

Cost of Production

Alec Smith, Business Advisor

“If you would like any help in reviewing your whole business or an enterprise please contact me, Alec Smith, and I will be happy to assist”

In recent years the cost of production hasn't been a hot topic. Due to record profits coming from high crop prices we could all be a bit guilty of letting our costs creep up as this was less of an issue when we were making good margins!

Now that crop prices have taken a tumble and so have our margins, the costs of production have come back into the limelight. So how much does it cost to produce a tonne of wheat or oilseed rape? Your individual costs will differ from the ones I have stated below but they will give you a good guide.

These figures are based on the average yields over the last 3 years, the average variable cost spend and the average fixed costs over all of our farmed area. The direct costs are made up of seed, fertiliser, sprays and other variable costs. The fixed cost element is based on the labour, machinery, general, estate, finance and rental costs; these are then adjusted for single farm payment and non-farming income, they are all then attributed on the basis of work carried out on producing that tonne of crop.

As can be seen from the cost of production figures below there is not a lot of gold with the current wheat price (at the time of writing) for 2015 harvest being £135/t. As the figures are based on the average farm there will be many reading this that have a negative net margin wheat crop in the ground with crop prices at this level. And with the current 2015 harvest oilseed rape price at £252/t (at the time of writing) there will be many of us with an oilseed rape crop in the ground that will lose us money.

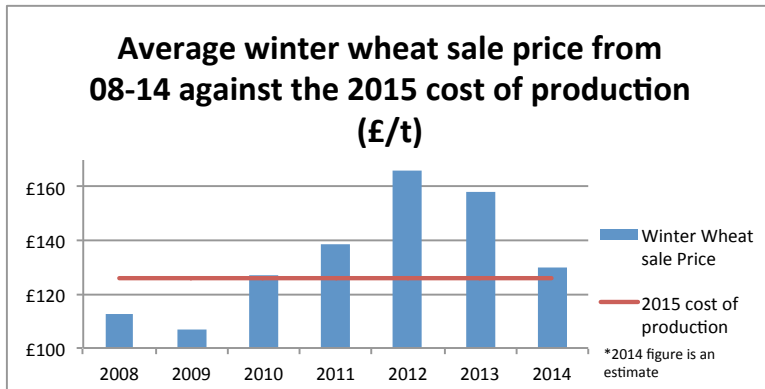
The graph opposite shows the average overall wheat price for each season from 2008 until 2014, and plots the current cost of production as well. Two years out of 7 the sale prices are below this level showing it is likely we are going to experience some times ahead where sale prices are below the cost of production with many experiencing this this year.

So what do we do about it? Do we bury our heads in the sand and use the hope strategy 'ahh it doesn't matter as the price is bound to go up' or do we review our cost structures and reduce our cost of production

Crop	Direct Costs £/t				Fixed Costs £/t	Cost of Production £/t
	Seed	Fertiliser	Spray	Total		
1 st Winter Wheat	12	24	21	60	66	126
2 nd Winter Wheat	10	30	26	69	63	132
Winter Oilseed Rape	19	64	57	145	143	288
Spring Barley	12	20	16	51	71	122
Winter Barley	17	29	21	69	79	148
Sugar Beet	3	4	4	11	13	24
Beans	19	3	37	63	128	191

2015 crop costs of production £/t

therefore ensuring we make a margin and be more resilient to the price volatility in the future, whilst still taking any advantage we can from any crop price increases.



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FarmREO
the complete renewables advice service by independent consultants.

Is your farming business spending too much on heating oil?

Time for Change?
The first step is to assess the scope for energy efficiency. In many cases, further insulation or simple draughtproofing can be very cost effective as a first step.

Replacing oil boilers with more sustainable alternatives can lead to:

- Immediate savings in fuel costs
- generating income through the Renewable Heat Incentive (RHI)
- great returns on the capital invested
- reductions in greenhouse gas emissions and
- improved energy performance (EPC) ratings for farmhouses and collages

For farmhouses and collages, consider a green deal assessment or even green deal finance – to offset the cost of improvements against the savings in energy costs. Remember that you will need to have an EPC of E or above for fuel collages in three year time.

The running costs of a woodchip boiler are typically under half the cost per kWh heat of heating oil, even after recent oil cost reductions are taken into account. Wood pellets, logs or sludge in high efficiency boilers can also save energy costs.

FarmREO is a nationwide consortium of independent agricultural consultants advising farmers and landowners on energy efficiency and renewable energy options.

We assess your situation and advise on the options that would best meet the needs of your farming business.

Independent advice on the right option can be the best investment of all.

For advice on your options, contact Peter Fane MRCS, FarmREO East, Cambridge
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