IDENTIFY THE KEY FACTORS

It is hard to believe four years have passed since the UK voted to leave the EU. Many thought the referendum result would impact lifestyles in ways not experienced for generations.

Opposing points of view divided families and shortened political careers. Economists filled columns with untested theories predicting either economic disaster or unparalleled growth; for those involved in complex trade negotiations nothing could be more important than getting us out of the EU and shaping a new future for the UK and its people.

Just a few months after independence, none of the theatrics experienced either before or after the referendum seem important. Coronavirus has changed the economic landscape in a way not seen since the Second World War. With no end in sight and long-term strategic plans consigned to the dustbin, governments around the globe have been forced into managing countries on a day-by-day basis as they attempt to navigate through a pandemic for which no one was prepared. The rule books have been discarded and now the only certainty is uncertainty.

This Armageddon-like appraisal exaggerates the situation, but there is no denying that planning for the future has become harder. With more variables than usual, is the simplest solution to do nothing and hope for the best? Some sectors might favour that approach but with subsidy reform looming and a no-deal Brexit threatening output prices, can agricultural businesses afford to take that risk?

The answer is almost certainly no, but with so much uncertainty, what is the best way to assess the health of a farming business?

In other industries new businesses are established with the clear intention of eventually selling them as going concerns. From the outset these entrepreneurial investors attempt to identify the key factors to achieve success and then focus their efforts accordingly. The farming industry may not be suited to this ruthless in and out approach, but some aspects of their methods are applicable. For example, a predominantly arable business should consider:

1. Are the core activities profitable? Should underperformers be dropped?
2. Where and who are the customers for the primary produce? Is the market reliable?
3. Is infrastructure fit for purpose, e.g. is grain storage adequate?
4. What is the turnover? Is enough cash being generated to fund growth?
5. Is the debt level sustainable? Can it be restructured to suit cash flow and new investment requirements?
6. Is land ownership structured to minimise capital gains tax at sale or inheritance tax if generation change is relevant?
7. Is rented land secure and the rent paid economically viable?
8. Has the business diversified? Is the income vulnerable? Is more investment required to secure sustainable income?
9. Is the business structure appropriate and tax efficient?

Some questions will have unpalatable answers and be tempting to ignore. If this was an article giving medical advice the closing sentence would almost certainly say now wash your hands and stay healthy. It isn't but the sentiment is the same.

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