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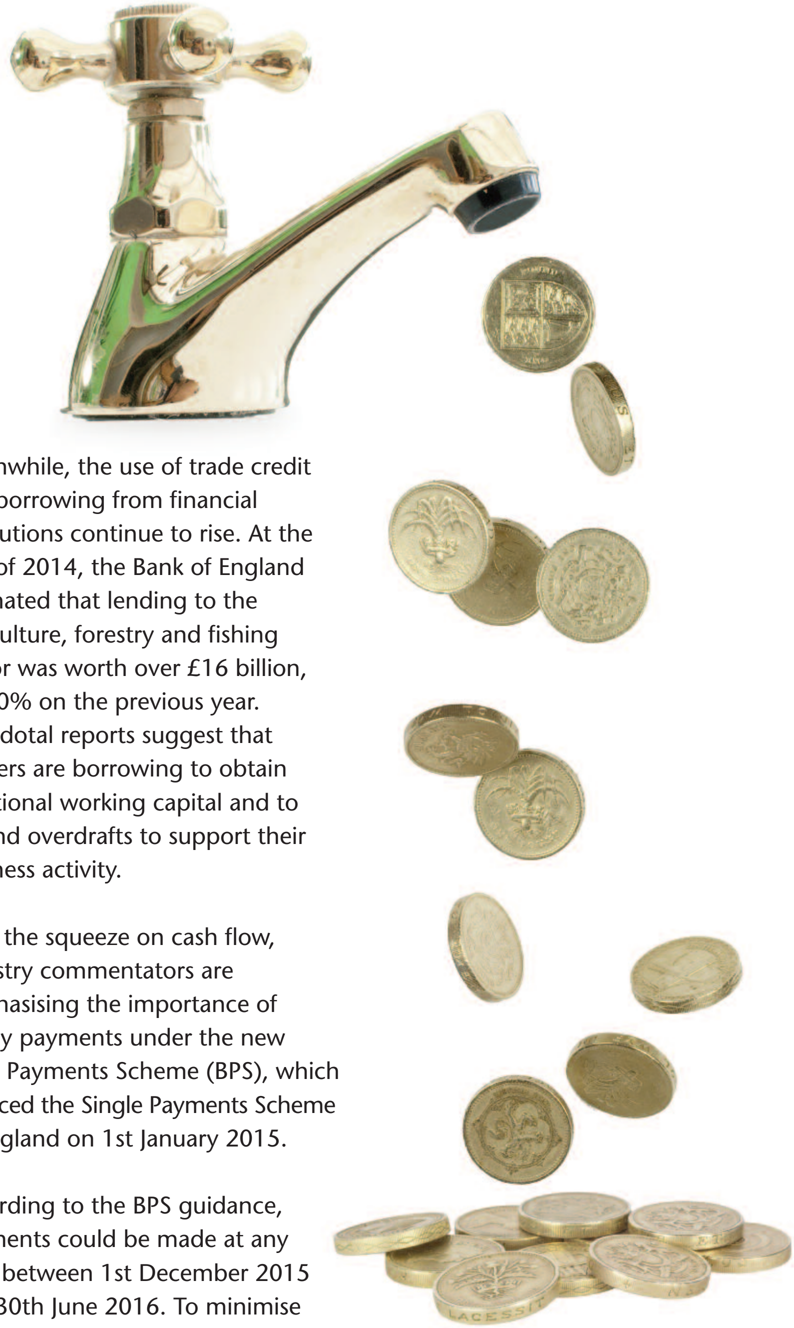
tough times cause farms cash flow problems

Falling commodity prices are leaving farmers with the daunting prospect of cash flow problems, according to farm business consultants, The Andersons Centre, who are predicting that producers may struggle to be profitable in the coming months as the downward trend in trading prices continues.

The news comes in the May 2015 edition of the 'Agricultural Budgeting and Costings Book' that offers little hope of an imminent upturn in commodity prices, which have continued to fall across a range of products.

In the 12 months to May 2015, there were significant decreases in unit prices, notably in feed wheat, which is down 32%, and milk, down 26% on last year. The book reveals that for cereals crops such as winter feed wheat, the costs of production exceed both current and expected future trading prices when labour, rent and finance costs are taken into account. Andersons' Head of Research, Richard King, has been keen to stress that the latest figures are averages and that some firms will perform better than others, but what is of concern is that the gap between 'the best and the rest' is continuing to grow.

With the UK farming largely dependent on trade within the European Union, the strength of the pound against the Euro is keeping UK commodity prices low and although production costs have receded, cost levels are still higher than those seen five years ago. Oil prices are beginning to rise again and price inflation is apparent across many farm inputs, such as pesticides.



Meanwhile, the use of trade credit and borrowing from financial institutions continue to rise. At the end of 2014, the Bank of England estimated that lending to the agriculture, forestry and fishing sector was worth over £16 billion, up 10% on the previous year. Anecdotal reports suggest that farmers are borrowing to obtain additional working capital and to extend overdrafts to support their business activity.

With the squeeze on cash flow, industry commentators are emphasising the importance of timely payments under the new Basic Payments Scheme (BPS), which replaced the Single Payments Scheme in England on 1st January 2015.

According to the BPS guidance, payments could be made at any time between 1st December 2015 and 30th June 2016. To minimise the negative impact of possible delays, Andersons are advising farmers to budget for payment in March 2016, rather than December 2015, and to identify the factors within their control, such as spending, when revisiting their cashflow plans. http://bit.ly/1BTrz4e

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‘drastic rethink’ needed on council-owned farms

The Taxpayers’ Alliance (TPA) has called for a review of a wide range of council-owned assets, including as many as 2,586 farms, suggesting that their sale could help local authorities raise the funds needed to ease their budgetary constraints. The TPA, a campaigning group dedicated to cutting public spending and protecting taxpayers’ interests, based their research on information gathered from local authority asset registers and Freedom of Information requests.

The local authorities owning the highest numbers of farms include those in Gloucestershire, Devon, Cornwall, Lincolnshire and Bedfordshire, each owning more than 100 farm properties. Other assets owned by local authorities included golf courses, restaurants, hotels and shopping centres. In interpreting their findings, the TPA has found little justification for council tax increases given the extensive assets at councils’ disposal. They suggest that some of the more unlikely assets could be ‘returned to the private sector’ to help councils balance their budgets and provide essential public services.

Responding to the TPA’s findings, the Local Government Association (LGA) said that councils constantly review their assets to ensure they represent value for money for the taxpayer. Council assets generate steady revenue in the form of rental income to help support public services and reduce council tax bills, while farm tenancies provide a vital first step on the ladder for new entrants to the farming industry.

Since the economic downturn, many councils, including Gloucestershire, have approved the sale of tenanted farms in an effort to raise millions in capital receipts. According to the LGA, councils are to sell £13.3 billion worth of land and property in the next three years, much higher than the £5 billion original proposed by HM Treasury. Read more at: http://bit.ly/1HrUk8u

weak end-of-season fertiliser prices benefit buyers

Fertiliser prices fell at the end of the buying season in May 2015 due to farmers being slow to order stocks of fertiliser as a result of cash flow pressures. However, in some areas of the UK, prices steadied due to demand for quick delivery of fertiliser supplies rising as farmers needed to apply fertiliser within a narrow time window.

Prices of imported ammonium nitrate (AN) fell the most, when compared with the price of full loads of UK-manufactured AN. In April and May 2015, the price gap between the two types of fertiliser charged in some areas doubled to more than £40/t.

Changes in buying behaviour among livestock farmers have also affected the market. Some fertiliser traders have reported that many livestock farmers have turned to using straight nitrogen this season and have either reduced or completely avoided the use of phosphorus and potassium.

New season pricing of fertiliser was also expected to be competitive. Traders are awaiting the outcome of various tenders from abroad which could affect the price of fertiliser such as urea, as well as setting the benchmark for the European market’s new season for fertiliser sales. As a result, new season prices of granular material were forecast to be lower than prices in June 2015.

Fertiliser traders, who were expecting business to be slow when new season prices were released, also face continuing challenges as a result of continuing cash flow pressures faced by farmers, whose stores still hold high volumes of grain.

Availability and stocks of fertiliser for autumn delivery are also expected to be high, and therefore prices are expected to be competitive, but traders are likely to offer new finance terms in order to encourage farmers to commit to buying in bulk. http://bit.ly/1U3xA4i

in brief...

Defra postpones new livestock recording rules

The introduction of new livestock recording rules has been postponed by the Department for Environment, Food and Rural Affairs (Defra). The new rules cover England only and will, when in force, require farmers with agri environmental agreements to record livestock movement at 'land parcel' level. Natural England claims the livestock movement records are needed to satisfy European Union evidence requirements. However, the National Farmers' Union (NFU) has described the additional burden on farmers as 'onerous' and criticised the lack of available guidance.

Read more about the postponement at: http://bit.ly/1LFtY5U

Hedge and tree trimming restrictions updated

New restrictions on hedgerow and tree cutting, and trimming have come into force in England. Under Good Agricultural Environmental Condition (GEAC) 7c, farmers in receipt of Basic Payment Scheme (BPS) payments must not cut or trim trees or hedges on scheme land between 1st March and 31st August (inclusive). This 'no trimming' period is one month longer than the period imposed by previous cross compliance rules and it applies to both hedges and trees.

Read more about the restrictions at: http://bit.ly/1GM1lxj

RDPs for Wales and Scotland approved

The European Commission has approved Rural Development Programmes (RDPs) for Wales and Scotland. The Welsh RDP 2014-2020 will receive £957 million, almost 13% more than under RDP 2007-2013, and the Scottish RDP 2014-2020 will receive £1.3 billion. The funding will be used to support farming, food production, rural communities and the environment in each country. England's RDP 2014-2020 was approved in February and, in June 2015, Northern Ireland's RDP 2014-2020 was still awaiting approval.

Read more about the Welsh and Scottish RDPs at: http://bit.ly/1IJwQZd

Health and safety expert warns farmers about social media danger

Allowing farm workers to access social media websites while working increases the risk of accidents, Safety Revolution's Oliver Dale has warned. In a Farmers Weekly interview published in May 2015, Mr Dale said that many farm accidents involving students or casual workers can be linked to social media distractions. He recommended that farmers adopt a social media policy restricting access to Facebook and other websites during working hours and urged them to be 'proactive' in its enforcement.

The interview is available at: http://bit.ly/1GJMPoG

Voluntary origin labelling is the 'most suitable way forward'

The European Commission has recommended against extending mandatory origin labelling requirements to milk, dairy products and minor meats. In two reports published in May 2015, the Commission found that such an extension would disrupt cross border trade and cause logistical difficulties, with costs ultimately outweighing benefits. The Commission has also recognised a 'discrepancy' between consumers' interest in origin information and their willingness to pay for it. Although 84% of consumers surveyed by Eurobarometer in 2013 said origin information for milk is 'necessary', just 53% were willing to pay as little as 1% more for it.

Read more about the Commission's findings at: http://bit.ly/1GWAXDe

RDPs to be examined for 'gold plating'

The European Commission has announced a range of measures to simplify the implementation of the current Common Agricultural Policy (CAP 2014-2020). These include examining Rural Development Programmes (RDPs) for 'gold plating' by EU member states and clarifying ecological focus area mapping requirements. Gail Soutar, the NFU's Chief Economics and International Affairs Adviser welcomed the Commission's efforts, but said they did not go far enough with respect to the first year of implementation.

Read more about the measures at: http://bit.ly/1CGvRab

farming income falls after commodity prices crash

Falling prices for farming commodities and a strong pound led to a drop in UK farmers' incomes in 2014, according to estimates from Defra (Department for Environment, Food and Rural Affairs).

In real terms, Total Income from Farming (TIFF), which measures the aggregate income and performance of the UK agriculture sector, fell by 4.4% to £5.4bn in 2014. The TIFF value was also 1.2% lower than in 2011, the most recent year with comparable weather conditions. While good weather boosted crop growth, yields and production levels, falling commodity prices led to an overall 2.2% decrease in the value of outputs. The Single Farm Payment subsidy to farmers also contributed to lower incomes, with payments falling by 14% to £2.9 billion due to an unfavourable euro-sterling exchange rate. Higher capital consumption, labour and rent costs also put a squeeze on earnings.

Although agriculture's contribution to the UK economy in GVA (gross value added) rose by 3.2% to £9.9 billion in 2014, this was largely due to the falling cost of animal feed, which reduced the value of intermediate consumption.

By sector, cereals output increased marginally to £3.5 billion in 2014. A higher level of wheat production saw its value rise to £2.4 billion, although prices were lower than in 2013. Despite a 16% increase in production, oilseed rape fell in value to stand at £699 million in 2014, due to a 20% fall in its price. Output of livestock products was only slightly higher at £14.3 billion. The value of livestock meat fell by £311 million, mainly as a result of lower cattle meat prices, while milk increased in value to £4.6 billion on the back of the highest production levels since 1987. However, after a strong start to 2014, milk prices fell significantly in the second half of the year. Read more about TIFF at: http://bit.ly/1HrUEnJ

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NFU wins BPS grassland concession from EC

The National Farmers' Union (NFU) has reported that it has won a vital concession from the European Commission for grassland covered in the Basic Payment Scheme (BPS) in England. Under rules set by the Commission, farmers and landowners with more than 15ha of arable land must set aside 5% of their land as ecological focus areas (EFAs). This means that the land must either be left lying fallow, used as a buffer strip, or planted with 'catch-and-cover' crops, nitrogen-fixing crops or hedges. However, following concerted lobbying by the NFU, the Commission has ruled that grass margins in arable fields that are either part of stewardship schemes, or are coming out of such schemes, can be treated as meeting EFA targets.

According to the NFU, Defra has confirmed that the Commission will freeze the status of grassland during the lifetime of an agri-environment agreement. For example, this means that if land is under grass for three years, but is then set aside under an agri-environment agreement for five to ten years, as long as the land is still under grass, the 'clock' will start at year four on completion of the agreement.

Defra has confirmed that, in this situation, the land would be considered temporary grassland on completion of the agreement. This means that such grassland strips could be counted towards EFA targets as fallow land and they would not need to be ploughed up (which could lead to the loss of environmental benefits). However, permanent grassland cannot be used as a crop for crop diversification purposes or treated as fallow land for EFA purposes.

Read more about the ruling at: http://bit.ly/1IJxJ3S