APPENDIX 3

Viability and Costings Rationale

Viability and Costings Rationale

The ABC Costings book, edition No. 72, dated May 2011, has been referred to in respect of calculating farm land viability for the purposes of applying standard costings.

GROSS MARGINS

The following outline explanation will help the reader understand the usefulness of gross margins. The technique is based on the two following principles:-

All costs of a farm system can be divided into two separate and distinct groups by virtue of their behaviour. Costs can be:

- VARIABLE (sometimes known as direct or enterprise costs) or
- FIXED (sometimes known as overhead or common costs).

A farm system consists of an enterprise, or a number of separate enterprises, eg, wheat, barley, potatoes, dairy cows, pigs, etc. If produce, such as home-grown barley is used as feed, this is viewed as a sale by one enterprise and a purchase by the other. The same applies if animals, such as calves reared as beef, move between enterprises.

VARIABLE COSTS

The Gross Margin of an enterprise is the output (or revenue) minus the variable costs. In this context, to be classified as “variable” a cost has to exhibit both of the following characteristics:

- They vary closely in proportion to changes in the size of the enterprise.
- They can be apportioned directly to an individual enterprise.

Examples of crop variable costs are: seeds, fertiliser, chemicals, specific casual labour, specific contract work, transport. Some livestock variable costs are: feed, vet, medicine, auction fees, A1, recording, bedding, specific contract work, eg, shearing.

FIXED COSTS

These are all the costs that do not meet the requirements of a variable cost. Such costs are regular labour, machinery spares and repairs, depreciation, fuel, oil, electricity, rent, rates, property repairs, general contract, office, telephone, professional fees and all the sundry overheads. Fixed costs are unaffected by small changes in enterprise size, but they do change up and down, though changes are less predictable than variable costs and are often “lumpy” in nature.

WHOLE FARM FIXED COSTS

The costs on the following pages are based on the data collected by Agro Business Consultants from Universities and Colleges for the Farm Business Survey. This provides actual financial results from a sample of farm types throughout the UK. By its nature, this information is historical; the latest figures being for the 2009-10 year (February to February).

Agro Business Consultants have attempted to produce realistic guide figures for the 2011-12 years based on past values and current trends. However, all general fixed cost data should be treated with caution.

NOTES ON THE GROSS MARGIN SYSTEM

The concept of gross margins has become established in farm management accounting because it simplifies the multitude of farm sizes and types into a "unit of production basis".   In a fragmented industry this means that (within limits) whatever the size of the holding, or whatever other enterprises are undertaken, gross margins can be used to both compare performance and compile budgets. By stripping out those fixed costs that do not vary in proportion to the size of the enterprise, general figures on a per hectare or per head basis can be produced, that will (hopefully) be relevant for a wide range of farm sizes.

However, care must be taken in using gross margins for comparison purposes. Care should be taken that the figures have been prepared on the same basis. Gross margins cannot only vary from farm to farm, but also within farms from season to season. The following gross margins and cost figures shown are only guides, based on average data. Variations in topography climate, soil type, production systems and farming ability can produce wide variations in margins that should be allowed for.

The information set out below examines the farm land viability of each of the proposed sites referred to in Table 1.0 of the report.

ASSESSMENT OF AGRICULTURAL VIABILITY BY PJSA

PJSA have used standard costings in order to show the average or general financial viability in a typical situation.

These standard costings can often be significantly different from actual costs. This can be for many different reasons, ranging from the farmer's skills for buying inputs, selling crops and running an efficient business, to fluctuations of market and seasonal prices.

As explained above, the Gross Margin Costings do not include the Fixed Costs for the running of the agricultural holding.

In this respect PJSA has not attempted to scrutinise or analyse the farm holdings in detail. To do so would require exhaustive enquiries that could be very intrusive for the farmers. It would be necessary to include all the individual financial details of the farm business.

PJSA has taken a broad overview of the farming practices, the sizes of the enterprises, and the relative proportions of the holdings, and enterprises to the sites that will be lost to agriculture.

Whilst this cannot be an exact science, it would not be appropriate to suggest that any assessment could ever be exact, given the variations of the different businesses, the fluctuations of market prices and costs, the climate and seasonal changes and many other matters.

Site S(a)

1. For the purpose of calculating the viability of site S(a), costs have been calculated on the basis of the 19.64 hectares (48.53 acres) of land used for arable farming. Feed Barley and Wheat have been used as the basic cereals, but the rotation will extend to other crops, according to the chosen crop rotation.

2. The land is flat from east to west, with a gentle slope rising from south to north, making it ideal with the Grade 2/3 Agricultural Land Classification (ALC) for growing arable crops. There is a bridleway along the north-eastern boundary of the land.

3. The land is accessed via an underpass (beneath Denham Way /A412) from the occupier's farm holding (Woodoaks Farm). There is no independent access to the field from the Uxbridge Road or Long Lane.

The tables below illustrate the gross margins of standard arable crops grown in rotation on the land.

Feed Winter Barley

	£ per Ha	£ per Ac
Output	**945**	**382**
Seed	43	17
Fertiliser	184	74
Crop Protection	115	47
Sundries	18	7
Variable Costs	**360**	**145**
Gross Margin	**585**	**237**

Milling Winter Wheat

	£ per Ha	£ per Ac
Output	**1436**	**581**
Seed	51	21
Fertiliser	264	107
Crop Protection	168	68
Sundries	18	7
Variable Costs	**501**	**203**
Gross Margin	**935**	**378**

Gross Margin for the site

19.64ha x (585+935/2) average for the two cereal crops - £14,926

Say £15,000 per annum

Site S(b)

1. For the purpose of calculating the viability of site S(b) parcel B, costs have been calculated on the basis of the 6.03ha hectares 14.90 acres) of land used for grazing cattle.

2. The land is relatively flat and is graded by the Agricultural Land Classification (ALC) as Grade 3.

3. The land is accessed via a private access off the A412. The field access is adjacent to Froghall Farm Cottages.

The tables below illustrate the gross margins of a cattle enterprise on the land.

Grass Finishing Dairy Bred Stores

	£ per head Steer
Sale 485kg @148p/kg Liveweight	718
Less Purchases 345 kg incl. 2% mortality	538
Output	**179**
Concentrates	28
Vet. & Med.	12
Sundries	28
Variable Costs (before forage)	**68**
Gross Margin (before forage)	**111**
Forage Costs	72
Gross Margin (after forage)	**39**
At stocking rate of 4.2 head/Ha	164 per hectare

Gross Margin for the site

6.03ha x £164 - £988

Say £1,000 per annum

Site S(c)

1. For the purpose of calculating the viability of site S(c), costs have been calculated on the basis of the 17.48 hectares (43.19 acres) of land used for arable farming.

2. There is a plateau in the centre of the land which falls away to the east and is Grade 2 Agricultural Land Classification (ALC).

3. Access to the land is via an unmade single track road or access adjacent to Durrants Drive on Little Green Lane.

The tables below illustrate the gross margins of standard arable crops grown in rotation on the land.

Milling Winter Wheat

	£ per Ha	£ per Ac
Output	**1436**	**581**
Seed	51	21
Fertiliser	264	107
Crop Protection	168	68
Sundries	18	7
Variable Costs	**501**	**203**
Gross Margin	**935**	**378**

Gross Margin for the site

117.48ha x 935 - £16,343

Say £16,500 per annum