention of the three payment regions, coupled support (suckler calf and ewe hogg payments) and LFASS. The Tier 1 (base) and Tier 2 (enhanced) payments will probably be introduced, with the main change likely to be extending the current Greening requirements. The question that remains unanswered is what level of funding the Scottish Government will commit to beyond 2025. Our agri-environment scheme always suffers when there is funding pressure and it is difficult to see a meaningful scheme being put in place for 2025.

Agriculture aside, a recent trip to the north-west confirmed what a stunningly beautiful country Scotland is (see pictures accompanying this article); more staycations are planned and all readers are welcome to visit - sunshine not always guaranteed!



Wales

KERRY JERMAN AND ANNA BOWEN

Sustainable Farming Scheme (SFS)

The new Sustainable Farming Scheme in Wales was due to be introduced from 2025, but this has now been delayed to 2026. This means that BPS will be paid in Wales in 2025, with the likelihood that it is then reduced in increments from 2026 to 2029.

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The new Sustainable Farming Scheme in Wales... has now been delayed to 2026
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During this transition period, farmers will have the option of claiming either BPS or the new scheme. The final consultation on SFS closed in March 2024 and at the time of writing we are waiting for an announcement on the confirmed details, although it is likely that any further information published this year will focus on the Universal Actions only.

Seventeen Universal Actions were included in the consultation, and we are already seeing some of them integrated into other grant schemes and advisory services. Actions to manage peatland and create habitat have been mirrored in collaborative habitat creation schemes, whilst Farming Connect funded discussion

groups are including benchmarking as a requirement for members.

Other grant schemes in Wales are also aligned to the objectives of the SFS and the Control of Agricultural Pollution (CoAP) Regulations, with funding available for slurry infrastructure and handling investment, and establishment of herbal leys, unsprayed cereals and cover crops.

It has been confirmed that Farming Connect will continue for another financial year, although the final budget is to be decided. The development of the service will also be tailored to help farmers achieve the Sustainable Land Management (SLM) outcomes of the future SFS, namely business planning, nutrient management planning and carbon audits.

Control of Agricultural Pollution (CoAP)

All CoAP regulations are now in place and are being enforced through planned inspections. The initial inspections were due to be targeted at farmers exceeding certain thresholds for livestock, but we have seen clients with small herds and no past compliance issues being visited. In initial visits, the majority of farms

inspected had at least one non-compliance, namely the lack of record keeping and risk maps. However, in some cases up to five non-compliances were recorded. These non-compliances can now result in a fine issued by Natural Resources Wales as well as a reduction in BPS payment.

For suckler beef farms the main challenge of the new regulations is having sufficient and compliant slurry storage. It is difficult to justify the cost of investment for a small herd, and we have seen farmers selling their herds rather than invest, often exacerbated by their age.

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We have seen farmers selling their herds rather than invest
 ”

Sheep farmers who produce FYM have to demonstrate that manure storage is compliant, but their biggest challenge is likely to be completing and maintaining the CoAP workbook recording nitrogen management plans and actual spreading.

While slurry investment is a cost (even when subsidised by grant schemes) dairy farmers are in a better

position to cover the capital investment. The limitation for dairy farms within the new framework will be the loading limit of 170kg N/Ha. With no grassland derogation in place, this effectively caps herd size, with some leeway for those who are able to export slurry to other farms. This limit is having a particular impact on those hoping to buy farms or take on tenancies; the lower stocking rate coupled with high interest rates make it hard to cover repayments.

The following table shows examples of compliant herd sizes for a 200-acre farm, split by average yield per cow. Note that this assumes that all beef/bull calves are removed from farm, and that the herd has both a 25% replacement rate and that heifers calve in at 24 months.



Figure 21 Compliant Herd Size for a 200 acre (80 Ha) Farm, by Average Milk Yield

Average Milk Yield/Cow (Litres)	Cows in Milking Herd	Heifers 0-12 Months	Heifers 12 Months to Calving
<6,000	135	34	34
6,000-9,000	110	28	28
>9,000	100	25	25

Source: Andersons

For those with high cash needs, destocking will be unattractive, and the requirement is also an uneasy fit alongside SFS actions to place land into habitat and woodland schemes. There are a few options open to farmers to meet the requirements:

- Move to a flying herd in order that all LSUs on farm are profit-making. This is challenging with most of Wales’s dairy country being high risk for TB
- Contract rear heifers, which again is risky with TB. The contract rearer will also need to be compliant both from a loading limit and slurry infrastructure perspective, the latter of which may rule this out as an option for former suckler farmers
- Decrease production per cow to move into a lower N/cow category, a careful balance that requires cost control to be viable
- Become more efficient with heifer rearing (so that all heifers calve at 24 months) and maintain a low replacement rate
- Export slurry
- Take on additional marginal land at a low cost (if available).

None of these is a silver bullet, and complying with CoAP is one more challenge for Welsh agriculture.

Contributed Article: The Future of UK Agriculture

For the times they are a-changin'

TIM BENTON, CHATHAM HOUSE



*Come gather 'round people,
Wherever you roam,
And admit that the waters,
Around you have grown,
And accept it that soon,
You'll be drenched to the bone
...For the times they are a-changin'*
[Bob Dylan, 1963]

Indeed, the times are changing. If you look back, to look forward, a decade or two, what has happened? The world has changed significantly - through events such as the financial crash, food price spikes, the Arab Spring, swine flu/SARS/MERS, COVID-19, Trump as US President, Brexit, Afghanistan, Ukraine, Gaza. The world of 2024, compared to 15-20 years ago, is one of increased geo-political tension, particularly the West vs Russia, and US vs China. The application of, and respect for, international law, is weaker, as is investment in multilateral cooperation - whether the UN or WTO. Looking ahead 10-20 years, we are as likely to see a more fragmented, volatile and contested world than a globalised and cooperative world. Trade and market prices, as well as demand and supply, are inevitably going to change, perhaps radically.

The second driver of change is climate change. In a decade or two's

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”

time, the world will likely have passed 1.5°C¹ and be heading for 2°C. As a result, impactful extreme weather is likely to continue to accelerate, in frequency and intensity - and the widespread extreme weather of 2023/24 is a foretaste of this. Turbo-charged weather is likely to create disruptions in supply chains, whether directly from agricultural production being impacted, or from transport disruptions. Domestically, jet stream positioning may change as a result of Arctic warming², exacerbating the weather's volatility, and changing the UK's competitiveness relative to other countries. Even in a decade or two, changing weather patterns are likely to create significant structural change in the UK food system - particularly through changing trade, prices and adaptation within the UK agricultural sector. In responding to the absolute and relative impacts of climate, UK farming will alter, and it may drive structural change in the sector.

The third driver of change is much discussed but not yet a reality. Diet is

an important determinant of public health, worker productivity, social and health care costs. As Lord Darzi's recent report on the state of the NHS emphasises: the NHS accounted for 43% of all-departmental Government spending in 2023, up from 26% in 1998-99³. Dietary ill-health is both preventable and a significant determinant of health and social care costs, but growth in NHS and social budgets is likely to be increasingly constrained. Thus, the political imperative for, and space to, incentivise pro-health dietary change - as preventative healthcare - may emerge in the decades ahead.

These three drivers - geopolitics and markets, climate and health - will inevitably change the costs and benefits of different agricultural practices and production systems. And, of course, so will technological development and a range of domestic regulatory approaches (such as towards net zero or evolving relations with the EU and other trading partners).

Part of the trouble in looking ahead is that it will not be a smooth evolution following past trends. The potential for it to be dominated by events is high: whether wars, pandemics, flooding or fires. Given that we know climate will become

increasingly disruptive, there is a chance that climate becomes a risk amplifier. As the world gets more tense and volatile (perhaps were Trump to be elected), and trade reshapes in response to geopolitical issues, then trade inefficiency means climate events amplify price signals and the next shock has more untoward outcomes on food (and input) prices and availability.

As part of the UKRI "Agrifood Network Plus" we recently developed some scenarios for the UK food system based on different combinations of three variables:

1) the world becomes more globalised or more localised due to geopolitical considerations; 2) the world becomes more volatile due to climate impacting with geopolitics (or remains broadly as today); and, 3) there is an attitudinal shift (or not) in people's response to climate change and the loss of nature. The four

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In every version of the future explored, UK agricultural systems have to evolve rapidly

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scenarios are available⁴. In every version of the future explored, UK agricultural systems have to evolve rapidly - in what is grown as well as how and where it is grown.

This change will be driven by a combination of, and interaction between, climate, regulatory and market changes.

Long-term planning is always going to depend on the assumptions being used, but my bet is that the future is increasingly TUNA. *Turbulent* - changing fast; *Uncertain* - unpredictable; *Novel* - throwing at us circumstances not previously experienced; and *Ambiguous* - where there is no simple thing to do, with

every choice having downsides and upsides. The only planning assumption that is bound to be wrong is "business as usual", in that farming and its markets will continue pretty much as they are.

If the future is hard to predict because the world is changing, the real need is to build resilience to short term shocks and uncertainty, to be highly adaptable and, when making long-term decisions, ensure they are robust to alternative futures. Given the market conditions of today, the hardest challenge - for now - will be to do this and maintain profitability.

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The only planning assumption that is bound to be wrong is "business as usual"

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1: <https://wmo.int/news/media-centre/global-temperature-likely-exceed-15degc-above-pre-industrial-level-temporarily-next-5-years>

2: <https://ncas.ac.uk/extreme-weather-in-the-uk-why-arctic-climate-change-cannot-stay-out-of-sight-out-of-mind/>

3: Page 92 in <https://assets.publishing.service.gov.uk/media/66e1b49e3b0c9e88544a0049/Lord-Darzi-Independent-Investigation-of-the-National-Health-Service-in-England.pdf>

4: <https://www.agrifood4netzero.net/our-work/scenarios/>

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