

Predictably unpredictable

On the eve of the Basic Payment Scheme the farming industry is under the cosh. They say everything goes in cycles; up, down, up and then down again. If needed, the dictionary defines volatility as: liable to change rapidly and unpredictably. Especially for the worse!

What we have come to understand is that the unpredictable is utterly predictable! Just as we started to believe the rhetoric; even more wealthy mouths to feed, nine billion people by 2050, etc. etc. etc. bang, back down to earth with a solid thud.

For cereal producers the dismal wheat price will not hurt as much as it could have done. 2014 was, by most measures, a good harvest with yields 20 to 25% above average. A Weald farm that sold 3.2 t/acre in 2013 produced close to 4 tonnes in 2014. At the higher yield, grain recently sold at £120/t achieved the same gross output as last year and for those that sold a significant quantity forward a visit to the big boys toy shop might have been on the cards!

The fly in the ointment is that the outlook for next year's prices remains low and there is nothing to suggest a rapid recovery. Even if 2015 mirrors similar growing conditions and yields it is likely more will feel the pressure as cash flow tightens.

Other sectors are feeling the squeeze. Milk producers were some of the first to suffer the effects of import bans and counter embargos applied by Moscow and the EU following Russia's intervention in Ukraine. In the



twelve months to this September milk prices ranged from a low of 30ppl to several pence above that for those on the best contracts supplying top class, Grade A liquid. But prices have been tumbling and one commentator recently predicted spot prices dropping below 25ppl before we reach Christmas. To put this in context 275 cows producing 8,000 litres could see annual milk sales fall by £40-£80,000 with lower feed costs likely to claw back only £10-£20,000.

With no need to prolong this sobering account it seems the picture for 2015 is clear and it is not good. Is that the whole story or is there perhaps room for optimism?

For those that remember, the mid to late nineties were boom years. After IACS payments started in 1992 farm profits kept rising. Then, as the decade drew to a close, commodity prices fell sharply, particularly in the cereal and milk sectors. History might record that this period marked the start of a silent revolution, not as dramatic as the threshing

machine wrecking Tollpiddle Martyrs but nevertheless significant. Up until that point farmers produced food and, apart from a few traitors trying diversification, food was it. Now, twenty four years after broad acre subsidies were introduced, the industry is different. Income from food production is still significant but is now matched, and often exceeded, by contributions from let units, livery yards, feed-in-tariff, holiday lets, energy sales, farm shops, music events, camp sites, let cottages, brewing, wine making - the list goes on. It was also during this period that contract farming arrangements were developed by likeminded farmers determined to overcome the problem of poor commodity prices.

So the farm business is a different shape to the model overseen by our forebearers. How then, and with the enduring back drop of low finance costs, does the business prepare for the bank meeting when, in many cases, a larger overdraft facility will be required?

To start don't overlook the fact that the banking sector is part way through a transformation of its own. If there was ever a relaxed approach to the ever green agri-sector then that has changed. Banks are under as much scrutiny as the farming industry. This means that where funds are required, the bank must be satisfied that they are lending responsibly. Like it or not the lender will require accurate and relevant information to include cash flow budgets, stock values and balance sheets.

And whilst some still regard the bank as a necessary evil ensure you turn the preparation of the budget into an opportunity. If the time spent at the computer proves what your gut has already told you, that profitable new enterprises are propping up loss making others, farming or otherwise, don't ignore it. Drive out the volatility from your business you will be better off without, no matter what wheat is worth.



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