



Safeguarding your business and staff

NEW - Benchmarking and H&S training tools

Phil Bradshaw
Technical Executive

Agenda

- Business Tools – Financial
 - Benchmarking model
 - Comparative Data
 - Storage Cost Calculator
- Business Tools – Staff Training
 - Safe Potato Operations
 - Revised Modules
 - Why are we involved?
 - Risks
 - Methodology
 - Partners
- Questions

Arable Benchmark Model

- Analyse your financial performance with one model.
 - New web based AHDB model
 - Launch July 2016
- Comparative Data
 - Publication to all Growers in November 2015
 - Model now includes data for 2016 crop year.

Potatoes Cost of Production Trend

November 2015

AHDB
POTATOES

2016 Forecast

The forecast for 2016 indicates that for the second year in a row there is likely to be a further small decrease in the total cost of production of potatoes in the UK of around 1.5%.

As in previous years, there is a range of factors which will lead to a wide variance in the actual cost calculated on farm. These are likely to include:

- Storage – rented vs owned (depreciation/replacement).
- Cost of Capital – and assessment of present and future working capital required.
- Machinery – level of investment, depreciation and replacement.
- Distance to storage/grader.
- Cost of paid management and labour-family often not fully accounted.

The long-term outlook for potato enterprises suggests they are likely to become less resilient to volatility in potato price. The increasing scale of many of these operations means that, while they achieve some economies of scale and can deliver a professional approach to potato growing, these businesses have an increasing level of cash costs within the business. Rented land and storage, requirement for working capital and the likely employment of additional labour and management (replacing the higher percentage of unpaid family labour in smaller businesses) are key drivers behind this.

The industry cannot rely entirely on the ability of businesses with a lower cash cost

of production, to deliver the necessary volume required by the supply chain. The long-term trend remains one of significant increase in cost of production. Total costs of production have increased by over 60% since 2005, and 6.7% in the last 5 years, with the most significant increase of 8.8% seen in 2012. Since then, costs have remained relatively static.

- There is forecast to be no change in variable costs for 2015, despite a 4% reduction in fertiliser costs, arising from a reduction in Nitrogen price.
- Movements in labour costs tend to be falling closer in line with inflation, moving away from the slightly inflated AWE increases previously seen. The commencement of auto enrolment in the next 12 months has also been taken account of. The impact of the Government's proposed Living Wage has been excluded as it is unlikely to impact in the time period considered.

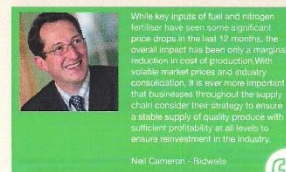
- Fuel prices have reduced significantly over the year and represent the single biggest change in cost of production this year. Red diesel prices have fallen by almost 25%. This significant reduction impacts the change in total cost of production by 1.5%.

- The downturn in arable profitability and change in exchange rate of the Euro has begun to reduce machinery inflation. The euro exchange rate has strongly affected second-hand values. Compared to the previous year, the

average electricity prices quoted by DECC have remained firm, despite the general reduction in wholesale energy (gas and oil). The variation in cost remains with some businesses in multi-year contracts, in many cases putting their costs higher than others.

- Land rental costs remain unchanged. The changing structure of the industry indicates that good land continues to demand higher rents, whilst some marginal land is being given up. This would tend to suggest an overall increase in rent, but it is felt that this is not significant enough to change the overall figure of £374/Ha (£353/Ac) in present circumstances. There is considerable variation seen across the country, as many historic arrangements remain unchanged, whereas a change in occupation tends to drive an increase in rental values.

The industry has seen further consolidation in grower numbers and planted areas. Any grower considering exiting from production, must give careful consideration to replacement cropping, utilisation of existing buildings and infrastructure, and overhead structure. It is necessary to cost the full range of changes to the business, and whether or not these can be implemented and the necessary costs saved. If the plan includes letting land and storage for potato production, it is critical to consider the impact if demand drops, and land and storage proves more difficult to let.



While key inputs of fuel and nitrogen fertiliser have seen some significant price drops in the last 12 months, the overall impact has been only a marginal reduction in cost of production. With volatile market prices and industry consolidation, it is ever more important that businesses throughout the supply chain consider their strategy to ensure a stable supply of quality produce with sufficient profitability at all levels to ensure reinvestment in the industry.

Neil Cameron - Ricwells



The current trend suggests a relatively stable cost of production for the four years ending 2015. This compares to a range in the stored crop AHDB Weekly Average Price over the same period (November onwards) of nearly £200T (£103T-£306T). The ability for businesses to withstand this volatility in light of current cost of production is vital for sustainable potato production, and looks to be under threat.

Nick Blake - Andersons Eastern

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Summary of Production Costs vs Industry Data

Potatoes - WARE

Output

Variable Costs

Enterprise Gross Margin

Labour

Machinery

Property (incl Storage)

Administration

Fixed Costs Sub Total

Rent

Finance

Total Cost of Production

Enterprise Net Margin incl NRPI costs

Proprietors Income (Notional)

Owned Land (notional)

Total NRPI

Enterprise Net Margin excluding NRPI

Hectares

Tonnes per Ha

My Data	Industry data	Variance
£/Ha	£/Ha	%
£ 7,305	£ 7,305	
£ 2,286	£ 2,392	-4.4%
£ 5,019	£ 4,913	2.2%
£ 1,062	£ 1,117	-4.9%
£ 1,180	£ 2,057	-42.6%
£ 192	£ 253	-24.3%
£ 140	£ 288	-51.4%
£ 2,573	£ 3,715	-30.7%
£ 750	£ 874	-14.2%
£ 669	£ 204	228.1%
£ 6,278	£ 7,185	-12.6%
£ 1,027	£ 120	755.9%
£ 462	£ 462	
£ 375	£ 375	
£ 837	£ 837	
£ 1,864	£ 957	94.8%
100.0	ha	
45.0	45.0	t/ha

Harvest Year

2013

My data	Industry Data	Variance
£/t	£/t	%
£ 162.3	£ 162.3	
£ 53.2	£ 53.2	0.0%
£ 109.2	£ 109.2	0.0%
£ 24.7	£ 24.8	-0.5%
£ 27.4	£ 45.7	-40.0%
£ 4.5	£ 5.6	-20.8%
£ 3.3	£ 6.4	-49.1%
£ 59.8	£ 82.6	-27.5%
£ 17.4	£ 19.4	-10.2%
£ 15.6	£ 4.5	243.3%
£ 146.0	£ 159.7	-8.6%
£ 16.3	£ 2.7	512.5%
£ 10.7	£ 10.3	
£ 8.7	£ 8.3	
£ 19.5	£ 18.6	
£ 35.8	£ 21.3	68.4%

Where Industry Data does not exist then My Data is used in the Industry data column

NRPI = Notional Rent plus Proprietor's Notional Income

Storage Cost Calculator



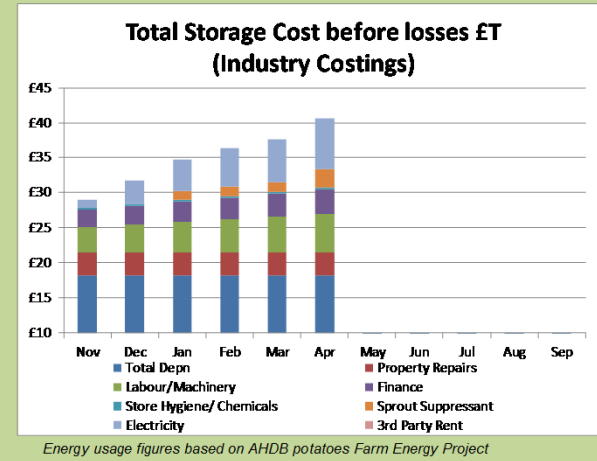
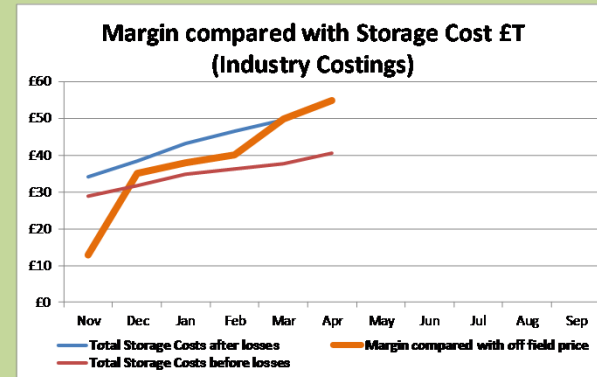
AHDB Potatoes - SBCSR Storage Calculator

Reset Form

Store Name		BP Special
Crop Type (Ware/Processing/Seed)	Ware	
Store type (Ambient/Fridge)	Fridge	
Box/Bulk	Box	
Average Box Capacity (fresh T)	2000	
Number of boxes held (tonnes if bulk)	2,000	
Tonnage Stored	2,000	
Ex Field Yield (Tonnes / Ha)	47	
Interest Rate	1.50%	
First Month of Storage	Nov	
Outloading Month	Apr	
Price	Timing	£T
	Off Field	85
	Nov	98
	Dec	120
	Jan	123
	Feb	125
	Mar	135
	Apr	140
	May	145
	Jun	150
	Jul	155
	Aug	155
	Sep	160
Manual Sprout Suppressant costings		
	No of Apps	Cost/App (£/T)
CIPC		0.00
Ethylene		0.00
Mint Oil		0.00
Other		0.00

Cost before storage losses			Industry Costings		Manual
	£ Total	£T			£T
Labour & Power Costs					
Labour/Machinery	11,109	5.55			
Third Party Handling					
Electricity	14,704	7.35			
Price p/kwh		10.50			
Benefit from Renewable Energy					
Store Hygiene	525	0.26			
Sprout Suppressant	5,200	2.60			0.00
Property Costs					
Depreciation					
Building	25,304	12.65			0.00
Box & Fixed Equip.	11,040	5.52			0.00
Property Repairs incl. Servicing	6,474	3.24			
3rd Party Rent					
Working Capital (Finance)					
Crop	2,100	1.05			
Overhead Costs*	285	0.14			
Building/Fixed Plant	4,624	2.31			
Total Finance	7,009	3.50			
Total Storage Cost: based on Fresh yield					
£ per Tonne Stored	81,365	40.68			0.00
Fresh Yield t/ha		47.00			47.00
Calculated Storage Cost per Tonne Sold					
Estimated Storage Losses	£ Total	£T	%	£T	%
Storage and Grading Out losses	9,350	4.68	5.50%	3.40	4.00%
Losses from Rejection/Packout	18,700	9.35	11.00%	7.65	9.00%
Contract Allowances		-8.50	-5.00%	-8.50	-10.00%
Total	11,050	5.53		2.55	
Total Storage Cost: based on ex-store Tonnes					
£ per tonne Sold	92,415	46.21			2.55
Sold Tonnes t/ha		41.60			45.59

* excluding depreciation
**over and above contract allowance



Safe Potato Operations

Web Based Health & Safety Training Modules

potatoes.ahdb.org.uk/safe-potato-operations

Why?

Agriculture – HSE Accident Statistics

- Agriculture, forestry and fishing is the riskiest industry sector in terms of fatal injuries. One in a hundred workers (employees and the self-employed) work in agriculture, but it accounts for one in five fatal injuries to workers.
- **Judith Hackett CBE, Chair of the Health & Safety Executive** *“Agriculture is one Industry I would discourage my children from working in!”*

Protect our Stakeholders

- **P**eople
 - Induction & Training
 - Roles, Responsibilities & Liabilities
- **P**roduct
 - Treat Potatoes like Eggs
- **P**rocesses
 - Machinery that operators understand and have confidence in

Risks

- Remote Working
- Working from Height
- Casual “Non English” speaking workers
- Less formal working conditions
 - Machinery based
 - Deadline based
 - Unclear roles & responsibilities

Methodology

- Video Presentation 15 mins target
- Graphics PPE
- Voiceover in English
- Sub Titles
 - English, Polish, Latvian, Lithuanian, Portuguese
 - Transport – French & Dutch

Supply Chain

- Growers
 - Staff Training
 - Roles & Responsibilities (Duty of Care)
- Industry Bodies
 - PPA, HSE, NFU, NAAC, FSP
- Merchants / Transport / Suppliers
 - Bulker Drivers, Casual Staff, Machinery Suppliers
- Packers / Processors
 - Compliment internal systems

Questions?