

The Savills logo, consisting of the word "savills" in a lowercase, sans-serif font, is positioned in the top right corner of the slide. It is set against a yellow rectangular background.

savills

The title text is centered within a large yellow rectangular box. It reads "Today & Tomorrow: The Impact of Brexit on Food & Farming" in a bold, black, sans-serif font.

**Today & Tomorrow:
The Impact of Brexit
on Food & Farming**

The speaker's name and title are located in the bottom left of the yellow title box. The text is in a black, sans-serif font.

Giles Hanglin
Head of Rural Research



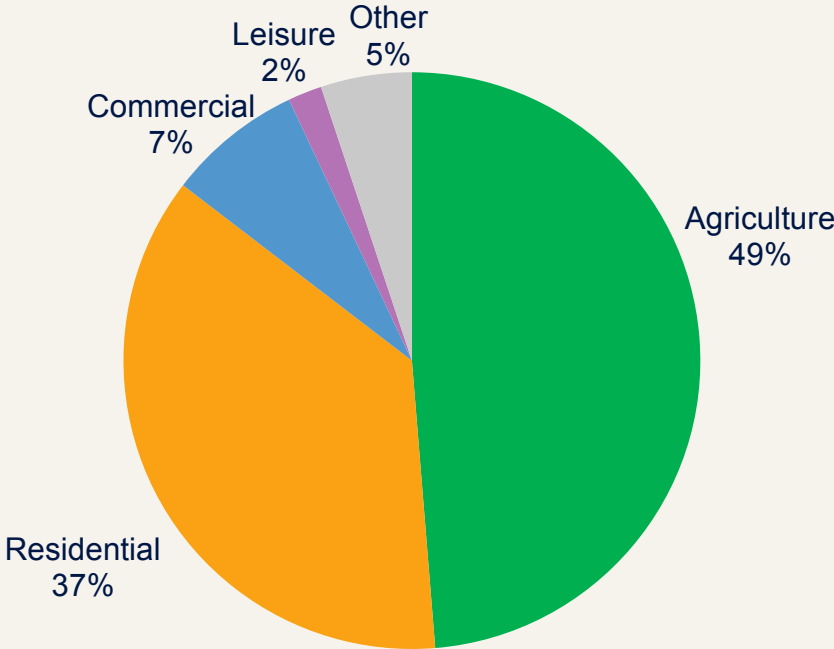
Today

Changing Ratios of Rural Income Streams

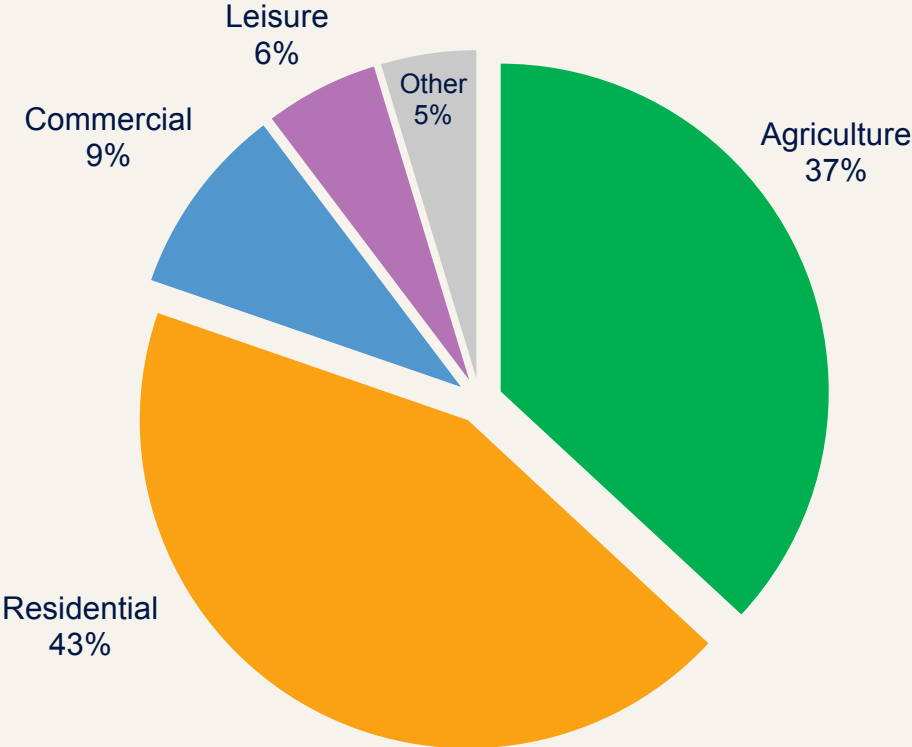


Source: Savills Research

2000



2016



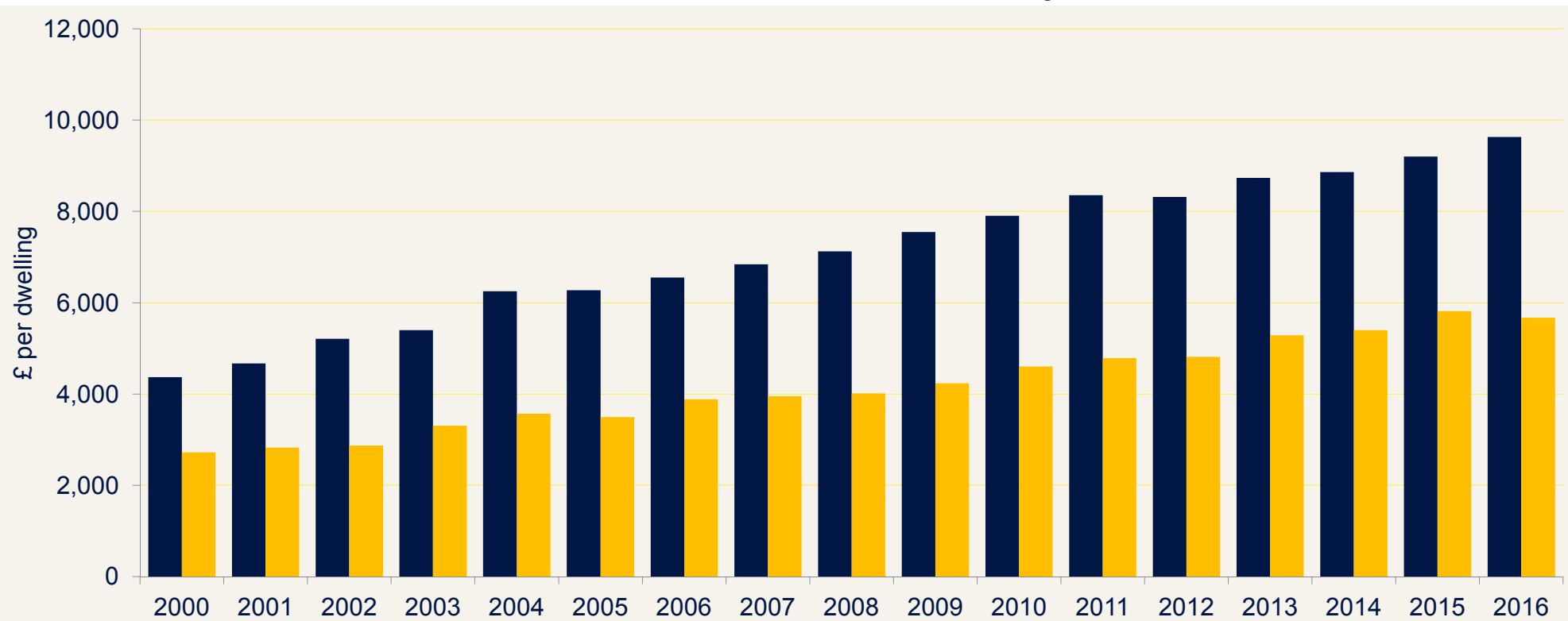
Rural Residential Income



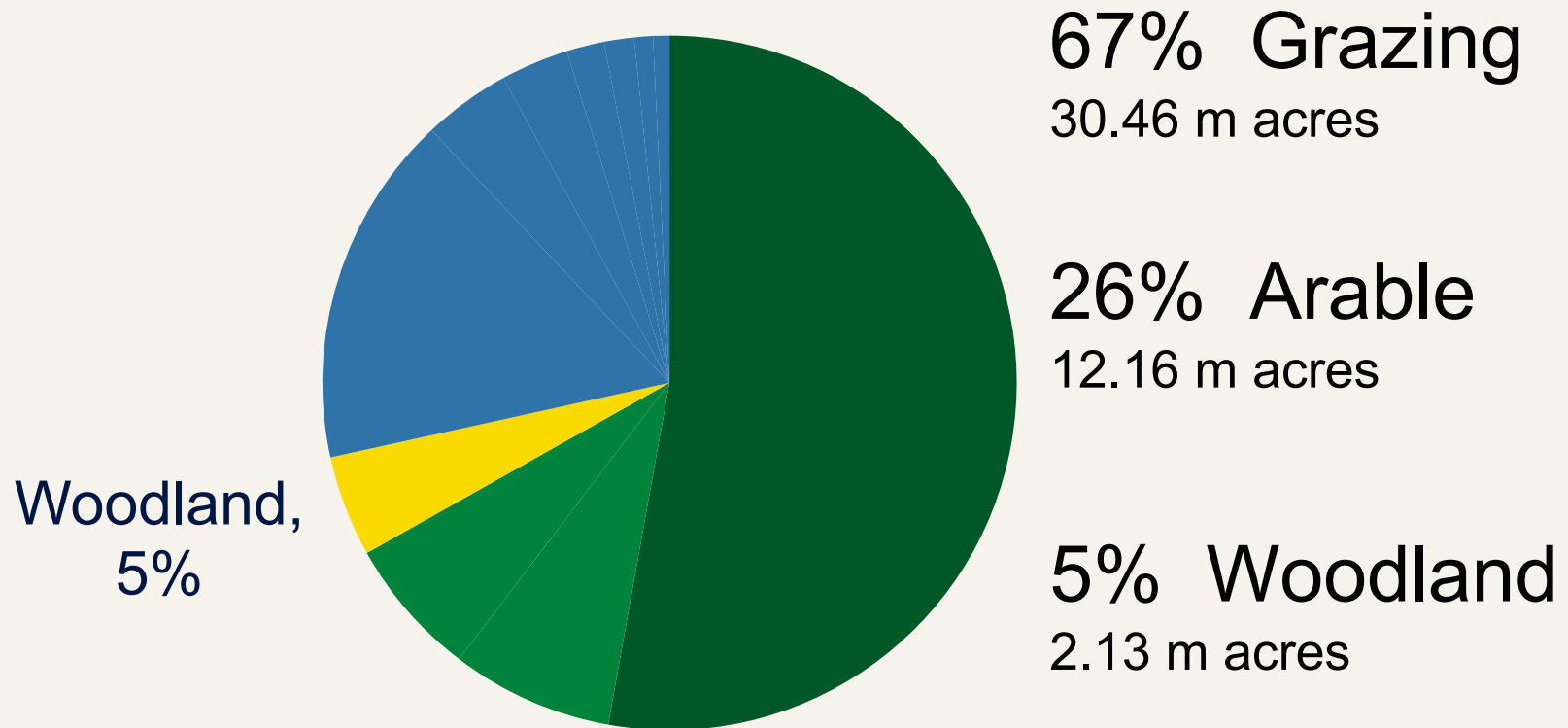
Source: Savills Research

■ Assured Shorthold

■ Regulated



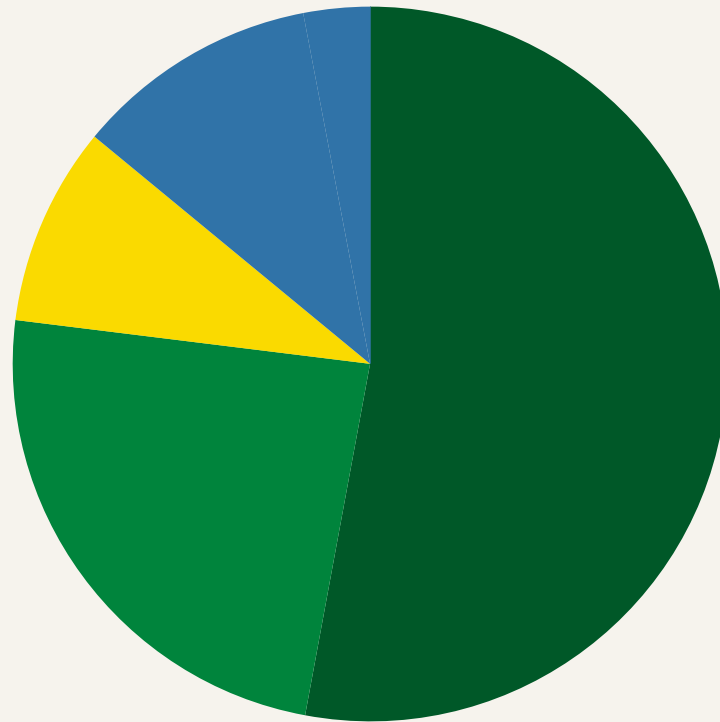
UK Agricultural Land Use Types



Scotland Agricultural Land Use Types



Woodland,
9%



77% Grazing

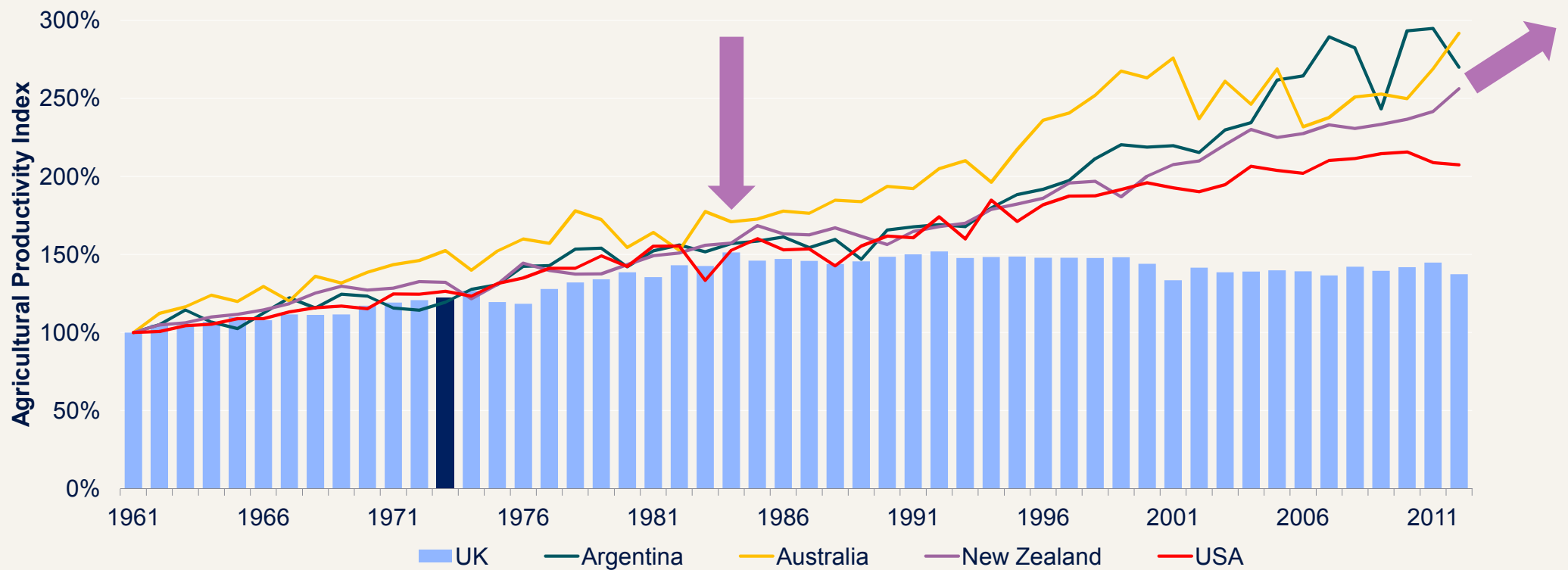
11% Arable

9% Woodland

Productivity of UK Farming vs Rest of World



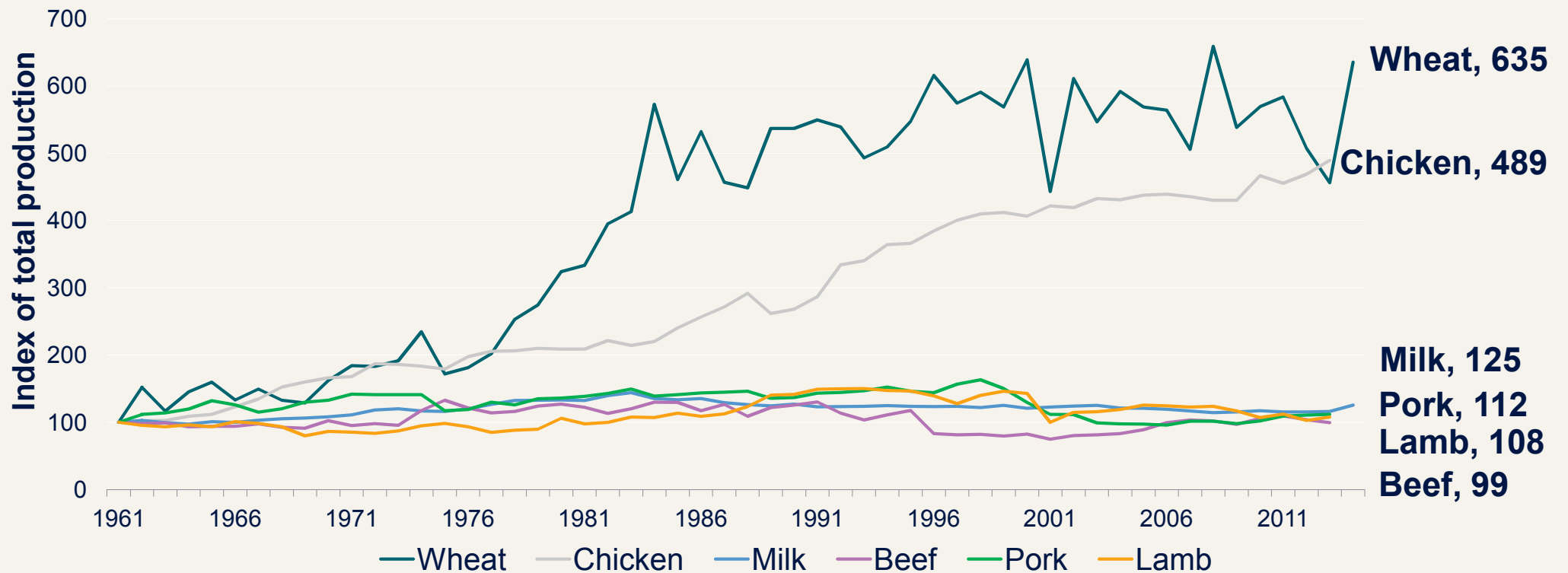
Source: Food & Agriculture Organisation of the United Nations (FAO)



UK Production Indices by Sector



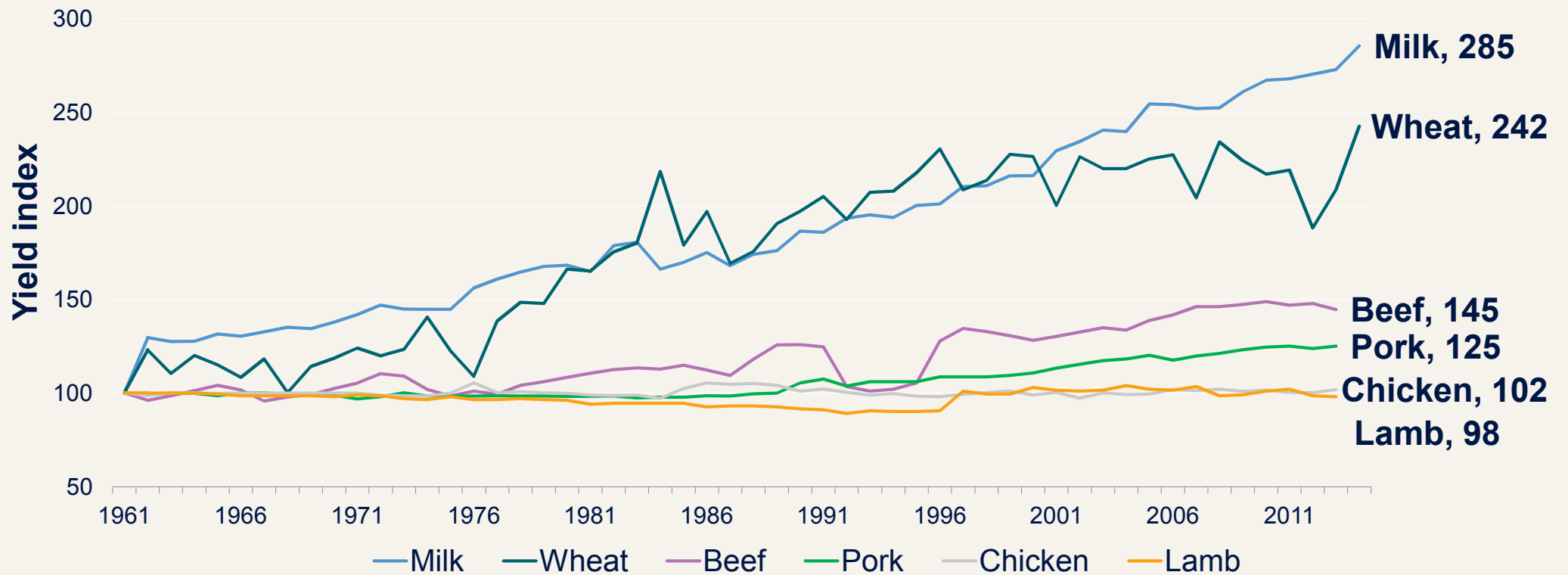
Source: Food & Agriculture Organisation of the United Nations (FAO)



UK Yield Indices by Sector



Source: Food & Agriculture Organisation of the United Nations (FAO)



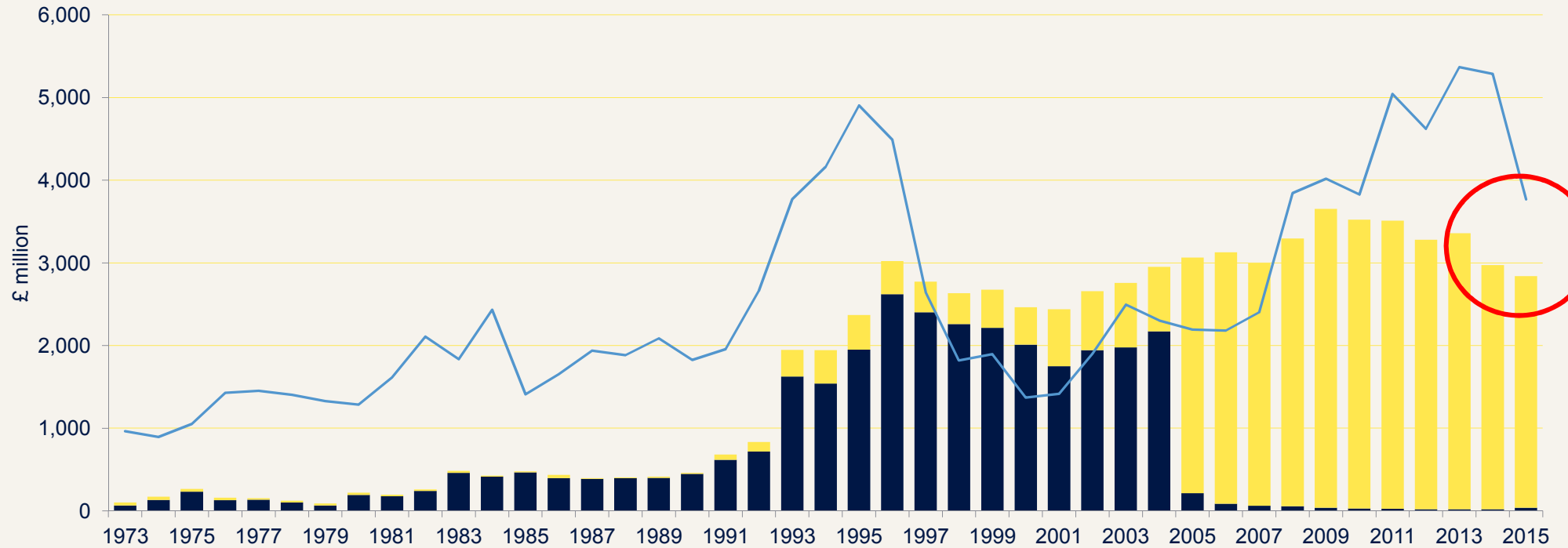
Payments to UK farmers since 1973



■ Total subsidies (less taxes) on product

■ Other subsidies on production

— TIFF





Tomorrow ?



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 George Eustice
Minister of State - DEFRA

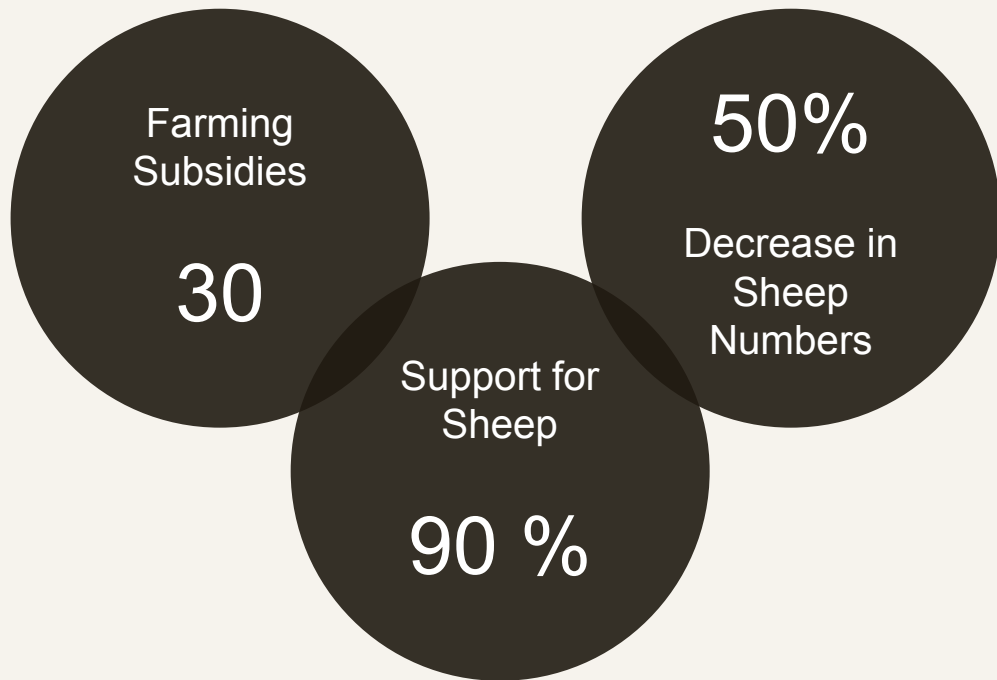
Current Levels of Subsidy Support



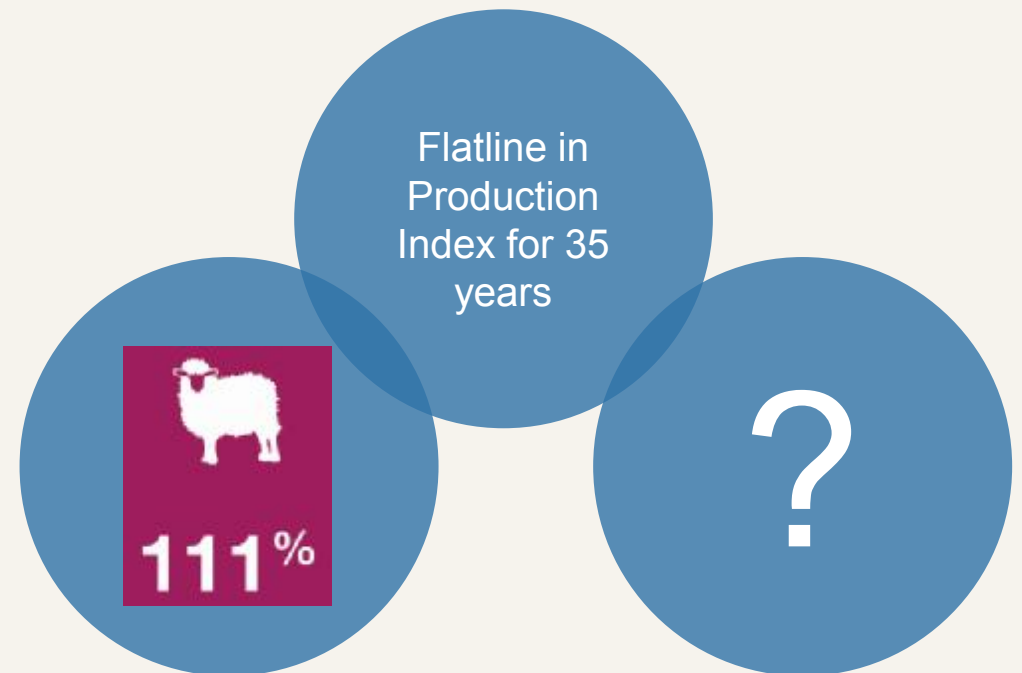
Source: Savills Research



The similarities before reform. Uncanny....



New Zealand

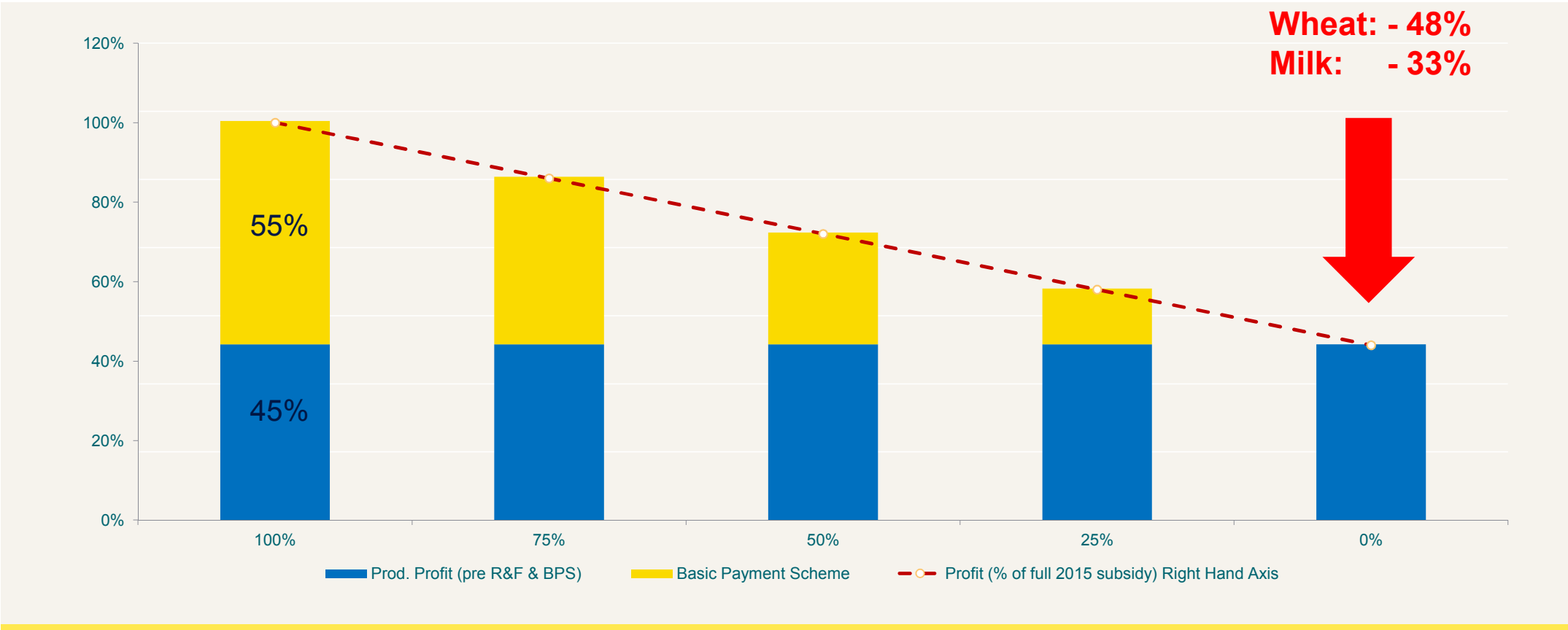


UK

Effect of EU Reform ? Prime Farming Sensitivity to Subsidy Reduction



(Savills Virtual Farm)



Dairy Price: Pressure on Cost of Production



BUSINESS

Low milk prices challenge dairy expansion plans

The challenges on the Savills model dairy farm are similar to those faced by many milk producers. **Suzie Horne** reports on how low milk prices have affected plans to expand the herd

Low milk prices have had a serious impact on cash availability at the 200-cow Savills model dairy farm. As we saw earlier in the article, this has forced the family partnership to review the business, including its three-year plan to expand from 200 to 300 cows.

Some cows have been retained, but not by enough to be able to manage cash requirements.

"The situation the model dairy farm is in is a common one – it is not the size of the loss it will make this year but the availability of cash that presents the biggest immediate challenge," says consultant Adam Matthews of Savills Food and Farming team.

SAVILLS MODEL DAIRY FARM – WHAT IS IT?

- A Federal dairy farm, fully owned and based on dairy businesses advised by Savills. This allows scenarios to be modelled and their impact assessed.
- Family partnership of parents and son.
- 200ha farm, mainly ring-fenced.
- 200ha owned, 20ha on 10-year Farm Business Tenancy.
- One full-time employee.
- 80 Grade 3 machines heavily utilised on one dairy system.
- Totaling ten heifers worth of £400,000, made up of a team taken out several years ago to buy low stock before the cow boom (at £170,000), plus a more recent team of £250,000 for investment in improvements to dairy facilities.
- Annual AGOs, average 1.25 – 1.60c.
- Is a viable sustainable case.



TRADING LOSS

Budgets prepared in March this year, based on a milk price of 28 p/litre, showed a trading loss of more than £20,000 before private drawings of £25,000 and loan repayments of £50,000, which is the first year.

The world has the effect of increasing the available replacement by more than £10,000, pushing it above £13,000.

The increase equates to a 4 p/litre of milk output, a cash figure the business plan would not deliver to cover its capital commitments.

Part of this was due to the increased income in heifer sales, which would have 500 (p/w) working capital.

So the family reviewed the business, and its plans, and found:

- The balance sheet is strong, with net worth of more than £1m.
- The long-term strategy is still the best option for the family to continue.
- The trading loss of £20,000 in itself is not severe, but a cash deficit of £100,000 would be. If the current year's budget was repeated for the year to 31 March 2018, then model

SAVILLS MODEL DAIRY FARM – THE DAIRY ENTERPRISE

- 200 cows, 8,000 litres high output system.
- Freeboard milking.
- Performance is first with AGOs top 25%.
- Milk price of 20 p/litre is also the milk price in the year's budget (11 March 2017).
- It has been open market in the year and an expected further improvement from this year's 2 p/litre gives the 200-cow budgeted average.
- Investment in new pasture, bulk tank and additional outlets is £251,140.
- Original plan to expand to 300 cows in 2017/18 has been reviewed due to the strong downturn.

to a further cash shortfall of a similar amount and so very quickly the business would have close to £250,000 of additional debt.

• If the original business plan of 300 cows is revised and based on an average milk price of 24 p/litre, instead of the original 26 p/litre, although the business will be profitable, there will be no cash surplus and the farm will not be able to afford any additional debt.

• The business has to look for ways to manage the cash position.

"The milk market and associated production costs have meant the family has had a really challenging 18 months and cost of production, as well as challenging the original strategy plan to expand the herd to 300 cows," says Mr Matthews.

"They need to be confident they can still achieve what was set out."

"Milk price has remained steady this winter overall – at least there are no signs that the bottom has been reached but recovery will take some time."

"Some costs, such as feed, fuel

and the cost of borrowed money have risen a little, but not enough to cover the fall in milk price.

BUDGET SHOCK

"The preparation of the initial budget and the reduction the business would be generating a loss and significantly increasing the overdraft was a shock for the family."

"This led them to question their long-term strategy and whether the plans and investment made a few years ago were right for them," says Mr Matthews.

Following the review, the plan is not to expand, but at a slower pace and the family can be sure of the future for "Model Dairy Farm" next year.

MODEL DAIRY FARM'S WRITER CHALLENGE

This winter the family will work on how to manage milk prices longer, after the business review also highlighted some ways to improve technical performance, potentially increasing

output without increasing costs.

The feed feed rate is 8.13kg/litre, with a yield from forage of 2.50 litres a cow, increasing this to

1,800 litres a cow without changing the purchased feed cost would add 100,000 litres of output. This is a realistic target, says Mr Matthews.

capital of £250,000 related to the extra cows. An initial £200,000 was spent on the pasture, bulk tank and cow accommodation.

The budget prepared assumed a milk price of 24 p/litre. This allowed a profitable plan and surplus cash to keep the loans for the expansion.

The total cost of acquisition was estimated at £420,000 in financial year to 31 March 2017, then in 2017 head by March 2018.

BUSINESS

RECENT BUSINESS HISTORY

After a review three years ago, a plan was made to build up the dairy business through long-term investment and raising extra borrowings to expand to 300 cows.

The budget prepared assumed a milk price of 24 p/litre. This allowed a profitable plan and surplus cash to keep the loans for the expansion.

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COST OF PRODUCTION BUDGET FOR YEARS ENDING 31 MARCH 2017

	1,800 COWS	200 COWS
Direct production	1,836,080	1,670,000
Revenue	521,369	50,851
Trade spend		
• Milk sales	2,46,402	20,100
• Calf sales	7,280	6,443
• Heifer sales and transfers	1,21,853	8,831
• Other income (incl RPS & sales crop sales)	52,280	3,308
Costs		
• Feed (incl concentrate)	46,790	2,711
• Variable costs		
• Fertiliser/energy	15	10
• Purchased concentrate	1,35,135	8,306
• Fuel/heat and lime	23,280	1,386
• Crop storage	10,550	8,843
• Spills	11,400	8,888
• Sandy crop costs	6,180	6,266
• Total feed and bought inputs	1,83,130	106,396
• Veterinary costs	21,400	1,227
• Animal husbandry	8,880	8,833
• Marketing	1,1615	8,832
• Daily and livestock maintenance including posture	8,848	8,836
Total variable costs	244,270	14,441
• Road costs		
• Fuel/heat	41,980	2,54
• Repairs and repairs	14,080	8,83
• Contracting	52,080	2,56
• Electricity	16,880	8,83
• Fuel	11,792	8,83
• Vehicle tax and insurance	2,080	8,83
• Buildings repairs	5,080	8,83
• Rent	8,080	8,83
• Property	15,480	8,83
• Water	10,080	8,83
• Other	3,480	8,83
• General insurance	5,080	8,83
• Professional fees	3,080	8,83
• Miscellaneous	3,080	8,83
Total non-cash fixed costs	128,830	12,830
Total cash costs	444,538	207,2
Cash net margin	86,761	2,38
• Upstart labour	20,080	3,38
• Machinery and equipment depreciation	81,340	8,42
• Dairy buildings depreciation	2,380	3,38
• Feed of value of owned land		
Total non-cash fixed costs	103,760	4,99
Total cost of production	1,882,819	1,83,26
Full economic margin	15,556	-2,41

2.41 p/l loss....

EU Impact on UK Food & Farming

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Current
Payments to
UK Farmers

2016

£3.5 bn

UK Food
Exports to EU

2015

60%

UK Imports
from EU

2015

70%

Average Net
Farm Income

2015

50-60%

Value of
Exports to EU

2015

£20 bn

Value of Imports
from EU

2015

£40 bn

Beef - Trade Subsidies....

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Whether import is:

- Live
- Fresh/chilled
- Frozen

By:

- Cut of meat

Tariff also varies with:

- Origin



Over 50

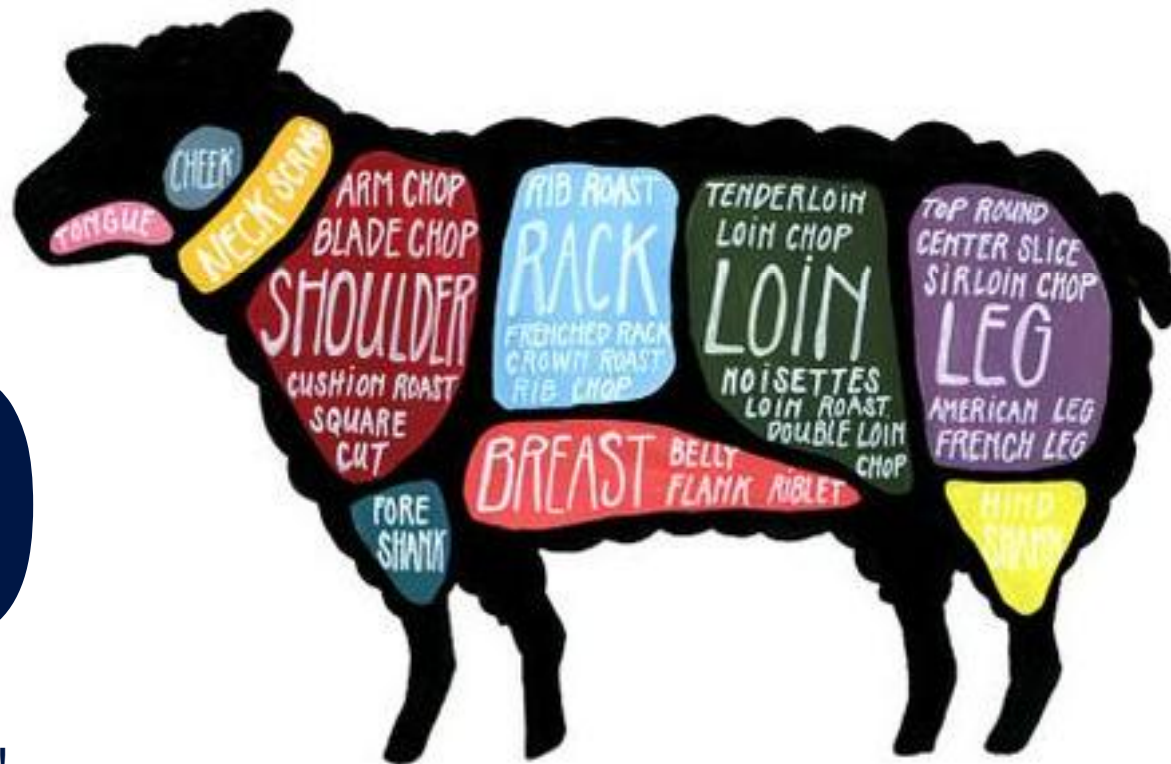
different tariffs - many are complex !!

Lamb - Trade Subsidies....

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10

different tariffs !!



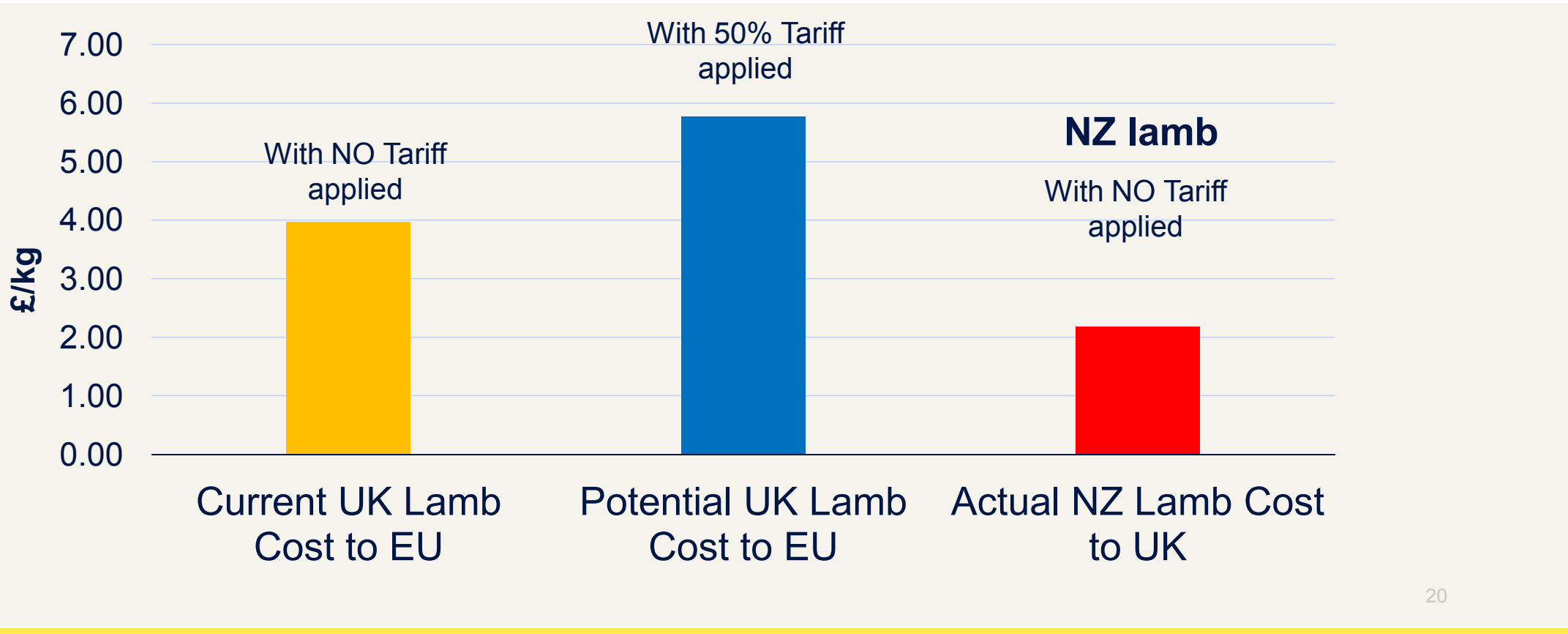
As per beef, BUT

- NZ, Australia and TRQ's into EU (UK)
- UK overly self sufficient (exporter)

Sheep meat (imports) £/kg – effect of Trade Tariffs



Source: The Policy Group



Opportunities from BREXIT.....?





BREXIT impact

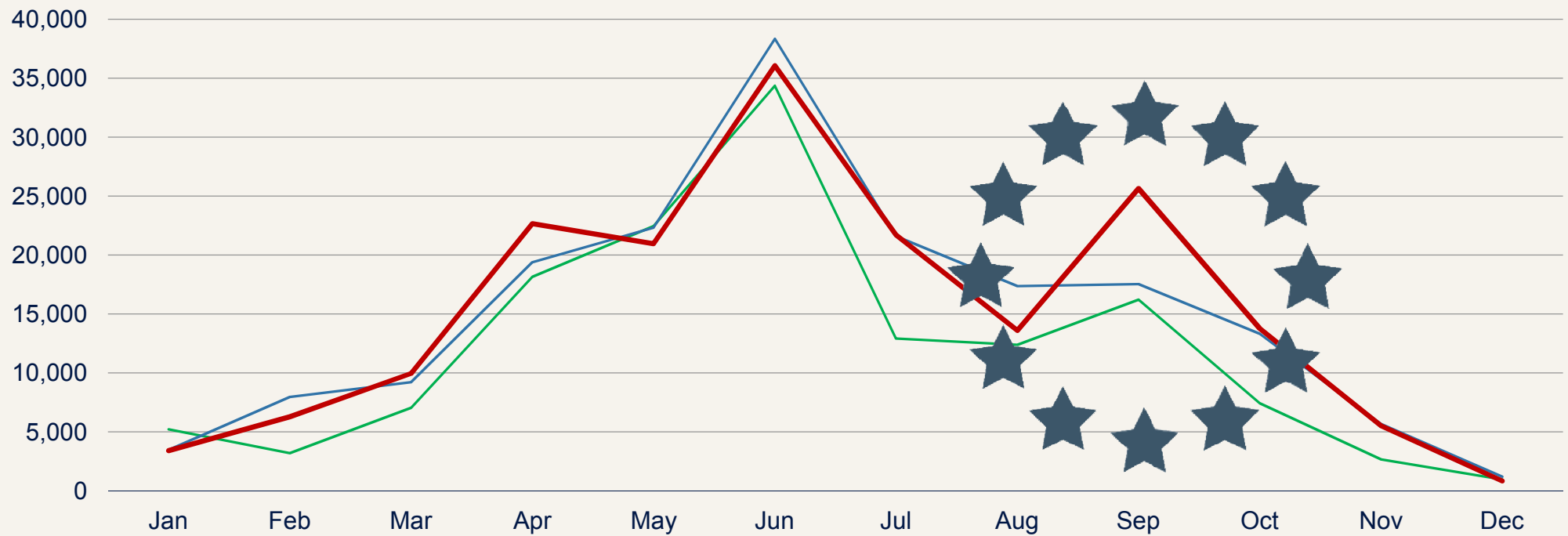
Brexit Effect on Supply in 2016

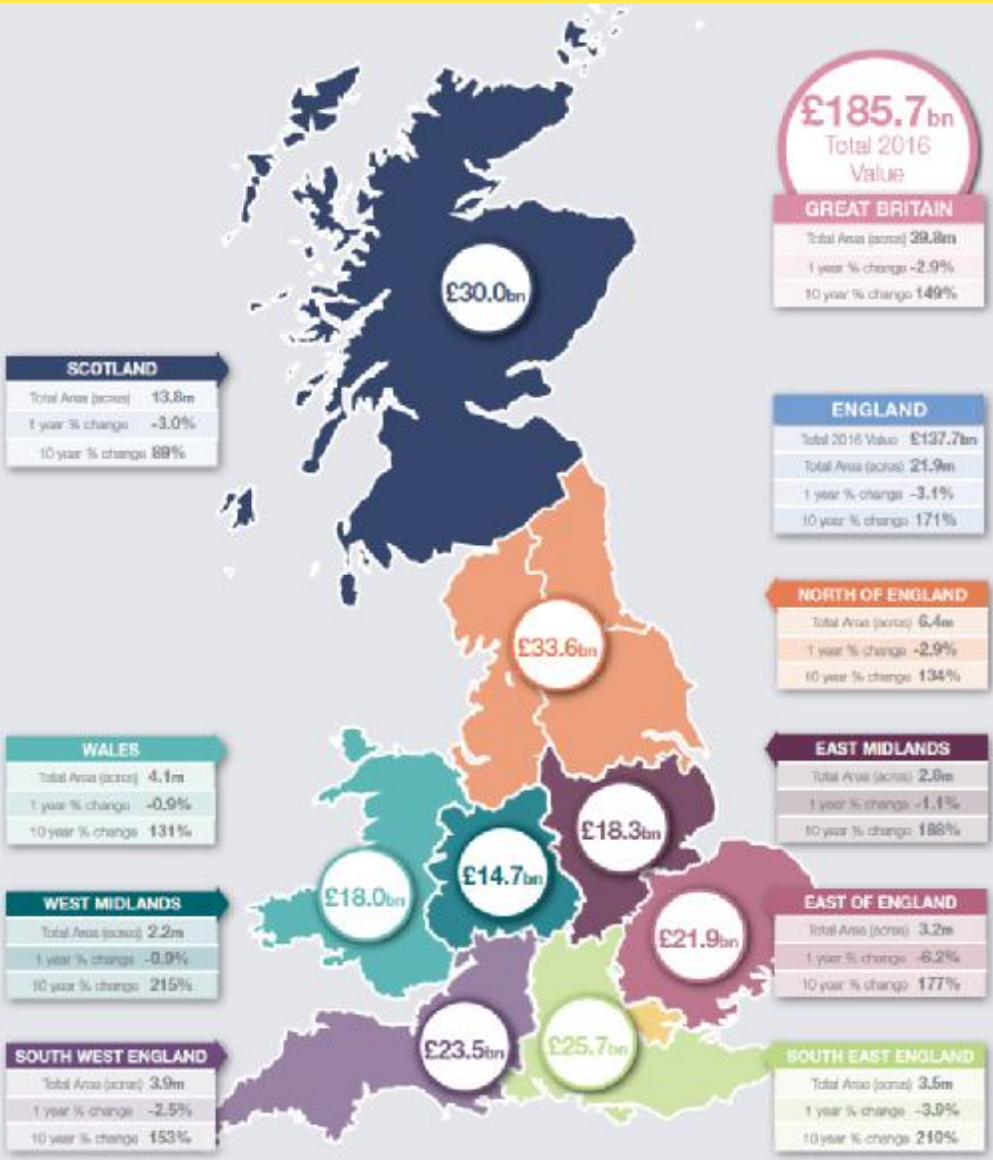


Source: Savills Research

UK Supply of Publicly Marketed Land

— 2014 — 2015 — 2016





VALUING BRITAIN

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In Summary

General Outlook

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Agency...
Low supply &



Finite product



Subsidy
Reform 2020?



Trade -
but when?

The way ahead.... friendly Trade Winds ?





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Thank you

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