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November 2018

News in brief

Last Budget before Brexit

In his Autumn Budget Statement Chancellor Phillip Hammond announced austerity was coming to an end and was able to loosen the purse strings in a number of ways. The budget included a number of potential benefits for the sector, including a freezing of fuel duties, an increase in capital allowances on buildings and structures and a freeze on duty for beer and whisky (important users of grain). More challenging for farm businesses is the proposed above inflation 4.9% rise in UK hourly labour costs.

Hanging over his budget and the economy as a whole is what kind of Brexit are we going to see at the end of March next year? If it is a ‘soft’ Brexit, Hammond indicated that further funds could be released, while if it is ‘hard’ an emergency budget may be needed in the spring.

(For more details see this month’s Management Matters Section on page 8.)

New opportunities in energy storage

Farm businesses have been enthusiastic investors in renewable energy in all its forms in recent years and this now provides invaluable income for many, often on a more stable basis than traditional commodity markets. However, with a reduction in renewable subsidies and growing network constraints, further renewable opportunities are becoming limited.

The good news is that developments in energy storage are now starting to make this a potential income stream for farm businesses. There have been improvements in battery technology and cost reduction which have already improved viability. Equally importantly a programme of electricity market reform is underway which aims to widen access to these grid balancing mechanisms and the expectation is that this will allow operators of small generators and storage facilities to participate with much more ease.
(For more details see this month’s Sector Focus article on page 9.)

Next month – Deer Farming

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Europe investing in rural areas

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2018 Scottish Agricultural Census

- June 2018 Agricultural Census shows that last year's poor weather contributed to a decline in the area of cereals and oilseed rape grown and to a decline in cattle and sheep numbers.

Results from the June 2018 Agricultural Census can be found on the Scottish Government's website at https://www.gov.scot/Publications/2018/10/3962. A summary of the changes in crop areas and livestock numbers compared to the previous year are included below.

Crops

- Overall **cereal area** decreased by 12,900ha (-2.9%) to 426,657ha, driven by a decrease in winter barley by 9,967ha (-21%), wheat by 9,711ha (-8.9%) and winter oats by 729ha (-8.0%). Spring barley increased by 6,638ha (+2.7%), triticale 355ha (+59.3%) and rye by 305ha (+5.6%). Poor weather in the autumn of last year caused the drop in the total area of cereals planted, which was only partially offset by an increase in the area of spring barley. The area of rye has increased reflecting its use for fuel production or distilling.
- Area of **oilseed rape** decreased by 1,450ha (-4.2%) to 32,738ha. Winter oilseed rape is the dominant crop, with its decrease in area masking an increase in the area of spring oilseed rape grown.
- Areas of ware and seed **potatoes** both decreased, resulting in an overall decrease in the area of potatoes grown by 1,925ha (-6.6%) to 27,360ha.
- The area of **soft fruit** increased by 39ha (+1.9%), driven mainly by an increase in the area of strawberries. The area of raspberries and blackcurrants fell over the same period.
- **Vegetables** for human consumption decreased by 437ha (-2.3%) to 18,899ha due to a decrease across all vegetables except peas, beans and cauliflower which increased marginally.
- Total area of **crops for stock-feed** increased by 771ha (+4.8%) to 16,763ha, the first increase since 2011. This trend is thought to be in response to a shortage of grass and other forage.

Livestock

- **Dairy and beef cattle** numbers decreased by 26,385 (-1.5%) to 1.75 million, continuing a longer-term decline since the 1970s. The recent decline is thought to be partly due to a shortage of forage, leading to animals being slaughtered earlier. There was also a 2% drop in the number of calves born last year compared to the previous year.
- **Sheep** numbers decreased by 391,607 (-5.6%) to 6.59 million, the first decline since 2013. Snow during lambing caused a sharp decline in lamb numbers (-8%); the number of breeding ewes were also down by 4%.
- **Pig** numbers fell by 9,105 (-2.8%) to 316,736, continuing an overall downward trend.
- Total **poultry** numbers increased by 252,169 (+1.8%) to 14.54 million. The number of layers is greater than the number of broilers and has been for a second year.

CAP Scheme update

Beef Efficiency Scheme

The deadline for returning tissue samples from calves born between 1st January and 1st June 2018 is 31st December 2018. If you have had animals selected, the list of animals for your business will be identified on your ScotEID BES account and tag kits will have been posted out to you.

If a selected animal has died or has been sold prior to you receiving the tags this should be indicated on the submission form and additional animals will be selected in future tagging rounds. If you have already taken tissue tag samples from 100% of your calves and you have retained the tissue samples on farm, you do not have to tissue tag these animals again.

Scottish Upland Sheep Support Scheme

Scottish Upland Sheep Support Scheme (SUSSS) claims can be made until 30th November. Eligible animals must be retained on your holding (including away winterings) from 1st December in the year of claim to 31st March the following year. Ewe hoggs must be less than 12 months old at the start of the retention period.

Agri-Environment Climate Scheme (AECS)

Funding under the Agri-Environment Climate Scheme aimed at protecting and enhancing Scotland's natural heritage, improving water quality, managing flood risk and mitigating and adapting to climate change will be open to applicants early next year. Further information can be found at: https://www.ruralpayments.org/publicsite/futures/topics/all-schemes/agri-environment-climate-scheme/

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Cereals and Oilseeds

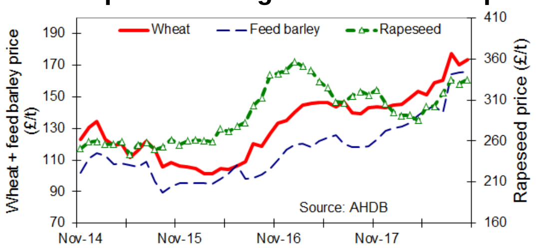
Prices down despite falling stocks

Grain prices in the EU and US have weakened on a record US maize crop and weaker than expected grain exports from both regions as Russian exports remain strong. US wheat prices have fallen £8/t to £138/t in the last month. US 2018 maize output was cut 1.2mt to 375.4mt in October but remains a record. On the upside the drought in Australia cut wheat export forecasts for 2018/19 down 1mt to 13mt (14.5mt in 2017/18).

Despite the recent price declines the bigger picture is that world grain stocks to use ratios are falling fast; down 12 days from 88 days of supply in 2017 to just 76 days in 2018. So while it appears world grain supply is sufficient for now, the cushion against any new crop problems that may emerge is much less than one year ago.

A weaker pound on risks of a 'no-deal' Brexit helped limit the impact of weaker global prices on the UK. In the last month, November 2018 Scottish ex-farm wheat prices rose +£1.40/t to £178/t and barley prices rose +£1.30 to £176.30/t. Rapeseed prices rose +£10/t to £325/t delivered November 2018.

Scottish spot ex-farm grain and oilseed prices



2nd UK ethanol plant closing

After the announced closure of the Vivergo ethanol plant in September, the other remaining plant; Ensus on Teeside has now also announced closure for maintenance for an unknown period. The Ensus plant can use up to 1mt of grain both UK wheat and imported wheat and maize. This will reduce demand for UK wheat this season and also lower the amount of distillery by-products available for feed. Despite this the UK is likely to remain a net wheat importer.

UK wheat use in distilling was 103kt (down 25kt, 19%) in the first two months to August.

Scottish wheat use in distilling could be down around 100kt on last year and cheaper imported maize is taking some feed demand away. However, Scotland faces a reduced cereal crop with wheat output down 80kt to 807kt and barley output down 169kt to 1,616kt which could help offset reduced demand.

Imports a risk to UK grain prices

The main danger to UK and Scottish wheat prices remains lower priced imports. Delivered wheat prices in Scotland are currently £179/t for wheat for November. This is higher than competing imported grain with any origin maize at £153/t port side ~ £163/t delivered (after adding discharge and haulage fees) and French maize £167/t port side ~ £177/t delivered. The danger for UK wheat and barley prices is that if a surplus of UK grain remains and it needs exported after March 2019 it would be subject to what ever trade arrangements are in place post-Brexit. Right now nobody knows what they will be.

Looking to 2019, the fine autumn coupled to strong forward wheat prices (relative to rapeseed in particular) are expected to have pushed up the UK and Scottish wheat area. This all points to a recovery in UK and Scottish wheat output next season; weather permitting! Forward wheat prices for harvest 2019 have come down around £15/t from their peak in July and are currently around £158-160/t ex-farm in Scotland. However, they remain higher at this stage than they have been since 2014. As ever getting some grain sold forward at or around planting to cover establishment costs justifies the decision to plant.

New malting capacity for Scotland

For several years Scotland has lacked sufficient malting capacity to fully meet the growing whisky demand for malt. Without capacity to malt local barley, imports of malt have increased. The good news is that Baird's Malt parent company GrainCorp has just announced a major investment programme to increase malting capacity by around 80,000t across its Arbroath and Inverness sites. The expansion is expected to take around three years.

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Indicative grain prices week ending 26 October 2018 (Source: SACC/AHDB/trade)
'* Before oil bonus, # Ex-farm England spring brewing max 1.85%N, ~ nominal, ~ 18 Oct '18

£ per tonne	Basis	Oct 2018	Nov 2018	Jan 2019	May 2019	Nov 2019
Wheat	Ex-farm Scotland	177.30	178.00	178.50	181.00	160.00
Feed barley	Ex-farm Scotland	174.40	176.30	177.00	179.00	140.00
Malt. barley - distil	Ex-farm Scotland	220.80~				
Malt. barley - brew	Ex-farm England#		195.00	200.00		175.00
Oilseed rape*~	Delivered Scotland		325.00			327.00

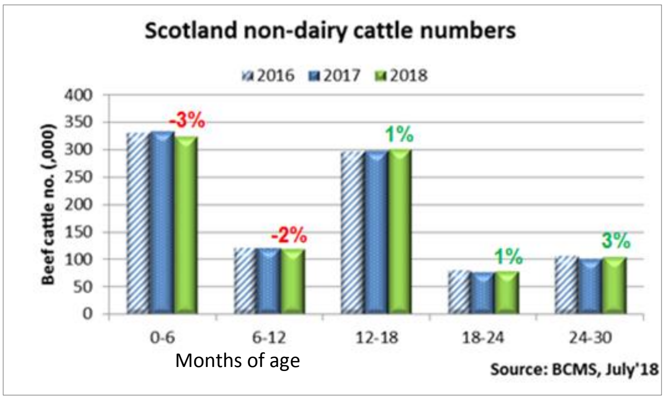
Finished cattle are available, for now

With finished cattle availability increasing, price is softening per seasonal trend. However, considering throughput is 5% higher for the 6-weeks from the start of September, demand is holding well. Prime cattle near finished, that would otherwise be housed to maximise kilos sold, are selling now to avoid 4-6 weeks of expensive keep indoors – understandable.

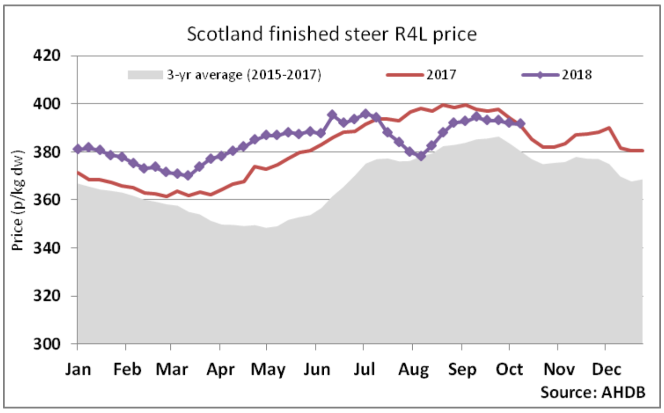
Base price for week ending 19th October was around 383p/kg dwt in Scotland for R-grade cattle and 8p more for -U4L steers. That is a drop of not more than a couple of pence on the week, although further reductions are likely. The price in Southern England dropped more markedly on the same week to nearer 370p/kg dwt for R-grade commercial steers, responding to greater supply. Aberdeen Angus have been holding up remarkably well but they have also seen softening of around 5p/kg dwt to around 405p in the last 2-weeks but this depends on individual processor requirements.

- *Quick sale into a falling market may seem rash but confidence would be required to know liveweight gains on housed rations were worth taking shed space until price recovers, assuming they don't fall out of specification before then.*

It is another example of cattle being 'forward sold', however, that will leave a gap in future supply. The chart below shows the number of Scottish 'hoofs on the ground' as at July.



There are more cattle in the older age groups, which will affect the market in the short-term, although considering cull cow numbers are some



7% up on the year, some of those additional cattle may be heifers destined for the breeding herd. Furthermore, the small increases across the 12-30month age groups are only equivalent to one week's Scottish kill. The proportionate change is slightly more prominent for the GB figures, resulting from increased beef from the English dairy herd but even that does not add to any more kill-days in real terms. Moreover, nothing detracts from the falling numbers of younger cattle that will start to pinch the markets by the middle of next year.

Integrity

The recent BSE case hitting mainstream media recalled dark memories. It does make one reflect on the years' France flaunted an EU court ruling, both explicitly and in effect, to accept beef even under the Date Based Export Scheme. We were firmly in the EU then. While this may be an isolated case, it does restate UK commodities (including beef) increased risk of being used as a political football (with regard to trade) in future. There is still scant detail of Brexit negotiations but the darker arts of trade negotiations include Technical Barriers to Trade (TBT), i.e. red tape that can incur additional cost, emphasising the importance of a bulletproof industry quality assurance system and brand image to boot.

On a similar vein, ensure cows are confidently PD'd before selling and not heavily pregnant. It is an ethical issue and one that has already resulted in Basic Payment penalties.

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Scotland prime cattle prices (p/kg dwt) (Source: drawn from AHDB data)

Week Ending	R4L Steers (p/kg dwt)			-U4L Steers			Young Bull-U3L		Cull cows	
		Change on week	Diff over N. Eng.		Change on week	Diff over N. Eng.		Diff over N. Eng.	R4L	-O3L
06 Oct 18	**391.9**	-1.2	7.1	**389.5**	-3.6	11.1	385.6	18.3	285.5	262.9
13 Oct 18	**391.6**	-0.3	9.1	**388.7**	-0.8	14.2	373.9	16.6	280.6	256.9
20 Oct 18	**387.6**	-4.0	3.3	**387.0**	-1.7	9.5	379.8	21.0	272.6	248.9

Potatoes

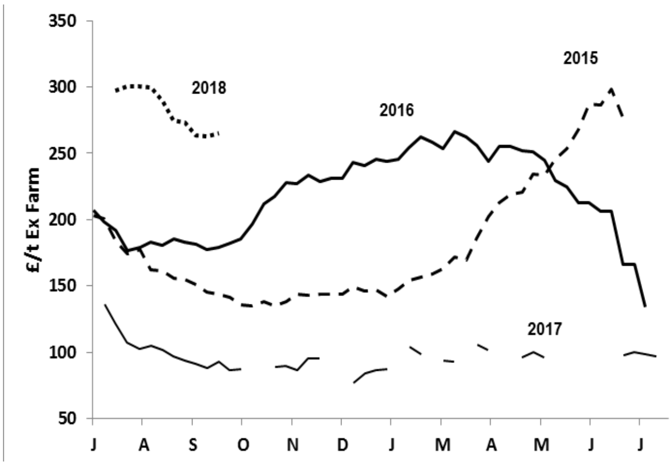
Market price update

- The GB Weekly Average Prices for the week ending 13th October was £176.56/t for free-buy and contract purchases, and £265.27/t for free-buy purchases.
- Compared to the previous reported figures on 6th October, contract and free-buy purchases were down by £2.02/t and free-buy purchases were up £2.77/t.

Crop Year 2018/19	13 Oct	6 Oct	29 Sep
Average Price (£/t)	176.55	178.58	177.30
AVP change on week (£/t)	-2.02	1.25	-12.67
Free-Buy Price (£/t)	265.27	262.50	263.86
FBP change on week(£/t)	2.77	-1.36	-9.55

GB Weekly Average Free-Buy Price

(2015-2018 crop years)



Trading Season July - July Source: AHDB

The Scottish packing market was described as being "busy" this week with many growers looking to move stocks "off-the-field". This is partly due to a strong free-buy price and some growers now running out of cold storage space eager to move surplus ambient stocks. Grade 1 Maris Piper is trading between £300-320/t ex farm, and Grade 1 Whites including; Harmony, Marfona, Saxon and Sylvana trading between £220-270/t ex farm.

The English packing trade was described as being "slow" last week partly due to the October school holiday. Demand remained weak and the majority of movement was on contract. Where there was some free-buy movement, Grade 1 Piper was trading between £280-350/t ex farm. Secondary quality stocks of Maris Piper are being purchased for around £270/t ex farm and Piper mids (-45mm) are trading around £135/t ex farm. Grade 1 Whites including; Marfona, Jelly, Nectar, Orchestra and Sapphire are trading between £230-285/t ex farm. Secondary Whites stocks are trading around £185/t ex farm.

Movement in the English bagging trade was described as being "subdued" yet prices remain relatively strong. In the East, Maris Piper is trading between £300-390/t ex farm, Sagitta £290-350/t ex farm, and both Cabaret and Daisy trading around £350/t ex farm. Chipping varieties; Sagitta, Cabaret, Caesar, Challenger, and Markies are all trading between £280-300/t ex farm in Southern England.

Exports of Agria and Markies to Ireland are being purchased at around £380-400/t ex farm. Exports of King Edwards, Picasso, Monte Carlo, and Cabaret to the Canary Islands are trading between £300-390/t ex farm.

2018 Harvest nearing an end

Lifting across many regions in Scotland continued this week despite some rain over the weekend. Local reports suggest that this years harvest has been smooth with little weather-related interruptions. Lifting conditions have been favourable over the past 3-4 weeks and some growers in East Lothian and Fife are now reported to be finished. Yields have proven to be better than initially expected and quality is generally good in both Piper and Whites stocks.

Potential Diquat Ban

The use of alternative herbicides was the main topic of discussion at the recent AHDB Strategic Farm Walk. Graham Tomalin, of VCS Agronomy, discussed the need to consider a range of strategies and alternatives to Diquat, if it is banned in the UK. Diquat is a very effective desiccant facilitating the burn down of crops vital to ensure adequate skin set for harvest. If Diquat is banned, flailing will become ever more important, particularly with immature crops. Alternatives to Diquat are currently being explored and trialled for future application. In order to achieve the best results from any desiccant, it is advised to consider a slower forward speed of the sprayer, water volume, and the use of angled nozzles.

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Big supply

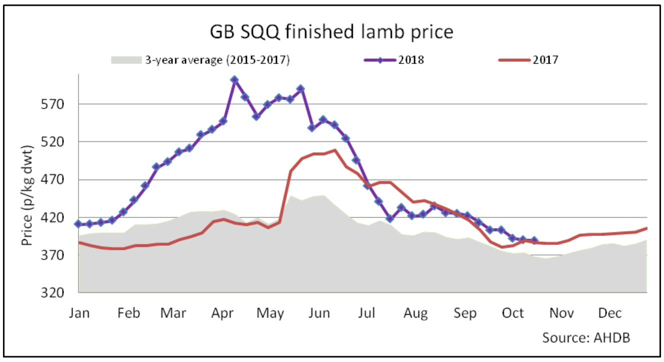
The slide may have slowed and the finished lamb price may remain (marginally) above last year but it is a long way down from the spring highs, which makes sellers feel the market is wholly less rewarding. Something compounded by generally fewer lambs to sell and, in many cases, more lambs sold now, into the seasonal trough, which is directly a result of the weather over the last 12 months, delaying early season growth.

The GB average deadweight price is around 370-375p/kg for week beginning 22nd October, which is only marginally down on the week. This makes a 20kg lamb £75/hd – hardly £1 higher on the same time last year – more a result of slightly more lambs meeting specification than any signal of strength in demand.

The live trade has possibly been stickier with average prices masking wide variation in quality and some large throughputs. In the previous week, standard lambs (32-39kg) ranged around 154-158p/kg, medium weight lambs (39-45kg) ranged around 166-163p/kg mark. The latter lambs sold through the ring have provisionally dropped 3-5p on the week to week ending 26th October to 160p/kg lwt. Heavy lambs (over 45kg) are starting to experience greater discount - those within specification are there for the choosing.

Lambs being moved onto foggage or a spurt of late season grass growth are growing quickly so ensure weights do not exceed limits to avoid excessive deductions. Ironically, this may mean some of the heaviest lambs now need to be held on poorer pasture until the market or procurement agent has capacity for them. There are a lot of lambs available just now, creating a backlog.

Throughputs remain high, for the first two weeks in October, although slightly lower on the year. This is maybe a result of a more managed approach to procurement rather than lack of supply.



Plight of the light lamb

Meanwhile, light lambs continue to sell at a significant discount at around 125-130p/kg, which would be £38 at 30kg lwt. The price grossed in some remoter areas, for lighter lambs gathered off hard hills, has been even lower - something often missed in the within-sale reported averages. This is once again a consequence of much lower sales into the major Mediterranean EURO lamb market. Unfortunately, not all of these lambs will grow into a finished lamb suitable for the domestic market. A solution is needed urgently.

Nonetheless, there was expectation that specialist lamb finishers would return to those same sales with a renewed sense of confidence to buy the suitable lambs, given hogg prices this spring. That has not fully materialised.

Certainly, lamb wintering has been harder to find across the north mainland where keepers notified grazers early due to a shortage of grass, later (emergency) cuts of silage and an uncertain germination of forage crop at the time.

Despite comments above, crossbred store lambs have fared better across the country. With Easter (21st April, 2019) being late next year, quickly followed by Ramadan (6th May), the old season lamb market looks like a good prospect. It is after the peak period for Kiwi imports but before new season lamb is available, despite the price of concentrates and the looming Brexit deadline (29th March 2019).

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Week ending	GB deadweight (p/kg) 16.5 – 21.5kg				Scottish auction (p/kg)				Ewes (£/hd) Scottish	Ewes (£/hd) Eng&Wal
	R3L	Change on week	Diff over R2	Diff over R3H	Med.	Change on week	Diff over stan.	Diff over heavy	All	All
06 Oct 18	**392.7**	-11.0	0.3	5.6	**163.40**	-6.2	4.6	4.2	45.90	46.21
13 Oct 18	**390.6**	-2.1	-1.9	8.4	**166.00**	2.6	4.1	3.9	44.86	44.49
20 Oct 18	**389.2**	-1.4	-3.5	6.3	**164.40**	-1.6	4.9	6.3	43.85	44.80

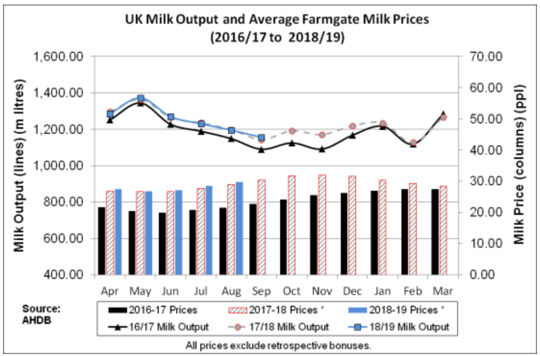
Deadweight prices may be provisional. Auction price reporting week is slightly different to the deadweight week. Source: AHDB

UK production increase in Sep 2018

UK monthly milk output for September 2018 is estimated at 1,155.81m litres (before butterfat adjustment). This is 12.37m litres above output for September last year. Cumulative UK production from 1st April to 30th September 2018 is currently estimated at 7,506.85m litres. This is 4.32m litres ahead of last year, when the cumulative total was 7,502.53m litres.

The latest DEFRA statistics show that the UK average milk price increased by 1.18ppl between July and August 2018 taking the average price for August up to 29.73ppl. The UK average milk price figure for August 2018 is 0.67ppl above the average price for August 2017 (29.06ppl).

- *According to AHDB statistics, UK milk production for September 2018 is estimated at 1,155.81m litres which is 12.37m litres above September 2017 production*



FM introduce new member premium

- *First Milk will introduce a new member premium from April 2019, to be paid on all milk produced during 2019-20*
- *The premium will be paid as a 13th payment, commencing in April 2020. Payments will be based at 0.25ppl*

First Milk has announced that it is to introduce a new member premium from 1st April 2019. The first annual payment will be made to farmer members as a 13th payment during April 2020 and will be based at 0.25ppl and adjusted according to each individual member's 'capital: capital target' ratio. A member who has 100% of their capital target will receive 0.25ppl premium. The maximum that a member may receive will be capped at 0.50ppl (this will apply for a member with double the amount of capital invested relative to their capital target).

UK milk prices for Nov 2018

The following price adjustments are confirmed for November 2018:

- Tesco – members of the TSDG (Tesco Sustainable Dairy Group) will receive a 1.07ppl price increase from 1st November 2018. This takes the price for Müller Milk Group members up from 30.17ppl to 31.24ppl, whilst Arla Direct members move up from 29.92ppl to 30.99ppl.
- Co-op – members of the Co-operative Dairy Group (CDG) will receive an increase of 1.16ppl from 1st November 2018. This moves Müller CDG members up from 28.88ppl to 30.04ppl.
- Waitrose – suppliers will receive a 0.50ppl increase from 1st November 2018 which takes the standard litre price up to 31.42ppl.

The milk price adjustments outlined above are notable for two things: (i) all price movements mentioned above for November 2018 are price increases, and (ii) all adjustments above relate to dedicated supplier pools. With respect to conventional milk supplies, milk price outlook is very much in the balance and price reductions may be on the cards for some businesses during November/December 2018.

Annual Average milk price estimates for Nov 2018 (ppl)	
Milk Buyers – Scotland	**Standard Ltr***
Lactalis (No profile or seasonality) (3 month contract) [1]	29.00
First Milk Liquid [1]	28.50
First Milk Manufacturing *(4.2% Butterfat & 3.4% Protein)*	29.47
Müller - Müller Direct [1, 2]	29.50

1 Standard litre – annual av. milk price based on supplying 1m litres at 4.0% butterfat, 3.3% protein, bactoscan = 30, SCC = 200 unless stated otherwise.

2 No monthly supplementary payment included in the price estimate.

World prices dip

- *Global milk supplies running ahead of demand*
- *Over-supply in the EU and the US*
- *Downward price pressure arising*

World price levels for butter and whole milk powder (WMP) continued to reduce during September 2018, reflecting the relative excess of milk supply, particularly in the EU and the US. Only SMP prices have shown an increase during the last month (see table below for UK product prices). The latest GDT (Fonterra) online auction on 16th October 2018 witnessed yet another reduction with the weighted average price across all products dropping to US \$2,885/t. On the back of this, Fonterra has revised its forecast milk price for 2018-19 downwards from \$6.75 per kg milk solids to a range of \$6.25 - \$6.50 / kg solids. This equates to a reduction from 25.32ppl down to 23.44 – 24.38ppl.

UK dairy commodity prices (£/ tonne)	Sep 2018	Aug 2018	Apr 2018
Butter	4,750	5,080	4,660
SMP	1,410	1,380	1,155
Bulk Cream	2,130	2,230	2,080
Mild Cheddar	3,050	3,050	2,920
UK milk price equivalents (ppl)	**Sep 2018**	**Aug 2018**	**Apr 2018**
AMPE (2014)	31.84	33.18	28.90
MCVE (2014)	33.63	33.62	31.38

Source: AHDB

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2018 Autumn Budget

In his Autumn Budget Statement Chancellor Phillip Hammond announced austerity was coming to an end and was able to loosen the purse strings in a number of ways which may be beneficial to farm businesses. His largesse was supported by a higher than expected tax-take and a sharper reduction in public borrowing than anticipated. Hanging over his budget and the economy as a whole is what kind of Brexit are we going to have come the end of March next year? If it is a 'soft' Brexit, Hammond indicated that further funds could be released while if its 'hard' an emergency budget may be needed in the spring.

Fuel duty and Vehicle Excise Duty frozen – This is the longest fuel duty freeze for 23yrs and a relief for rural residents and businesses who have seen fuel prices creep up in recent months, due to the weakness of sterling and a gradual rise in crude oil prices. Hauliers will also welcome the freezing of Vehicle Excise Duty for another year, helping moderate transport costs so vital for farms and rural businesses.

Duty on beer and spirits frozen

The brewing and whisky sectors welcomed the freezing of duty on beer and spirits. For beer this is the ninth year of the duty freeze and this approach it is claimed has created 3,000 jobs. The craft brewing sector has been a particularly strong beneficiary of this. For whisky if a duty rise in line with inflation had gone ahead this which would have added 30p per bottle. This is welcome news both for the brewing and whisky sectors and all the farmers and supply industries delivering malt and grain to the industry.

National minimum wage

The UK National Living Wage (NLW) is set to increase (subject to Parliamentary approval) in line with recommendations from the Low Pay Commission to £8.21 per hour for workers aged 25 years and over. This would be a rise of £0.38p/hr or 4.85%, well above inflation. Agricultural wages in Scotland are determined separately but at present the minimum wage for all ages of workers are the same as those for staff over 25 years old set by the NLW. If these increases are approved and something similar applied in Scotland, farm businesses will have to deal with wage costs rising above inflation further emphasising the need to improve labour efficiency on farm.

Capital relief

There will be a temporary increase in the Annual Investment Allowance for capital expenditure from the current £200k to £1m for two years starting on 1 January 2019. This allowance permits 100% tax relief on the cost of plant and machinery in the year of purchase. Given that for larger farm businesses a machinery allowance of £200k doesn't go very far given the cost of modern combines, tractors etc. This will therefore be a welcome increase for farm businesses seeking to expand and invest in new equipment. It will also no doubt be a boost to machinery manufacturers!

A new Structures and Buildings Allowance (SBA) is to be introduced applying to non-residential structures and buildings. Relief will be given at 2% per annum straight line basis for 50 years. This will not include integral features, fittings and machinery within a structure or building which will continue to qualify for relief as plant or machinery in their own right. This is a very welcome replacement for previous building reliefs abolished in 2011 (though these were at a higher rate of 4% per annum) and will aid those businesses investing in new structures.

Broadband

The investment of £200m in piloting new solutions to deploy full-fibre internet in rural areas is welcomed. Improving rural broadband is essential for farm and rural businesses given the growing requirement to submit tax and other data digitally. This is a useful start but a much bigger programme is needed to fully meet rural needs.

Making tax digital

The VAT registration threshold has been frozen at £85k until April 2020 which is good news for smaller businesses struggling to cope with the impending Making Tax Digital deadline in April 2019.

Omissions for agriculture

For agriculture a few potential areas for change where missed that could have made a significant difference. There were no changes to annual investment allowances or other measures that would encourage investment in business infrastructure. There were also no changes that would help in managing business volatility such as tax averaging.

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Sector Focus:
Energy Storage on Farm

Grid scale storage

As more of our electricity is produced from intermittent supplies such as wind turbines and solar panels, the issue of balancing supply and demand gets more difficult. Electricity network operators have to ensure that frequency and voltage of supply are maintained within strict limits at all times and must be able to supply energy at times of peak demand, even in the dark on a calm night where generation from renewables may be low or non-existent. Likewise there is a limit to the amount of generation that they can accept at any time on to individual branches of their network.

One technology that is increasingly being employed to manage these issues across the network is the energy storage devise or battery farm. Grid scale storage is often, but not always, co-located with renewables installations such as solar parks or wind farms allowing excess energy to be stored for export at a higher price at times of peak demand or on occasions when generation is low. Financial viability of storage installations, however, often relies upon "stacked revenues". In other words income is received from obtaining higher value for the energy exported and also by receiving payment from the network operator for providing a range of balancing services. Up until now grid balancing has been the responsibility of National Grid who have procured a range of individual services including frequency response, short-term operating reserve, black start etc. mostly from existing generators. The market for these services can be difficult to access for smaller players and contracts are often of short duration making raising finance for a new project difficult. Collaboration with an aggregator who will contract individual storage facilities or small generators and provide the combined capacity to the National Grid as a package is an option.

A program of reform is underway which aims to widen access to these grid balancing mechanisms and the expectation is that this will allow operators of small generators and storage facilities to participate with much more ease. This document provides further detail of the process:

https://www.nationalgrid.com/sites/default/files/documents/Wider%20BM%20Access%20Roadmap_FINAL.pdf

The planned implementation will see balancing services move over to the new, more accessible procurement system during late 2019 and 2020. One change that will be introduced will be the procurement of these services at a local level by each district network operator (DNO), rather than being the sole responsibility of National Grid.

Along with the role out of smart metering technology and the wider use of "time of use tariffs" for both consumption and generation this should make the installation of relatively small storage facilities more viable for a wider range of "prosumers".

Behind the meter storage

As the cost of battery technology drops its deployment behind the meter for small scale generators with a relatively constant energy demand will improve, allowing them to use a higher proportion of their own energy and reducing their reliance on expensive imported power.

Battery storage comprising individual Lithium Ion modules

The benefit obtained from a storage system should take account of the life expectancy of the equipment and an accurate estimate of the amount of energy recycled during each charge/discharge routine is essential. A value for each unit stored and subsequently recycled can be determined:

$$p/kWh = \frac{Installation\ price\ (£)x\ 100}{total\ kWh\ delivered\ during\ life\ of\ system\ (kWh)}$$

Any additional income for energy sold or savings from offset purchase resulting from the installation of the storage system will have to exceed the calculated figure where no additional income is obtained from balancing services.

Additional benefit may be obtained from a storage system where they are used to provide back-up power during power outages.

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Farm Management Handbook

The 2018/19 Farm Management Handbook is available now – in printed copy (below) and free online at:

https://www.fas.scot/publication/

Key economic data

General Indicators	
Base interest rate	0.75% (0.50% Aug '18)
ECB interest rate	0.00% (0.05% Mar '16)
UK (CPI) inflation rate	2.4% (target 2%)
UK GDP growth rate	0.4% (Q2 '18)
FTSE 100	7,139 (31 Oct'18)

Price indices for August 2018 (Defra 2015 = 100)			
Output Prices		Input Prices	
Wheat	125.15	Seeds (all)	103.7
Barley	151.84	Energy	122.2
Oats	139.87	Fertiliser	105.6
Potatoes	146.89	Agro-chemicals (all)	105.5
Cattle and Calves	105.17	Feedstuffs	110.7
Pigs	113.28	Machinery R&M	107.0
Sheep and Lambs	110.08	Building R&M	110.2
Milk	121.38	Veterinary services	115.5

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