

1. POLITICAL AND ECONOMIC CONTEXT

“Many farming businesses are not particularly highly geared and certainly the industry as a whole is very lightly leveraged and so there is scope for additional funding. Farming businesses need to start thinking and planning around what their business could look like in the future. If it is a small enterprise, perhaps even a lifestyle business, it may be that the way forward will be via 3rd party joint ventures, leasing land out and doing less farming themselves? Others may end up changing direction and diversifying to create a more commercially viable proposition through farming or other use of their assets. Many farms of course do have the assets and experience to ensure a commercially viable strategy and will be able to leverage the finance available to them. Generally, I don't think availability of finance is the issue, the issue is whether the business can be commercially viable and demonstrate that through their projections. The scale of the farm may make a difference and it will be more difficult for those with a smaller asset base to find uses for the assets which generate sufficient profit and I think we might see some consolidation in that space, not necessarily lifestyle farms, but the small to medium size farms who don't have a strategy to maintain profitability.” Martin Hanson, Head of Agriculture, HSBC, UK

Rural land is a strategic national asset not only for food production, but also water management, renewable energy production, carbon capture activities and much more. Current political and economic pressure for a change in non-urban land use in the UK is focused on a transition away from publicly subsidised agricultural production to supporting the national Growth Agenda⁷, the Industrial Strategy⁸ and the wider green economy⁹. This is a complex policy landscape with multiple initiatives, at various stages of development and adoption, which will all have a direct impact on future land use. Strategic plans and interventions includes the Land Use Consultation¹⁰, the Environment Improvement Plan¹¹, the 30 by 30 Biodiversity Strategy in England¹², The Methane Pledge¹³, the Food and Farming Decarbonisation Plan, the forthcoming Carbon Budget, the Growth Delivery Plan, the Circular Economy Strategy, the Farming Roadmap, the Farm Profitability Review, house building targets, digital, energy and water infrastructure planning and more general plans on infrastructural development. Scotland's Third Land Use Strategy (2021-2026)¹⁴, the land use aspects of Future Wales: The National Plan 2040¹⁵ and in Shaping Our Future: Regional Development Strategy for Northern Ireland 2025¹⁶ along with the Land Use Consultation create a complex set of socio-economic and geo-political frameworks across the UK as the focus increases on the drive for infrastructural development.

The demand for net-zero energy to 2050 and beyond (note this is greenhouse gas emissions not total carbon embedded from cradle to grave) will bring additional infrastructure on-line in this Century including nuclear and solar radiation capture. Recent data states that 70% of solar installations are on agricultural land and in the short term at least, in-field solar is seen as an important vehicle to achieving net zero¹⁷. However, as one discussion highlighted, in-field solar is a transition technology, as much of the current uplift in in-field photovoltaic infrastructure will have passed its useful life and need to be decommissioned by 2050.

There are multiple agendas and multiple proposed uses of non-urban land in the UK. As a result, there are competing aspects and visions of how land will be used to best serve the public (and private) interest in the

future. Many discussions concluded that clear direction and alignment of policy is needed both at UK government and devolved government levels to promote the business confidence that is crucial to drive investment on farms (see Section 2).

The wider context of the financial health of the UK economy is not focused on here in detail but was a theme that was addressed in many of the discussions. The economic data used in this report is collated from a variety of sources which are often disparate in their breadth and scope from both a geographic and a time (temporal) perspective. This makes direct comparison often difficult as the UK government, devolved governments within the UK and other bodies produce data which is neither readily comparable nor at a level granular enough to make it representative of all farms in the UK, or in regional locations. This is a limitation in creating a clear, evidenced baseline of where UK agriculture as a sector is economically right now and where it needs to move to in order for farming businesses to thrive.

Calculating economic contribution of a sector

The economic contribution of UK agriculture as a sector is expressed across evidenced sources as either gross domestic product (GDP) or gross value added (GVA). GDP represents the total monetary value of all final goods and services produced within a country in a given period of time, so it is a high-level metric assessing an economy. GDP will include the money government spends, consumer spending and investment as elements of the total monetary value of the nation. Thus, if the government spends more money in a given period of time this will increase GDP. If government spending increases more rapidly than the rest of the economy is contracting, then national GDP will still be rising.

GVA is the value contributed by a sector or industry, which is measured in terms of the value of outputs (goods and services) minus the inputs that have been used to produce those outputs. Thus, in simplistic terms, GVA of agriculture or the wider agri-food sector is the monetary value added after costs have been subtracted. GDP is a measure not only of GVA, but also direct and indirect taxes derived from an industry sector, minus any subsidies that have been given to that sector. In summary, GDP provides insight into the whole economy, where GVA provides information on an organisation's, or a sector's, contribution to that economy. It is important to acknowledge that the non-monetary value that is generated by an organisation and/or an industry sector is neither represented in GDP nor GVA. Calculating economic contribution of an individual, business or sector, by solely focusing on growth, via increasing GDP, may come at a non-monetised environmental or social cost which is neither formally recognised, nor allocated especially at a national economic inventory level.

Non-monetary value is the contribution made to wellbeing, society, nature and the environment that is not bought, sold, paid for, or taxed, so it does not have a market value associated with it. Examples include cultural heritage, social cohesion, national sense of identity and purpose and non-paid voluntary work, including non-paid family labour on a family farm. To monetise or determine this 'value,' to the economy and society, Natural Capital Accounting, recognised by His Majesty's Treasury, the Natural Capital Framework¹⁸ and the UK's Office for National Statistics (ONS) UK Measures for National Wellbeing have been developed. For example, the UK Measures for National Wellbeing include 59 different social, education and skills, health, governance, environment, economy and personal finance metrics. They are examples of where the UK government is seeking to create an accounting approach to calculate this non-monetary value to the economy and/or to attribute a value to something that is often abstract in its nature¹⁹. Whilst some stakeholders' position is (that) you can only value or improve something that you can measure, others argue that it is what you can't measure that truly

matters in life. The binary discussions on lifestyle farming versus business-orientated farming fall short of the depth and complexity associated with non-monetary value. As Joe Stanley, Head of Sustainable Farming at the Allerton project, stated:

“Natural capital should be a ‘thing’. I don't think that's guaranteed at this point. We do need to work collaboratively together, and we can have a bright future if we do that. But you know it's going to take almost a generational shift to encourage that sort of thinking.”

So, what is the economic health of the UK agricultural sector? In 2024, the UK agricultural sector comprised 209,000 farm holdings on 17 million hectares of land (utilised agricultural area (UAA)). This equates to 69% of the UK land total of which 71% is permanent or temporary grassland or common rough grazing, with cultivated land 22% and woodland 6%. The average farm size, in 2024 was 80 hectares with almost half of holdings being less than 20 hectares. Of these farms, 8% delivered 62% of the total output on 33% of the farmed area. Indeed 26% of farms delivered 88% of the total output on 69% of the land. This statistic brings into focus the notion of what a farm is, and where in the 17 million hectares, is food actually being produced. The answer should be a key input into the development and continuation of the food security element of a Land Use Framework.

In 2024, the value of UK's agricultural production came from livestock 63% with a value of £20.1 billion including dairy £6.3 billion; poultry meat and eggs £4.8 billion; beef £4.1 billion; pig meat £1.8 billion; and sheep £1.8 billion, and in crops a value of £12.6 billion including cereals, a proportion of which is destined for animal feed, £3.5 billion; vegetables/flowers/potatoes £5.2 billion; industrial crops £0.9 billion; and fruit £1.1 billion²⁰. In 2024, agriculture contributed 0.56% of GVA to the UK economy (with England contributing 73%; Scotland 15%; Wales 8% and Northern Ireland 4%) employing 1.3% of the UK workforce. The average contribution from agriculture in the European Union (EU) in 2024 is 1.2% of GDP.²¹ The total agri-food supply chain's contribution to the UK economy was 9.8% of GDP with 4.2 million people within the workforce.²² This represents around 13% of the national Great Britain workforce.²³ Predominantly rural areas of England contribute 12.0% of national GVA with around 21% of the national population.²⁴ Between 2001 and 2023, the productivity rate in rural England fell from 96% of the 'England average' to 92% mainly due to the urban-related economic growth in the financial sector, especially in London.²⁵

The GVA per workforce job in rural areas was £56,400 in 2023 compared to £61,500 in urban areas excluding London. The contribution to England's GVA, by industry sector in predominantly rural areas in 2022, is collated in Table 1 with the data for the predominantly urban areas excepting London shown in square brackets. The difference in proportion of GVA in rural areas compared to urban areas, highlights real estate activities, 3% higher in rural areas versus urban areas, manufacturing (3% higher in rural areas which could include food processing/manufacturing activities), and agricultural, forestry and fishing at 3% of GVA in predominantly rural areas.

Whilst UK agriculture, forestry and fishing as a proportion of national GDP have remained around 0.5%, lower than in other European countries including the Netherlands and France (Figure 1), there is a global downward trend for the share of national GDP which is derived from agriculture in countries such as India and China as these economies both urbanise and develop additional service sectors. The agricultural land per capita in the UK is now less than 0.5 hectares/person and this is part of a wider global trend of falling land availability per capita as human populations rise across the world (Figure 2).

Return on Capital Employed (ROCE) and average gearing ratio are key metrics on the UK agricultural balance sheet. ROCE, a metric used from the eighteenth century in the UK, assesses the economic effectiveness of the

deployment of a set of resources²⁶. ROCE is a measure of the accumulation of wealth (or not) over a time period for a business and the calculation incorporates more factors than profitability alone. A reason for considering ROCE, in this report, is that it is a business 'financial health' measure that is readily accessible from the business balance sheet. Drawing parallels with Office for National Statistics (ONS) data from 2024 on the net rate of ROCE for UK private non-financial corporations, albeit having fallen over the last decade, ROCE was an average of 8.8% in June 2024 with manufacturing companies at a ROCE of 7.3% and service companies with a ROCE of 15.1%.²⁷

Sector	Percentage of GVA (%)	Sector	Percentage of GVA (%)
Public administration; education; health	22 [21]	Construction	7 [6]
Real estate activities	15 [12]	Mining electricity, gas, water and waste	3 [2]
Distribution; transport; accommodation and food	18 [18]	Recreation, other services and household activities	3 [3]
Manufacturing	13 [10]	Information and insurance activities	3 [7]
Professional and administrative services	11 [13]	Financial and insurance activities	2 [7]
		Agriculture, forestry and fishing	3 [<1]

Table 1. Percentage breakdown of GVA by industry sector in predominantly rural areas in England 2020.²⁵

The gearing ratio reflects the farm liabilities (debt) as a proportion of its assets. For example, if the debt was half of the assets, the gearing ratio would be 50%. The financial risk profile associated with the gearing ratio is complex depending on the blend of short and long-term debt and the level of profitability and ROCE. The term 'leveraging of assets' is used frequently within this report so it would be useful to give context here. Leveraging has many definitions in the financial and business world, but in this report, and in the context of agriculture, the definition is:

Leveraging: to utilise the assets at your disposal in order to achieve a specific personal or business goal or outcome.

Leveraging extends beyond using physical and financial assets to access credit, to leveraging your knowledge, skills and capabilities, leveraging your social networks, business partners, supply base and customer willingness to purchase your products. In this section, leveraging is focused on economic aspects in particular in other sections of the report the term is used in the wider sense. The economic health check data for English farms from 2014/15 to 2023/24 is summarised in Table 2. This financial data paints a bleak picture in terms of ROCE compared to other industry sectors showing median ROCE in the agricultural sector between 2014 and 2024 of between 0.5% and -0.8%. This statistic is derived from UK government data and may, or may not, reflect all assets being utilised on farm, for example, some financial arrangements for machinery purchase/use. It is also important to also recognise that elements of the asset value e.g. a farm property may include living accommodation and amenity land, but such assets may not be utilised to drive revenue within the farming business. This highlights the squeeze on ROCE in agricultural businesses from a lack of profitability over the whole decade, especially in comparison to average net worth.

Share of GDP from agriculture, 1960 to 2023

This is measured as the value added from agriculture, forestry and fishing products as a share of gross domestic product (GDP).

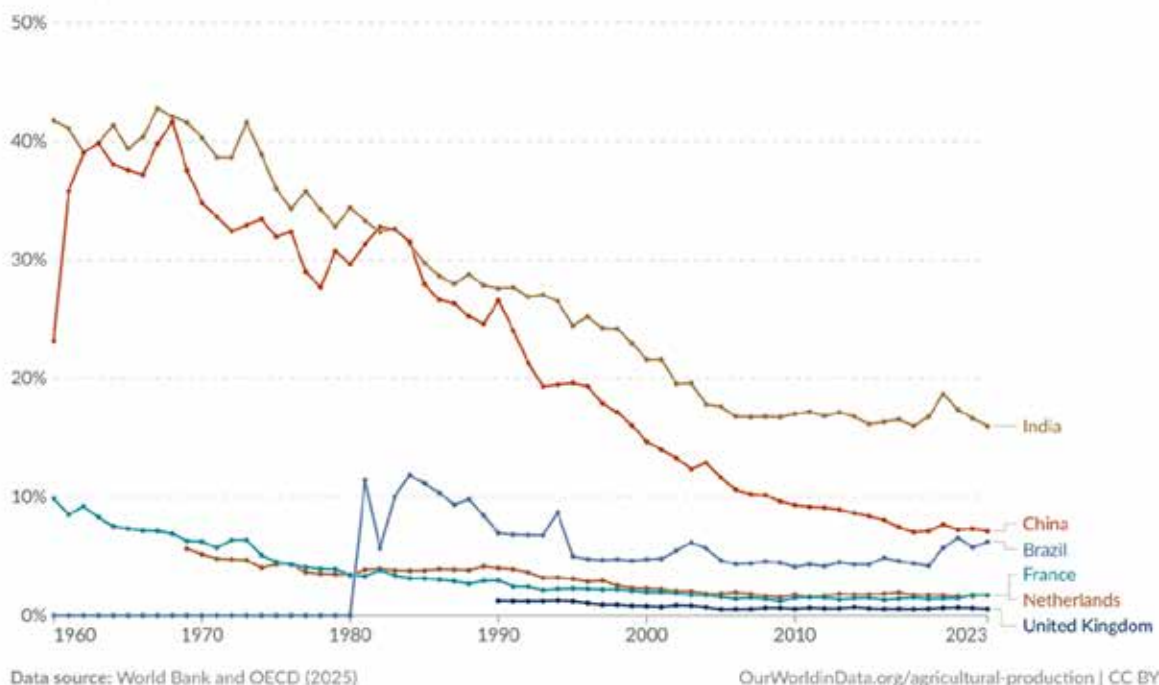


Figure 1. Agriculture as a share of national GDP 1960-2023 (Source: Our World in Data)

Agricultural land per capita

Agricultural land is the sum of cropland and land used as pasture for grazing livestock.

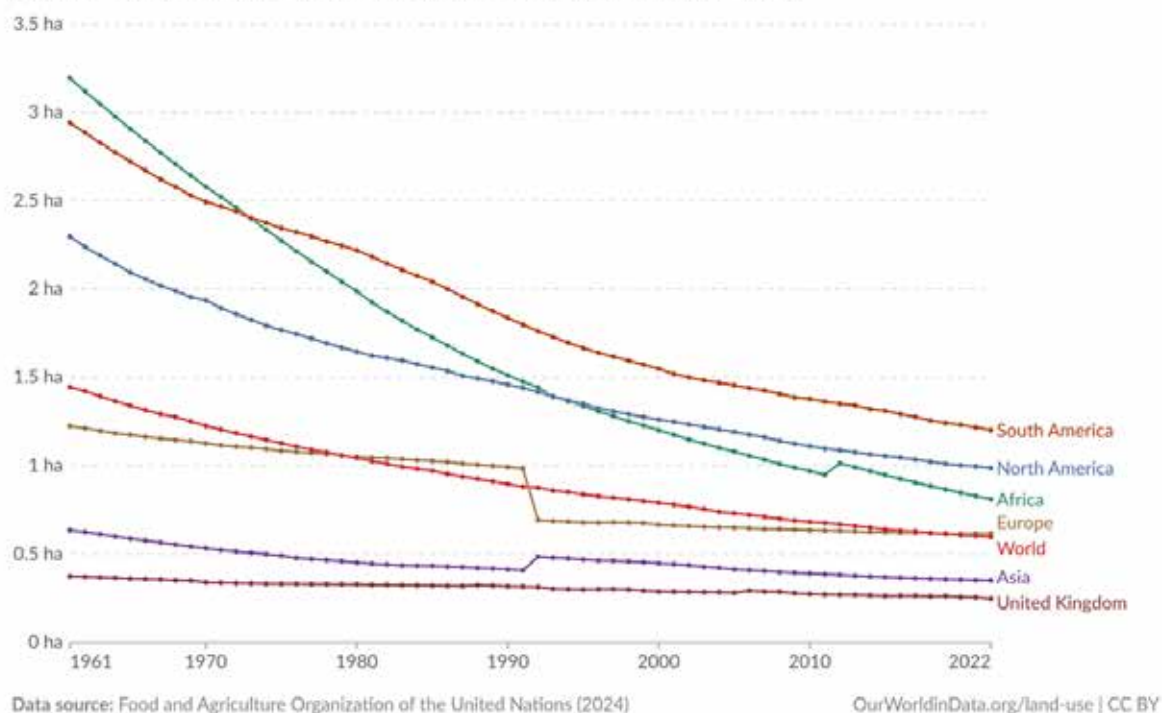


Figure 2. Agricultural land per capita at the world and continent level compared to the UK (Source: Our World in Data)

The data also demonstrates that whilst average net worth has continued to increase since 2014/15, average gearing ratio has remained constant, but net interest payments as a proportion of farm business expenditure have doubled in the last two years. There are always limitations in using average data to draw any meaningful conclusions because these statistics mask the depth and breadth of business performance across all English farms in the dataset. However, the data demonstrates a headline issue of poor economic returns and that ROCE for the agricultural sector in England (and likely the rest of the UK) is stagnant. This was a discussion point in the conversations:

Year	Average net worth (£)	Average (mean) level of liabilities (£)	Average gearing ratio (%)	Net interest payments as a proportion of farm income (%)	Median ROCE (%)
2014/15	£1.6 million	186 thousand	10	11	0.5 ²⁸
2015/16					0.5 ²⁹
2017/18					0.2 ³⁰
2018/19					-0.1
2019/20					-0.1 ³¹
2020/21	1.94 million	264 thousand	10	11	-0.2 ³²
2022/23					0.6
2023/24	2.4 million	300 thousand	11	21	-0.8 ³³

Table 2. Farms' Economic Asset Related Health Check Data for England (2014-2024)

"And I do think farmers need to think about taking more risks, financial risks particularly and £450 billion worth of assets across the sector roughly depending on how you measure it, [and] only about £18 billion worth of net bank lending. Any other sector would be leveraging. You know if you were the CFO or Finance Director for UK farming and you'd only borrowed capital of £18 billion.. You'd be thinking. Well, yeah, we're not, really making our assets sweat. And we could invest in new technology, we could invest in better cold storage. All of these things that could be done. So, I think there's an opportunity there." Mark Suthern, Chair Arthur Rank Centre

Thus, analysis of the average gearing ratio data and commentary in the discussions suggests that the agricultural sector does not mobilise debt (leverage assets) to drive GVA to the same degree as other industry sectors. With around half of holdings being less than 20 hectares and 28% of farms delivering 88% of total agricultural output, this raises the question whether the unitary productive descriptor of "a farm" is of limited value in these discussions and in developing strategic approaches to increasing agricultural productivity. Further, the extent to which the current median ROCE is impacting the confidence to invest in agricultural activity compared to other business opportunities in rural locations with a higher level of ROCE is worth unpicking further. Specifically, why invest in an industry where there is such a low economic return? One discussant reflected on the challenge that being highly geared as a business made you economically vulnerable when situations change and this current period is very geopolitically uncertain especially in England with the end of the Basic Payments Scheme (BPS) and uncertainty over the future of public payments for environmental delivery. One discussion in particular captured the thoughts of those faced with such economic uncertainty:

"And now the BPS acceleration of withdrawal and SFI [sustainable farming initiative] change. So, a lot of farmers won't get it. All of those types of issues. The reality is, there's been far too many farms, very happy or quite prepared to sit on

a 1 or 1.5 percent return on investment because they had the tax benefits, etc. If you're going to get a tax charge every generation [through estate taxes] you cannot afford to do that. You will need 5, 6, 7% return on investment to build up either the pension fund, so you can pass on the assets sooner, or to create the funding that you need to pay off the IHT [inheritance tax] bill. And the reality is, a lot of farms just are nowhere near that at the moment. And if you said to them [farming businesses], "that's what you need to achieve". They'd have no idea how to do it." Martin Collison, Director

Summarising the economic evidence and the discussions there are many drivers for the current economic positioning of UK agriculture, and these have been collated from the farming business and the investor/lender perspectives.

Farming businesses

- **Mindset:** given the cessation of the previous public payment system the mindset of those leading farming businesses is key (see Section 3). There is a need to address a form of 'muscle memory' which prevents mindset change. Farming businesses that have become accustomed to developing a business plan underpinned by government payments, where these are now absent, will need to become more agile, more focused on a market-driven sector, enterprise level margins and overall profitability, especially if doing less, may be more profitable. What are we trying to achieve? What should we keep doing? What should we stop doing? What can we do instead?
- **Strategic management:** From a business perspective there is a lack of strategic management of the asset base. Many farming operations choose to leverage their owned fixed assets³⁴ conservatively. The advantage is that they are more financially resilient to working capital deficits³⁵ in the event of crop failure, animal disease or economic shocks. But this strategic approach stifles growth and innovation in the sector;
- **Skills and capabilities:** Farming operations may not have the inclination, nor perceive they have the skills and capabilities to leverage their assets nor see a viable internal value proposition for them to invest in new opportunities; and
- **Uncertainty:** Lack of confidence may discourage farming operations from signing up to long-term debt commitment based on previous experiences and current political and policy uncertainty.

Investors/financial lenders

- **Investible product:** Whether due to deficits in natural, economic or human capital, the farming business is not perceived as an investible product by potential investors;
- **Financing options:** Lack of the appropriate financing products that farming businesses (owner occupiers, contract farming enterprises, tenant farmers etc.) find appealing to their differing risk appetites, so they fail to leverage their assets; and
- **Uncertainty:** Investors/financial lenders see a degree of economic or geopolitical risk in the agri-food sector and perceive a low level of business confidence in their capability to service long, or even medium-term debt. As a result, they decline to lend to businesses they perceive as vulnerable.

In summary, some farming businesses may choose to avoid the risk associated with servicing high levels of debt amongst the wider multi-risk profile that farming businesses are willing or in many cases forced to accept. Nicola Shadbolt and Femi Olubode-Awosola in their work on resilience, risk and entrepreneurship of New Zealand dairy

farmers characterised farmers into three groups (entrepreneur/gambler, competent conservative, experienced but cautious) which goes some way to explaining these approaches to risk (see Figure 3)³⁶. Through the discussions a series of risk-related themes emerged around risk appetite, risk management, strategic management and mindset which are reflected on in later sections of this report. In a discussion with Nicola Shadbolt, Professor of Farm at Agribusiness Management at Massey University, New Zealand stated:

“So, you have to have risk management skills and we've done a lot of analysis of what those skills are and how they've developed over time. it doesn't mean our farmers have taken out any less debt. I mean, our dairy farmers [in New Zealand] are about 50% indebted, which is much more than it ever used to be. But they've learned how to manage it. You know, they've got the tools in place, they always say, if you've got as many tricks up your sleeve as events that can be thrown at you, you're okay... you can be proactive, you know how to respond. And risk management and the skills around that are absolutely critical. Once you get out of a supported system. You are on your own.”

Entrepreneur/Gambler	Competent Conservative	Experienced but Cautious
<ul style="list-style-type: none"> • More likely than other groups to be in a business growth phase. • Perceive most upside risk from uncertainties – risk takers. • Produce to full capacity where possible. • Less likely to use practical planning steps. • Do not prefer to keep debt low as a risk management strategy 	<ul style="list-style-type: none"> • More likely than ‘experienced but cautious’ to be in a business growth phase. • Do not perceive themselves as either risk takers or risk averse. • Some play it safe by not producing to full capacity. • Use practical planning steps. • More likely to keep debt low and manage debt. 	<ul style="list-style-type: none"> • Less likely to be in a business growth phase. • Do not perceive themselves as risk takers i.e. most risk averse. • Play it safe by not producing to full capacity. • Likely to use practical planning steps. • Most likely to keep debt low and manage debt.

Figure 3. Farmer typology of approaches to resilience, risk and entrepreneurship
(Source: Shadbolt and Olubode-Awosola, 2016)

Political and economic summary

1. GDP and GVA are important measures of economic performance and contribution, but they do not capture the totality of economic, environmental and societal contribution of UK agriculture to the national economy.
2. ROCE is a headline economic health metric that all farming businesses should continually track and implement investment and operational strategies to improve.
3. Farming businesses must have a viable economic proposition to attract investment or to absorb the cost of leveraging debt. The business must be an investible product (see Section 5).
4. Farming businesses must adopt a portfolio management approach to asset management considering all farm business opportunities (food, feed/fodder, fibre and fuel, fauna and flora and non-farming activities), optimising investment, risk management and business performance (see Section 6). They need to develop appropriate performance monitoring processes to determine their progress against specific milestones and business goals i.e. delivering on a balanced scorecard (see Section 7).



5. Farming businesses will only be willing to take risk, invest and leverage debt and can only deliver their value proposition (both internally and externally to the business), be an investible product and adopt a portfolio asset management approach if they have confidence and are opportunity-driven in their mission. This confidence stems from trust firstly, in the market signals from the agri-food supply chain and, secondly, in the competence and foresight of UK government and lastly, in their ability to enable and drive successful UK agri-businesses that deliver for the UK economy.

The critical need that arose from the discussions was that:

The UK agricultural sector must transition into a mission-led, agile and opportunity-driven industry, one that can adapt to future opportunities, shocks and challenges, while embracing sustainable practices and smart innovation.

In short, the UK agricultural sector must be resilient and robust. The themes of value proposition, investible product, robustness, portfolio asset management and a balanced scorecard are returned to throughout the report. The next section considers the policy context.