



Cereals 2018

Agricultural Insight
August 2018

Introduction

In the ninth of its half yearly survey of attitudes in the farming sector, MHA asked a sample of visitors at the Cereals event on 13th - 14th June how they felt about various current issues. The survey follows on from similar samplings at Lamma and Cereals over the last four years and includes responses from farmers occupying some 74,000 acres.



 **David Missen**

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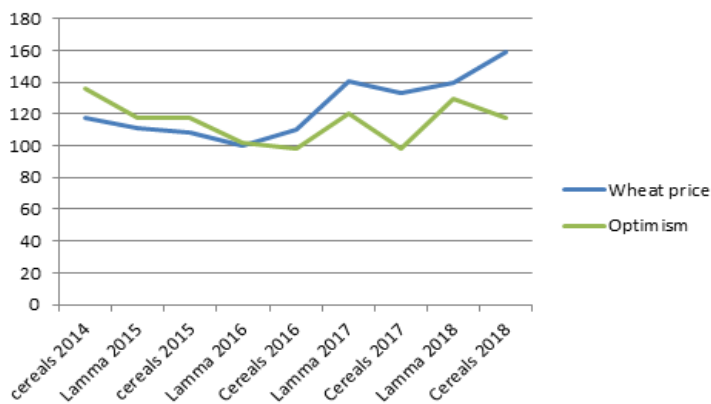


Cereals Survey Results 2018



Optimism

The general “feel good” factor which was identified at Lamma six months previously continued to make itself felt. Once again, when attendees were asked for a prediction of business growth in the next 12 months, almost 60% felt that there would be moderate or high growth in their businesses this year. This is slightly lower than the sample taken at Cereals 2017 when the same question showed that only 65% were optimistic, but both show the highest level of optimism which we have seen since the summer of 2014.



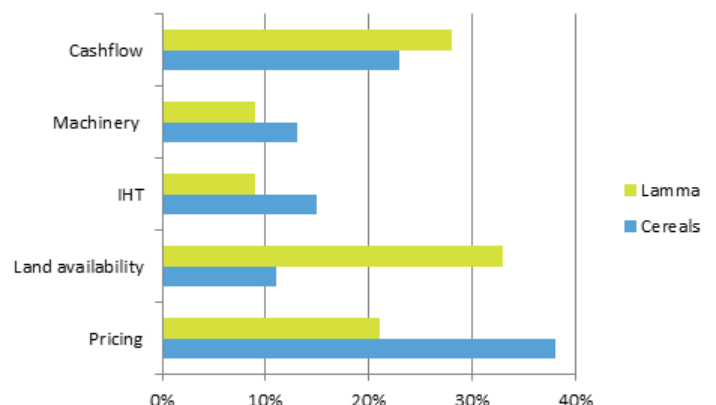
Comparison of the optimism index with movements in the price of wheat over the period suggests that the key output price is not the only driver for the feel-good factor. There is certainly a broad correlation between the movements, but optimism is rather more erratic - perhaps reflecting underlying political uncertainties, the state of cultivations or something as simple as weather on the day of the show. Certainly, the index at Cereals 2017 may have reflected the concerns over the total removal of subsidy which was being discussed at that point, whereas at Lamma six months later, assurances had been given that the amounts were to be guaranteed through to the end of the current Parliament. Over the longer term the “positivity index” is now almost back to where it was in 2014.

Concerns

Respondents were next asked for the nature of their specific concerns over the next twelve months. Despite cereal prices rising to over £150 a tonne at the time of the show, pricing is clearly still an important issue, with nearly 40% seeing it as their biggest worry, much the same as a year ago, and rather higher than the 21% at Lamma. Cashflow (which may be another way of expressing low profitability) remains a problem, but is becoming less pressing, down from 28% to 23% over the last six months and down from 38% a year ago.

At Lamma there was considerable concern about the availability of land, with a third of those asked seeing it as their biggest concern. This was felt less pressing at Cereals so may have been an anomaly (the Lamma sample was smaller than usual due to the show being abandoned on the second day). It is not immediately clear whether the concern is a shortage of land for sale, whether there are fewer opportunities to rent more land or take on contracting opportunities or even whether there is concern that land may not be retained when existing tenancies or contracting arrangements come to an end.

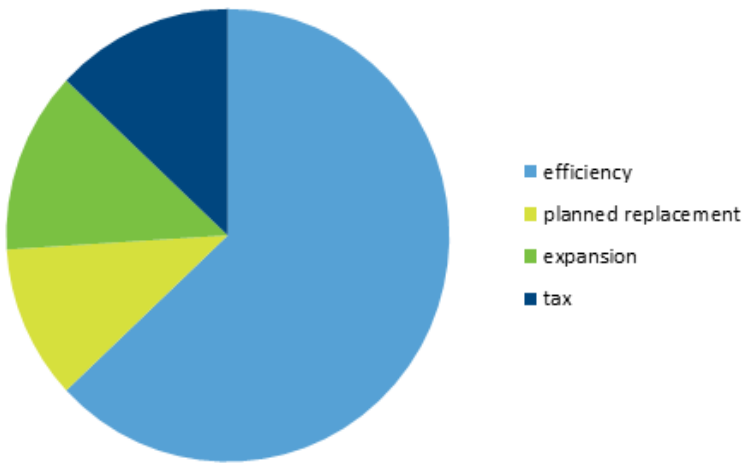
Other concerns such as funding machinery replacement and inheritance tax are still important issues, but clearly once again it is the short term financial issues which are at the top of the “worry list”





Succession planning

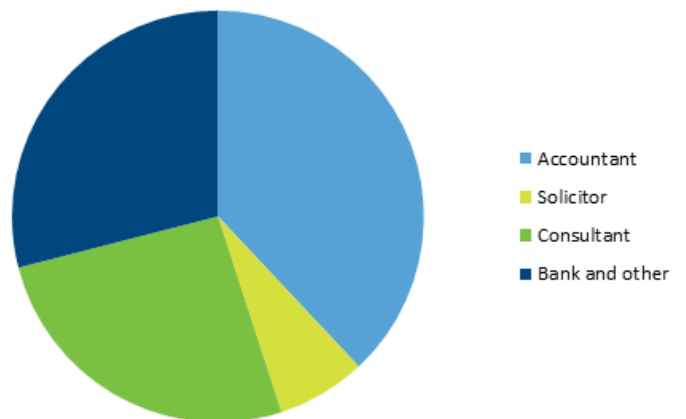
As usual, succession planning is a concern, particularly in a changing industry with major political upheaval around the corner. Respondents may have been aware of rumours of Inheritance Tax reform which, together with the impact of Brexit and a new Agriculture Act, may provide the impetus for addressing the thorny question of when to pass on the farm. When asked the specific question “How much of a concern is succession planning?” the results were remarkably consistent with previous years, with 50% feeling either some concern or great concern and a further 27% being at least slightly concerned. Only 23% were sufficiently confident about their succession (or in some cases knew that there would be no succession) that it was of no concern at all.



Other matters

As usual, the survey also gathers information on a number of other issues. We were gratified to see that accountants continue to be the first port of call when businesses consider making decisions, with 38% choosing their accountant as the first person to call on when advice is needed (compared to 7% talking to their solicitor, and the remainder split roughly equally between the bank and the agricultural consultant – figures which have remained broadly consistent from year to year).

Of course, as we have remarked in the past, where a survey question is so broadly worded there is a degree of interpretation and one would expect (and some respondents confirmed) that the source of advice might vary depending on the nature of the problem. However, it is gratifying that accountants remain the initial contact point for the majority, and we believe they should normally be part of the advisory team whenever major decisions are being discussed. The regular contact which builds up between accountants and the farming family over the years make them uniquely placed to advise on not only the financial and taxation consequences, but also the longer-term implications for the business and the family over many years. At a time when succession and profitability are such big concerns for UK agriculture, the role of the specialist agricultural accountant has never been more important.





Making Tax Digital

In the light of the Government's "Making Tax Digital" initiative, since 2017 a new question has been added to the survey; as we attempt to gauge the response of the industry to the new legislation which will, as regards VAT returns, start to bite from next April. The results continue to give some cause for concern. When asked whether respondents had even heard of MTD –the figures remained little changed over the last 18 months with 54% being aware of MTD but 46% remaining in blissful ignorance. Given the amount of press publicity, government advertising and information from accountants which has been circulating, this is both surprising and alarming. Once MTD for VAT is introduced there will be a penalty regime, which will start softly but ultimately will enforce compliance by way of stiff penalties - ignoring this particular problem will not make it go away. A related question asked what bookkeeping systems were being used, and this indicated that well over half of businesses were using some sort of software. Perhaps businesses are confident that the software will automatically solve the problem. This may be the case where programmes have been regularly updated but is unlikely to be the case for those operating ancient and unsupported systems.

Cooperative Initiatives

Finally, and perhaps looking forward to a new regime for agriculture post Brexit, and perhaps a radical rethink regarding cost control and cooperation, the survey looked at joint ventures, machinery sharing and contracting arrangements. Results here were broadly similar to those from Lamma with about 10% of farmers sharing machinery (we suspect this relates to "formal" arrangements rather than "helping out"), about a third involved in contracting and a surprisingly consistent 48% (at Lamma it was 49%) completely ignoring the cost saving opportunities of co-operation.

Conclusion

Overall the survey provides a snapshot of the industry at a point in time. Despite the best efforts of the government, the message about digital taxation does not seem to make much headway. Day to day matters of cash flow and pricing, and the acquisition of more efficient machinery are probably seen to be of greater immediate importance than the savings which could be achieved by cooperation with neighbours or the big questions of succession and reorganisation. It is an industry which is cautiously optimistic, sensitive to both price movements and political factors. Sunny weather and good grain prices may be engendering optimism, but on both the political and economic fronts there are definitely storm clouds gathering, and once the 2018 Agriculture Bill is published every business will need to take a long hard look at itself to assess how it will survive in the new environment.

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