



## LFB Annual Conference 23/02/2022

This newsletter comes at a time of great change. We have record prices for our crops and inputs, but we should not let this mask the fundamental changes that are occurring. BPS is being replaced by having to monetise our natural capital and we are possibly on the brink of capital tax changes.

The topics included in this Newsletter mirror the topics we will be debating at our annual LFB Conference at Abbots Ripton Village Hall on **Wed 23 February 2022** and are amongst the most frequent discussions we are having with clients this autumn.

We have included the move from the BPS system to having to rely on an income from the natural capital on the farm as this requires a fundamental change in our thinking.

We have been very fortunate for the Balfour Case which can provide many farms and estates with Inheritance Tax protection

however we believe we should all be prepared as we may lose this protection in future.

We have been benchmarking since 1992 and continue to do so. There have been recent developments in detailed gross margin benchmarking and one of the questions we ask is where is the best return on the scrutiny and time – variable costs or labour and machinery costs? Our annual benchmarking numbers are released and form the backbone of our discussions with clients.

Finally, one of the most common questions we are asked is whether land and property should be passed down to the next generation now? There are many reasons why it should and many reasons why it shouldn't and we shall be discussing this at our Conference with the LFB tax team and some eminent agricultural lawyers and other professionals.

## BENCHMARKING

As usual we have included our annual benchmarking results in this newsletter and this year we have incorporated further information to show trends from previous years. The results are based on the 2020 harvest which was challenging so resulted in a loss at farm level before BPS and other income even for the top 10%. We have also included the results of our regenerative agriculture benchmarking group and they continue to perform consistently well against the main group.

We have included for the first time, machinery capital per acre and per tonne of wheat; the latter, a benchmark we have been using in the Groundswell Margin for the last 3 years. Is this ratio the largest influencer of arable profits?

The reliance of BPS ranges from 38% in the top 10% to over 100% in the average and bottom 25%.

We are delighted that we shall have Sentry Farming presenting Sentry Analytics at our annual conference this year. This tool analyses the variable costs of a business in detail. It is interesting to see that the annual costs of variables are similar to labour and machinery at around £175 per acre.

The greatest scrutiny historically has been at gross margin level however is there more scope to maximise profits by applying the same scrutiny to the labour and machinery costs? We shall be also discussing this at our Annual Conference.



## RURAL BUSINESS SURVEY 2020 HARVEST

Farm Size (Acres)	LFB Survey 20				LFB Survey 19		LFB Survey 18		Groundswell
	Top 10%	Top 25%	Average	Bottom 25%	Top 25%	Average	Top 25%	Average	Average
Woodland					-	-	-	7	238
Livestock			30		-	212	-	338	235
Arable	762	629	878	1,033	782	910	1,548	880	1,605
Contracting	455	455	909		454	476	-	477	855
Other		15	34		-	96	46	129	191
<b>Total</b>	<b>1,217</b>	<b>786</b>	<b>1,031</b>	<b>1,033</b>	<b>896</b>	<b>1,054</b>	<b>1,289</b>	<b>1,100</b>	<b>2,317</b>
<b>Arable Net Margin (£/Acres)</b>									
Arable gross output	<b>419</b>	<b>398</b>	<b>366</b>	<b>276</b>	<b>536</b>	<b>473</b>	<b>503</b>	<b>479</b>	<b>311</b>
<b>Variable costs</b>									
Seeds	20	28	29	43	19	31	22	31	29
Ferts	85	83	65	42	80	73	54	62	47
Sprays	57	54	46	47	94	80	66	77	61
Other	11	10	17	30	14	17	11	14	12
<b>Arable gross margin</b>	<b>173</b>	<b>175</b>	<b>157</b>	<b>162</b>	<b>207</b>	<b>201</b>	<b>153</b>	<b>185</b>	<b>149</b>
<b>Livestock gross margin</b>	<b>246</b>	<b>223</b>	<b>210</b>	<b>114</b>	<b>329</b>	<b>272</b>	<b>350</b>	<b>295</b>	<b>165</b>
<b>Livestock gross margin</b>					-	(13)	-	208	
<b>Contract farming income</b>	<b>313</b>	<b>313</b>	<b>262</b>		<b>194</b>	<b>119</b>	<b>-</b>	<b>181</b>	
<b>Farm Gross Margin</b>	<b>271</b>	<b>233</b>	<b>212</b>	<b>114</b>	<b>331</b>	<b>257</b>	<b>348</b>	<b>283</b>	
<b>Fixed costs</b>									
Paid labour	25	13	24	38	27	26	58	40	44
<b>Machinery</b>									
Depreciation	55	46	54	59	59	58	50	60	45
Spares & repairs	9	18	22	30	29	18	22	24	20
Contracting & hire	40	65	58	60	13	54	66	60	7
Fuel	10	14	17	21	26	20	24	26	13
Other	4	9	7	9	8	8	9	11	8
<b>Total labour and machinery</b>	<b>143</b>	<b>164</b>	<b>175</b>	<b>216</b>	<b>162</b>	<b>185</b>	<b>229</b>	<b>221</b>	<b>137</b>
<b>Groundswell Margin</b>	<b>103</b>	<b>59</b>	<b>35</b>	<b>(102)</b>	<b>167</b>	<b>88</b>	<b>121</b>	<b>74</b>	<b>32</b>
Property	59	46	45	56	56	54	31	48	(Top 25%)
Administration	59	49	49	43	50	45	32	47	127
<b>Margin before rent and finance</b>	<b>(15)</b>	<b>(36)</b>	<b>(60)</b>	<b>(201)</b>	<b>78</b>	<b>(2)</b>	<b>90</b>	<b>(2)</b>	
Ad hoc contracting income		16	13		21	14	36	27	
Other farming income	127	73	51	8	61	46	30	23	
Basic Payment Scheme	144	115	103	89	127	106	110	105	
Environmental payments	88	63	33	34	63	35	7	16	
Rental margin	70	90	41	37	64	48	41	43	
Other non farming income	173	88	33	2	36	17	4	19	
<b>Rural business profit</b>	<b>587</b>	<b>323</b>	<b>147</b>	<b>(37)</b>	<b>372</b>	<b>201</b>	<b>274</b>	<b>175</b>	
<b>Rent and Finance</b>									
Rent	164	113	68	40	133	75	76	49	
Finance	15	15	12	7	17	14	26	19	
<b>Net Farm Income</b>	<b>377</b>	<b>185</b>	<b>64</b>	<b>(80)</b>	<b>243</b>	<b>127</b>	<b>206</b>	<b>124</b>	
Machinery Capital / Ac	344	290	340	366	369	364	313	374	284
Machinery Capital / Tonne of Wheat	117	116	128	141	92	91	96	114	116



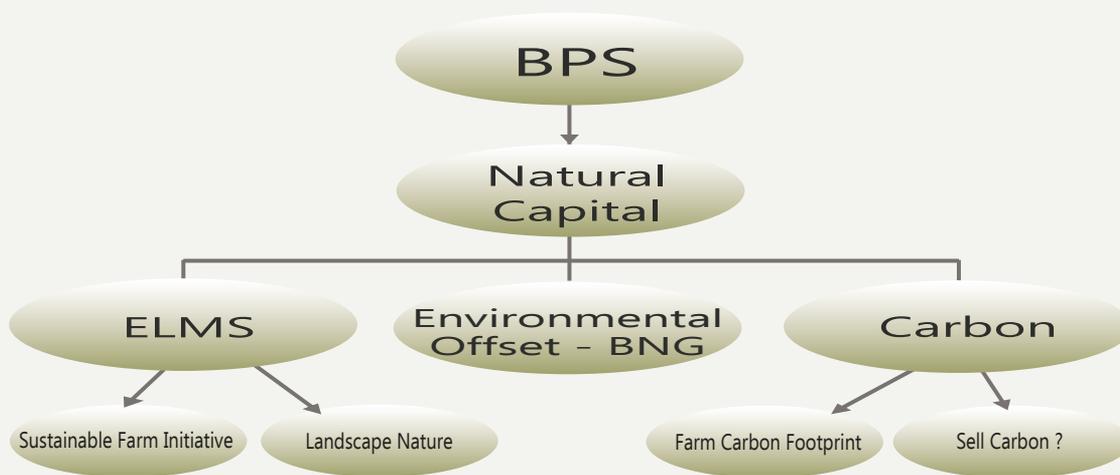
## FROM BPS TO NATURAL CAPITAL

The process of moving from the annual payments of BPS to making use of the natural capital on farms has begun and the key question is how do we monetise this natural capital?

A great deal of new terminology has appeared in the last year or so and it has now become very difficult to understand the differences between the various options available to a farming business.

We have therefore set out the options available in the diagram below to assist farming businesses to begin to understand what may be available.

Several of our clients have received offers for Environmental Offset – commonly termed Biodiversity Net Gain (BNG) and they vary in their financial returns net of capital and income taxes. We have recently advised several clients not to accept some of these offers due to the detrimental impact on capital taxes.



## LFB ANNUAL DEBATE: Should I be handing down my land and property to the next generation now?

This has been one of the most frequently asked questions by our clients over the past few years, quite often after reading the popular press or speaking with neighbours!

It inevitably will depend on personal circumstances; however an overriding consideration is the continual availability of Inheritance Tax relief versus the potential risk of divorce within the next generation. Another issue to consider is whether the land should be passed down to the most appropriate successor or should the value

be shared somehow between siblings? Unfortunately, the difficulty this decision presents can often result in no action be taken at all.

Many farming Wills these days leave all assets in a trust called a Will Trust, allowing the executors or trustees, guided by a Letter of Wishes, to make the most appropriate decision based on the circumstances at that time.

**This should be an interesting debate on 23 February!**

## CAPITAL TAX CHANGES

We are very fortunate that there have been no changes to Inheritance Tax over the past few years despite several warnings. We carry out work for many other accountants on specialist farming taxes and of course take on new clients and we regularly come across family farming structures that unnecessarily expose the family to Inheritance Tax. Many of these situations involve a family partnership. It is therefore imperative that the land and

property is correctly held in the business and is appropriately reflected in the annual partnership accounts. This then forms a base for a Will to reflect the personal wishes of the owner. So many times we see these structures and documents at odds which can inevitably end up in unnecessary costs to the family.

Gary Markham