

INTRODUCTION

This Brief looks at some of the key issues for arable businesses in 2017 and beyond. Harvest 2016 has seen a wide range of yields. Despite recent rise in prices profitability on many units will be under pressure. It seems likely that the recent short term uplift in prices, partly due to currency will soon be offset by similar percentage rises in inputs.

PRICES

Prices for combinable crops in the UK have received a 'Brexit boost'. The weakening of Sterling against both the Euro and Dollar has seen domestic markets improve. This has been welcome, with yields for the majority of farmers for harvest 2016 well down on the records seen for harvests 2014 and 2015.

It remains to be seen whether this price rally is maintained. The result of the US election could see the Dollar weaken which would hit UK prices. Global cereals values are at 10-year lows. The world has now had four harvest with cereals production outstripping consumption; the resulting stocks are weighing heavily on global markets. Another major shift in currency could see these low global values transmitted into UK markets.

PROFITABILITY

The table overleaf shows the latest profitability figures from Andersons' Loam Farm model. This is a notional 600 hectare business with a simple rotation of milling wheat, oilseed rape, feed wheat and spring beans, and is based on real-life data.

Despite good yields, profitability from harvest 2015 was lower than the previous year as a result of falling output prices. The rise in markets post harvest 2016 has seen margins stabilised despite lower yields, albeit at loss-making levels. A higher Basic Payment helps lift overall farm profits. The prospects for harvest 2017 currently look better, but are

reliant on grains markets remaining around their present levels.

BUSINESS MANAGEMENT

Loam Farm illustrates trends in arable profitability but every farm is different. There is a vast range in busi-

LOAM FARM £ per Ha	2014 Result	2015 Result	2016 Budget	2017 F'cast	2025 Soft Brexit	2025 Hard Brexit
Output	1,132	1,048	1,022	1,126	1,113	1,041
Variable Costs	425	431	421	398	411	417
Gross Margin	707	617	601	728	702	624
Overhead Costs	407	404	394	411	422	439
Rent and Finance	218	243	242	243	210	152
Drawings	75	75	77	77	77	77
Farming Margin	7	(105)	(112)	(4)	(7)	(45)
BPS/SPS and ELS	226	179	209	208	139	71
Business Margin	233	74	97	204	132	26

ness performance in the UK cereals sector. Some of this is down to inherent factors such as soils or climate, but the majority is down to the quality of management. This includes optimising (but not necessarily maximising) yields through timeliness of operations; choosing the right areas to crop; maintaining soil health; resourcing labour and machinery efficiently; and taking an active approach to marketing crops.

BREXIT

Looking at a longer-term analysis of the outlook for Loam Farm and the potential impact from the Brexit vote. A Soft Brexit, with the retained Single market access maintains similar output, but with a slightly higher trading fees. Costs might also be hardly affected.

The Hard Brexit though shows some sharp movements. Wheat prices have been decreased and may be subject to more volatility, being a net exporter, OSR does not change, as the EU has no tariffs for it, and pulses hardly change as its tariff is low. Labour has been increased, on the basis that migrant workers may be less available, creating wage inflation in Rural Britain. Rent has fallen sharply and most importantly subsidy has been slashed by two thirds.

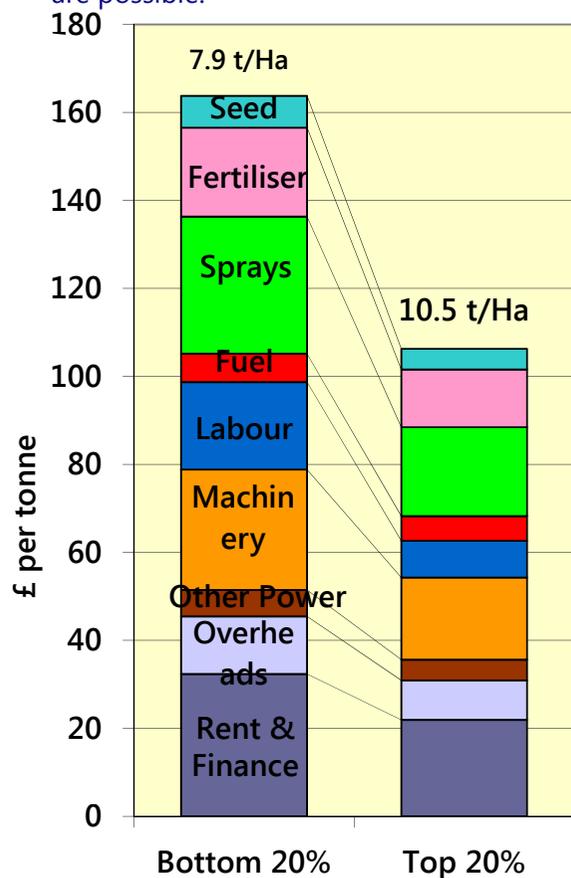
RANGE OF PERFORMANCE

The range in performance on farms is growing, this is illustrated using Loam Farm and Farm Business Survey figures overleaf. The farms in the top 20% are not necessarily doing anything radically different to those in the bottom 20%, it is the generally the accumulation of lots of things done slightly better.

Areas which should be looked at include;

- optimising (not necessarily maximising) yields through timeliness of operations and the correct use of inputs
- finding the right balance in rotations to control weeds, make optimum use of machines, whilst returning the best margins
- choosing carefully which areas to crop. For those that consistently underperform would it be better to fallow them, or can they be improved with investment in drainage or soil structure?

- realistically assessing the contribution that rented (or contract farmed) land makes to business profitability
- resourcing of the business in terms of labour and machinery – there is still huge scope for costs to be reduced in this area, including through businesses working together
- looking at the 'other costs' in the business such as property, administration etc. These often go unchallenged, but significant savings are possible.



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HELPING YOUR BUSINESS

The gap between the best businesses in UK agriculture and those that are average is widening. The difference in performance is almost wholly down to management.

There is no 'magic bullet'. It is a question of finding a structure and system that suits the farm and its proprietors, and then operating this with timeliness and attention to detail. At Andersons we provide cost-effective advice that means you get the best returns for your investment of capital and hard-work.

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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Croptec Brief

November 2016

Business and Policy Issues