## INTRODUCTION

Despite the weather, 2018 will have produced reasonable profits for many farm businesses. But there will be large variations between sectors and even individual farms. In general, the cold, wet spring followed by the dry summer has probably had a more negative effect in the livestock sector than on arable farms.

With many businesses seeing solid returns, the temptation may be to continue doing the same things in the same way. However, what produces a profit under current conditions may not do so in the future. *Is your farm in the best shape to cope with the more difficult business environment that may lie ahead?*

## BREXIT AND POLICY

With a little over two months to 'Brexit day' on the 29th March, it might be expected that the terms of the split would be clear, and businesses could plan with confidence. But a failure of leadership across the political spectrum leaves the result uncertain. At the time of writing, all outcomes from a 'No-Deal' Brexit to Remain still seem possible.

If a deal of some sort is concluded then this will almost certainly include a transition period until Dec 2020, and possibly longer. During this time there would be minimal change for UK farm trade – meaning little disruption in markets and prices. Free movement of labour would also operate so issues of staff availability, especially in the fresh produce sector, may be delayed. A 'No Deal' scenario would see massive upheaval in markets, although those sectors where the UK is a net importer may see a boost. *Are your farm finances robust enough to weather a period of extreme price volatility?*

What has become clearer since the last LAMMA Show is the future of farm support in the UK. This will change under every Brexit scenario short of 'Remain'. The current BPS (and agri-environment schemes) will continue largely unchanged for 2019 and 2020. Then new programmes will be introduced. In England this will see the BPS phased-out over 8 years so that, by 2028 there will be no area payments. All support will be for 'public goods' such as biodiversity, water quality, public access etc. through a new Environmental Land Management (ELM) scheme. The eventual funding for this compared with the current BPS is unknown, but it will deliver a far lower profit than area payments. *What would your accounts look like if the BPS were removed?*

The devolved administrations will operate their own schemes, and there is likely to be greater divergence between the different parts of the UK.

## ECONOMICS

The recent improvement in farm profitability is largely related to the weakness of Sterling since the EU Referendum in mid-2016. If a Brexit deal is reached this may see a strengthening of the Pound which would be bad for UK farming. Interest rates remain low, but the prospects for economic growth remain subdued. Low consumer confidence is affecting discretionary spending which impacts on many farm diversifications. *Investments, whether in farming or alternative income streams need to be carefully appraised.*

## CROPPING

In the **grain** sector, prices for harvest 2018 were much improved as a result of a reduced global harvest and the continued weakness of Sterling. The higher prices offset drought-affected yields in many cases. Despite the prospect of a recovery in world production, values for harvest 2019 currently remain good in historic terms. *It is vital to know your costs of production and have a marketing strategy which allows you to 'lock-in' some profits if prices look attractive.*

Many combinable crop farms continue on a 'treadmill' of production. Resources are thrown at the crop, be it horsepower, ag-chem or even rent, with the aim of producing high enough yields to secure a profit. The results are often disappointing. Minor tweaks in rotations or systems may not achieve the necessary change. *Is it time to step back and review your production strategy?*

Andersons Loam Farm Model tracks the fortunes of UK combinable cropping farms. The figures opposite show the improved returns from the last two harvests, and the reasonable prospects for 2019 (assuming an 'orderly Brexit). But the proportion of current business profit coming from the BPS should be noted, with this support likely to change radically in the years ahead.

| ***LOAM FARM £ per Ha*** | **2016** Result | **2017** Result | **2018** Est. | **2019** F'Cast |
|---|---|---|---|---|
| Output | 1,061 | 1,205 | 1,214 | 1,283 |
| Variable Costs | 421 | 395 | 403 | 443 |
| Gross Margin | 640 | 810 | 811 | 840 |
| Overhead Costs | 394 | 413 | 421 | 444 |
| Rent & Finance | 242 | 242 | 242 | 240 |
| Drawings | 77 | 77 | 79 | 79 |
| Farming Margin | (73) | 77 | 70 | 77 |
| BPS (Support) | 213 | 228 | 228 | 221 |
| **Business Margin** | **140** | **305** | **298** | **298** |

**Potato** growers had a difficult season in 2018. For some the current high prices will compensate, but not universally. Plantings usually rise following a high-price year which has implications for 2019 crop values. *This remains a volatile sector and businesses need to ensure that returns justify the risks.* Contract prices for the 2019 **sugar** crop continue to be in the low £20s. This is likely to be where values remain unless there is a sustained improvement in commodity sugar values. *Are your beet yields high enough to make a profit at these prices?*

## LIVESTOCK

**Milk** prices have been good during 2018 and firmed further during the summer and autumn in anticipation of a drought-induced shortfall in production. With this not (yet) materialising, prices have come under pressure as global markets have been weak. It is likely that the first part of 2019 will see further price reductions. *Farmers should understand their market and see if some of the new longer-term pricing arrangements that are appearing are right for them.*

With a shortage of forage the winter of 2018/19 could be a high-cost one on many UK dairy farms, with a resulting squeeze on returns.

Both input and output prices will continue to cycle up and down. Farmers should consider budgeting for average prices over 3 or 5 year periods and seeing whether the business delivers adequate returns. *If not, it may be time to consider radical changes. This does not have to mean exiting dairying - a switch in system or a joint venture could restore long-term profitability.*

In the **grazing livestock** sector the 2018 year produced steady prices (aside from a very high early-season lamb market). This is likely to produce some profit on an average farm, once the BPS is included. However, too often, businesses in this sector fail to have a proper understanding of their costs. The key to profitability in these sectors is to keep costs in proportion to output. The best producers tend to maximise the contribution of grazed grass and minimise the costs associated with housing animals (labour and machinery) They also focus on producing to the specification the market demands *There are huge opportunities to increase efficiency in the beef and sheep sectors.*

## HELPING YOUR BUSINESS

With Brexit creating great uncertainty, farms need to ensure they are as robust as possible. This includes reducing debt and taking great care over investment decisions to ensure that they are productive and genuinely contribute to improved future profitability. On the positive side, UK farming has 65 million affluent consumers on its doorstep. Those famers that can supply safe, nutritious food at a price that is competitive will continue to prosper.

Andersons already work with some of the most progressive farm businesses. Our consultants can help you make the correct strategic decisions and improve profitability.

***Please contact us for a FREE initial visit to discuss any of the issues raised in this brief.***



Through its regional businesses, Andersons are leaders in independent business consultancy in UK agriculture. Please contact one of the offices below for more details on the topics covered in this publication.

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## Business and Policy Issues