Chartered Accountants and Business Advisors

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Harvest 2019, potential impact on performance and cashflow

Introduction

With Harvest 2019 more or less wrapped up in the majority of the country. Many arable businesses are turning their attention to establishing the next crop. However, it is also the time businesses should be planning to understand current performance and protect cashflows.

Forecast business profitability

While the figures from AHDB indicate this year's harvest was large nationally, you may be feeling confident for the months ahead. With the grain stores full, it is easy to expect this will increase business profitability and cashflow, but from my initial analysis, this may not be the case:

Forecast Performance

	Harvest		
	2019	2018	2017
	£	£	£
	Forecast		
Gross output	391	432	376
Less: variable costs	167	167	168
Gross margin	224	265	208
Fixed costs	262	258	233
Rent and finance	64	62	55
Farm business loss	-102	-55	-80
Other business income *	225	214	201
Business profit	123	159	121

* This includes BPS and enviromental receipts

The forecast is based on historical published farm performance figures adjusted for the 2019 yields and November forward prices. It shows that even with the larger than average harvest, the expected margin is lower by over £30/ac than 2018 due to depressed market prices. The reasons for this are well documented with large global crop, uncertainties over Brexit and our the export market. Even returns from straw are half compared to 12 months ago.

In addition, price inflation continues to drive up costs. The factors here are wide ranging from increases in the living wage and employer pension contributions, the current weak £ against both the € and $, and increased costs for investment in machinery and infrastructure.

Assess your financial position

There are several practical steps you should be taking now:

1) Based on your harvest yields, forecast your likely profit for your financial year based on existing contracts or current market prices.

2) Review your cashflow for the next 12 months and adjust based on your expected or planned marketing of your grain. This should include
    a. existing bank or other loan commitments
    b. planned capital expenditure
    c. tax payments - ask your accountant to confirm or estimate your expected in January and July 2020.
    d. review the financial commitments for the family including school fees.

3) Talk to your bank and review your facilities and ensure they you have adequate headroom to cope with various scenarios such as:
    a. Delay in BPS being received, especially if your claim has changed due to land transaction
    b. Further reduction in prices due to currency movement or Brexit "shock"

4) If you have a 31 March / 5 April 2019 year end, prioritise getting your information to your accountant. They will need this to provide your tax estimates. Remember, you will be potential paying tax on higher profits of the previous year.

5) Explorer opportunities for further diversification of the farm business. This would involve carrying out an estates review and critical appraise the use of the assets of the business. The winter period is an ideal period to do the work, but planning needs to have started now.

6) Are you Brexit ready? DEFRA have issued guidance which continues to be updated as the Government prepares. It is important they are reviewed to avoid any surprises later.
7) Ask for feedback from your advisors. You wanted candid opinions on what is going well, and the areas to improve / focus to improve resilience of your business.

Planning for the future

With the planting of the 2020 crop well underway, it is important to review the business and assess ways to improve its performance for the future. The areas I would consider:

1) Marketing strategy – should you sell a proportion of the crop forward. This year if you had sold 50% crop forward, it was worth £30-£50/ac
2) Access to new markets – this may need to be through a Grain Cooperative to benefit from advanced processing facilities
3) Review capital expenditure and machinery replacement programme for the next 5 years. Depreciation continues to be the largest single cost to the business.
4) Be clear of the family tax position for a rolling 18 months ahead so is planned for. Avoid operating your machinery replacement policy to manage your tax liability, this leads to poor management decisions.

Call to action

This process should give you a clear list of business actions and priorities which are shared with the family and employees. Otherwise your business will continue to be "done to" as opposed to being ready to navigate the possible challenges ahead.

If you require help on the points raised, please contact me

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