The cash flow crisis in farming and its implications for the wider rural economy

April 2016
Introduction

The Prince’s Countryside Fund exists to strengthen rural communities and promote the value of the countryside. We believe that a vibrant and diverse farming industry will equate to a sustainable countryside for future generations.

In the course of our work with the Farming Help Partnership, grant beneficiaries and many organisations across the agricultural and rural sector, it has become clear that new and serious cash flow issues are affecting farms, putting a huge strain on suppliers and the prospects of the rural economy in general while seriously affecting the health and wellbeing of the individuals concerned.

In order to draw attention to the issues, raise awareness and concerns, the Fund has commissioned The Anderson Centre to carry out an investigation.

This brief report does not claim to hold all the answers to what are complex and thorny issues. Nevertheless it does shine a light on the impact that continued low returns are having, not just on farms but the whole rural fabric. With no immediate prospect of farm gate prices improving, it seeks improved co-ordination and engagement from agencies and crucially, a public realisation of the threats facing this critical national asset – our countryside.
1. Executive Summary

The Prince’s Countryside Fund commissioned The Andersons Centre in March 2016 to complete snapshot research to gain a greater understanding of the cash flow pressures at farm level and their impact on the wider agricultural sector. Through an analysis of recent data and a series of telephone interviews with 21 agricultural businesses an overview of the current situation resulting from the cash flow challenges in farming and its knock-on effect on wider rural economy has been identified and evaluated.

Key findings

Farm business cash flow

1. The UK agricultural industry is experiencing its third year of declining farm gate prices.

2. The decline in prices is likely to continue for most commodities in 2016 and potentially beyond. The worst affected sectors are cereals, milk and pigs where incomes are dropping sharply.

3. Half of farms are no longer making a living from farming itself, and 20 per cent generated a loss even before accounting for family labour and capital.

4. Levels of borrowing have almost doubled in the past 10 years. A large proportion of farms across most sectors will see a widening gap between required and actual profit in 2015/16 and most likely in 2016/17.

5. 17 per cent of farms face major financial problems as their liquidity ratio demonstrates they do not have the ability to pay off their short term debt.

6. Current extreme cash flow pressure has driven a sharp increase in levels of farm trade credit which will increase through 2016 and negatively affect the whole agricultural and rural sector.

7. The businesses surveyed identified that on average more than half the proportion of their farming customers were currently experiencing cash flow issues.

8. Nearly all stated the low farm gate prices (especially milk), and their drop from the high 2013/14 levels, as the main driver of cash flow challenges at farm level.

9. The other most commonly quoted driver (10 out of 21 interviews) was the delay in the Basic Payment Scheme (BPS) payment to farmers.

The impact on the wider sector

10. The volatility of output prices does not just negatively affect farming businesses but the decreased cash flow filters through the wider agricultural sector. This negatively impacts other businesses from input suppliers, vets, auction marts to consultants. Its effects include reduction in available work, decreasing income and potential staff redundancies although the full extent is not completely understood.

11. The majority of suppliers interviewed are experiencing a direct impact on their cash flow resulting from the challenges at farm level.

12. Most suppliers have changed the way they operate their business, becoming more proactive as a result of the cash flow issues at farm level.
Recommendations

The following are The Prince's Countryside Fund's recommendations for farm businesses, agencies and the wider rural sector to help support farm businesses.

1. Improved communication and collaboration between suppliers, banks and farm businesses focusing on the immediate needs to help with budgeting and managing repayments.

2. Cross-sector commitment to encourage businesses to engage with the farming help charities and the array of business tools and advice available. Support staff to increase their understanding of the range of practical and emotional support available to farmers through presentations and briefings.

3. Timely distribution of payments to farm businesses with clear communication of projected timescales. This will not only help to ease cash flow difficulties but also boost morale in the sector.

4. The financial pressures now being experienced require farmers to have a higher level of business skills than has been necessary in the past. Encourage more farm businesses to take advantage of opportunities to improve their skills in business planning and financial management.
   a. Access training in business planning and change management.
   b. Use online tools (and others) to identify and evaluate cost of production and efficiency savings for their business.
   c. Seek advice and guidance to influence decision making on longer-term investments.

The short- to mid-term prognosis for commodity prices looks set to continue with farm businesses receiving depressed prices across most commodities. The knock on effect of cash flow difficulties for farm businesses on the wider sector should be an issue of major concern for the future of farming and our rural economy. We must work together to mitigate these factors.

2. Background

The Prince’s Countryside Fund (the Fund) is growing increasingly concerned about the number of farm businesses experiencing cash flow problems under the current climate of low output prices. Some farm businesses can secure extensions to their overdraft limit, take out loans to manage their cash flow or sell assets. But, there is mounting evidence that many farmers are building up further debts through borrowing privately from family and friends, short-term high cost credit facilities or delaying payments to suppliers, such as feed merchants and contractors and thus putting a strain on the economy of the wider agricultural and rural sector. The scale of this issue is not fully known and warrants exploration.

The Fund has commissioned The Andersons Centre to complete a snapshot research to gain greater understanding of the cash flow pressures at farm level and their impact on the wider agricultural sector.

Andersons the Farm Business Consultants started trading in 1973 providing business advice to farmers throughout England and Wales. The Andersons Centre is one of five separate businesses now trading under the Andersons registered brand. Whilst still retaining a strong presence in the farm consultancy market, The Andersons Centre has expanded to offer services to businesses along the food supply chain, as well as to Government, levy bodies and not-for-profit organisations. More details on The Andersons Centre can be found at www.theandersonscentre.co.uk.

The research was carried out by Karolina Klaskova.
3. Setting the scene

The UK agricultural industry is experiencing its third year of declining farm gate prices. As a result, farm incomes are decreasing and debt is rising. There is evidence that many farming businesses are experiencing cash flow issues which in turn can impact the wider agricultural industry.

**Figure 1 Index of Producer Prices of Agricultural Products, UK**

![Chart showing trends in producer prices and affected sectors](chart.png)

Source: (DEFRA, 2016)

The charts in Figure 1 show the monthly trends in the Index of Producer Prices for total outputs and inputs for the past 10 years and the developments in prices for the most affected sectors for the past three years. Deregulation, reduced support prices and increased exposure to the high volatility of global markets is reflected in Figure 1 through more extreme peaks and troughs in later years, especially in output prices. The second half of 2014 and all of 2015 saw generally declining output prices across almost all commodities, except cattle, fruit and flowers (DEFRA, 2016). The decline in prices is likely to continue for most commodities in 2016 and potentially beyond. The worst affected sectors are cereals, milk and pigs where incomes are dropping sharply whilst beef prices have been affected to a lesser extent (DEFRA, 2016).

**Farming Income**

The 2015/16 financial period saw a further significant drop in farm incomes for most sectors. Even before the downturn in farm gate prices, half of farms no longer make a living from farming itself, and 20% generated a loss even before accounting for family labour and capital.

Although prices of most of the main inputs have also decreased, this does not fully offset the sharp decline in farm gate prices.

“*The decline in prices is likely to continue for most commodities in 2016 and potentially beyond. The worst affected sectors are cereals, milk and pigs where incomes are dropping sharply*” (DEFRA, 2016).”
Table 1: Percentage Annual Change in Farm Business Income in 2014/15 and 2015/16, England.
(Farm Business Survey, 2016)

<table>
<thead>
<tr>
<th>Change in Farm Business Income (%)</th>
<th>2014/15 vs 2013/14</th>
<th>2015/16* vs 2014/15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cereals</td>
<td>-9</td>
<td>-24</td>
</tr>
<tr>
<td>General cropping</td>
<td>-23</td>
<td>-17</td>
</tr>
<tr>
<td>Dairy</td>
<td>-5</td>
<td>-45</td>
</tr>
<tr>
<td>Grazing livestock (Lowland)</td>
<td>23</td>
<td>8</td>
</tr>
<tr>
<td>Grazing livestock (LFA)</td>
<td>1</td>
<td>47</td>
</tr>
<tr>
<td>Specialist pigs **</td>
<td>-24</td>
<td>-46</td>
</tr>
<tr>
<td>Specialist poultry **</td>
<td>-19</td>
<td>14</td>
</tr>
<tr>
<td>Mixed</td>
<td>-27</td>
<td>4</td>
</tr>
</tbody>
</table>

** The sample sizes for specialist pig and poultry farms are relatively small and the confidence intervals relatively large.

Table 1 shows a consecutive major drop in Farm Business Income for most sectors in the last two production periods. According to Defra forecasts, pig and dairy sectors would have seen an annual drop in income of almost 50%, cereals by 24% and general cropping by 17% by the end of 2015/16 (Farm Business Survey, 2016). Although the lowland grazing farms have not experienced the sharp drop in farm gate prices as cereals, dairy and pigs sectors have, there is an ongoing issue with low profitability in this sector as demonstrated in Table 2 below.

Although, the 2015/16 forecasts still show an average positive Farm Business Income (profit before return on owned assets) across all types of farms, this will not be sufficient to cover tax obligations and private drawings (i.e. return to family labour). The private drawings have exceeded Farm Business Income on half of farms in the period 2010/11 to 2013/14 (Farm Business Survey, 2015b).

This means that, even before the downturn in output prices, some 50% of farms had to source additional off-farm income, use reserves or increase debt to cover their drawings and tax requirements.

Table 2: Distribution of Farm Business Income in 2014/15, England, (Farm Business Survey, 2015a)

<table>
<thead>
<tr>
<th>Farm Business Incomes 2014/15</th>
<th>Average</th>
<th>Less than £0</th>
<th>Above £100,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cereal Farms</td>
<td>£45,000</td>
<td>18%</td>
<td>14%</td>
</tr>
<tr>
<td>General Cropping</td>
<td>£52,000</td>
<td>16%</td>
<td>17%</td>
</tr>
<tr>
<td>Dairy</td>
<td>£83,800</td>
<td>9%</td>
<td>34%</td>
</tr>
<tr>
<td>Grazing Livestock (Lowland)</td>
<td>£18,500</td>
<td>21%</td>
<td>3%</td>
</tr>
<tr>
<td>Grazing Livestock (LFA)</td>
<td>£14,600</td>
<td>22%</td>
<td>1%*</td>
</tr>
<tr>
<td>Specialist Pigs</td>
<td>£49,400</td>
<td>26%*</td>
<td>14%</td>
</tr>
<tr>
<td>Specialist Poultry</td>
<td>£126,800</td>
<td>21%</td>
<td>28%</td>
</tr>
</tbody>
</table>

1 Farm Business Income - for sole traders and partnerships represents the financial return to all unpaid (family) labour and on all their capital invested in the farm business, including land and buildings. For corporate businesses it represents the financial return on the shareholders capital invested in the farm business. Farm Business Income figures generally cover a period from March to February.
According to the Farm Business Survey data presented in Table 2, all sectors achieved on average a positive return to family labour and capital in 2014/15. It is important to note that the average masks a large range in performance amongst farms. Around 20% of farms across sectors generated a negative income (i.e. a loss). And this is before a return to family labour and capital invested is accounted for (Farm Business Survey, 2015a).

An exception is the dairy sector where ‘only’ 9% of farms had negative income. However, dairy is labour intensive with most farms relying heavily on family ‘unpaid’ labour. The Farm Business Survey study of Household income (Farm Business Survey, 2015b) has shown dairy as having the least amount of off-farm income compared with other sectors, thus having fewer opportunities to subsidise declining farm income. Compared to the other sectors, dairy income in 2014/15 was still being supported by relatively high prices in the first part of the production period before prices started to plummet. The 2015/16 year was a different story with dairy Farm Business Incomes falling by 45%. This is likely to have pushed a large proportion of farms into making a negative income. The situation looks unlikely to recover quickly in 2016/17.

The other badly affected sector is specialist pigs, where already over a quarter of producers were making a loss in 2014/15. Again, 2015/16 will have seen even more pig producers achieving a negative return to family labour and capital, with income predicted to have fallen by another 46% according to Farm Business Survey forecasts.

Conversely, Table 2 also shows that a significant proportion of farms across most sectors achieved Farm Business Incomes of above £100,000. This suggests that, even with the forecasted sharp decline in incomes, many farms will still be making a profit after drawings and tax in 2015/16, and 2016/17 too.

**Borrowings**

Farm cash flows continue to be under severe pressure, requiring credit, asset sales or other means to bridge the gap. This is magnified by the reductions in direct subsidy. The continuing downturn in output prices and consequently in farm incomes is putting an increasing pressure on farm cash flows. A large proportion of farms across most sectors saw a widening gap between cash required and actual profit in 2015/16 and most likely also in 2016/17. This gap is likely to be bridged over by either an extension to an existing credit facility, new loans, sale of assets or other privately sourced income. The delay in Basic Payment Scheme put an additional pressure on farm cash flows.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Average Income</th>
<th>Return to Family Labour</th>
<th>Return to Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mixed Farm</td>
<td>£21,600</td>
<td>21%</td>
<td>6%</td>
</tr>
<tr>
<td>Horticultural Farms</td>
<td>£31,500</td>
<td>19%</td>
<td>6%</td>
</tr>
</tbody>
</table>

*Based on a small sample*
Figure 2: Average Annual Net Borrowing to UK Agriculture, Hunting and Fisheries between 2006-15.

The chart in Figure 2 presents Bank of England figures showing average annual net borrowing to agriculture (also including the hunting and forestry industries) in real terms. Net borrowing is all borrowing less deposits from the industry.

Levels of borrowing have almost doubled in the past 10 years. In 2011 and 2012 when farm profits were high there was little growth, but it has accelerated since then with borrowing increasing by around 15% in 2015 (Bank of England, 2016). Whilst historically most of the borrowing was to fund capital investment on farms or land purchase, recently the proportion of the borrowings covering short-term shortfalls in cash is increasing.

Agriculture has traditionally been viewed as a preferred sector to lend to by banks due to its strong balance sheet-derived from strong and secure land and property values. However, the sharp fluctuations in income and cash pressures have resulted in many farming bank clients moving up the ‘at risk watch list’—especially those that are tenants and can only provide security on live and deadstock. Due to changes in banking regulations since the financial crisis of 2008, banks are now less willing to lend farmers money simply on the basis of the assets they own. The ability of farmers to demonstrate they can service the loan is now more important. It is perhaps unfortunate that in many cases business plans and cash flows created for the bank, are never actually used by the farmers to manage their businesses.

Farming businesses are often described as “Asset rich but cash poor”. Whilst the balance sheet of UK agriculture is still strong with each business having an average net worth per farm business of £1.7 million, the decreasing income has on average not provided any return on capital in 2014/15 (Farm Business Survey, 2015).
Table 3: Key balance sheet measures by tenure in 2014/15, England, (Farm Business Survey, 2015a)

<table>
<thead>
<tr>
<th></th>
<th>Owner Occupier</th>
<th>Tenanted</th>
<th>Mixed</th>
<th>All Tenures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Worth</td>
<td>£1,808,200</td>
<td>£272,600</td>
<td>£2,009,800</td>
<td>£1,669,700</td>
</tr>
<tr>
<td>Gearing Ratio</td>
<td>7%</td>
<td>27%</td>
<td>11%</td>
<td>10%</td>
</tr>
<tr>
<td>Liquidity Ratio</td>
<td>281%</td>
<td>205%</td>
<td>224%</td>
<td>234%</td>
</tr>
</tbody>
</table>

Data presented in Table 3 indicate that the average financial position in 2014/15 looked secure across tenure types. As expected, tenanted farms have a significantly lower net worth as well as higher gearing and lower liquidity ratios compared to the owner occupier and mixed tenure farms. However, in terms of both gearing and liquidity ratios\(^2\), tenanted farms were still well within the acceptable range. The highest debt levels were observed in the pig, poultry and dairy sectors (Farm Business Survey, 2015a). The average figures hide a large range in financial position of farms. In 2012/13, 17% of farms in England (around 9,500 farms) across all tenure types faced potential financial difficulties with a liquidity ratio of less than 100%, these are likely to be tenanted farms in the dairy LFA grazing livestock and pig and poultry sectors (Farm Business Survey, 2014).

Impact on the wider industry

It is expected that under the current extreme and continuing cash flow pressures, some farmers are finding it hard to find enough cash to pay their input suppliers, negatively impacting the wider sector.

Figure 3: Developments in Farm Level Trade Credit in England between 2005 and 2014,

![Farm Trade Credit Chart](source)

The chart in Figure 3 shows the increase in trade credit at farm level. This is expected to have risen sharply in 2015 and will continue to increase in 2016. The fall of output prices does not just negatively affect farming businesses but the decreased cash flow filters through the wider agricultural sector and rural economy. This negatively impacts on other businesses from input suppliers, vets, auction marts to consultants. The extent of this is not fully understood.

\(^2\) The gearing ratio compares the owners capital to borrowings. The liquidity ratio shows how well current liabilities (i.e. short-term debts) are covered by cash (or near-cash assets) within the business.
Finding a Solution

This research is targeted to establish a better understanding of the impact of financial strain at farm level on the farms themselves as well as the wider industry. It will provide an evidential basis for action and advocacy.

4. Methodology

The aim of this snapshot research was to improve the understanding of how the cash flow pressures at farm level impact the wider agricultural sector. Due to the scope and exploratory nature of this research, phone interviews were chosen as the research method. In total, 21 interviews were conducted with seven types of agricultural input suppliers across three regions (list of interviewees in Appendix A).

<table>
<thead>
<tr>
<th>Type of input suppliers:</th>
<th>Regions:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auction Marts</td>
<td>Cumbria</td>
</tr>
<tr>
<td>Feed, Seed and Fertiliser Merchants</td>
<td>South West</td>
</tr>
<tr>
<td>Contractors</td>
<td>Wales</td>
</tr>
<tr>
<td>Vets</td>
<td></td>
</tr>
<tr>
<td>Agricultural Consultants</td>
<td></td>
</tr>
</tbody>
</table>

The interviews were structured with predominantly open-ended questions to maximise the exploratory potential and avoid the pre-empting of participants’ answers. The interviews were conducted over the phone and were kept short, consisting of 13 key questions in order to ensure participation in the short allocated time frame. The final list of interview questions is attached in Appendix B. All participants were emailed the transcript of their interview and given the opportunity to amend/clarify their answers as necessary; only three interviewees have made minor amendments.

After the completion of all the interviews, the transcripts were coded and then conceptualised. Due to the exploratory nature of this research and lack of existing work in this area, an open-minded approach was adopted with the aim to uncover underlying patterns amongst codes. Initially, over 70 codes were identified and conceptualised into 20 categories. It was decided to keep this large number of codes and categories in order to preserve the important details and interviewees' points of view. The key part of the interview was a question asking for interviewees' recommendations and/or suggestions which might help in mitigating the cash flow issues on the wider sector. These are presented separately. The resulting categories, relationships amongst them and the recommendations form this study's results.
5. Results

Interview Results

The individual codes and the associated categories are presented in Appendix C. The connections between individual categories were evaluated and over-arching themes identified.

On average more than half the proportion of farming customers are currently experiencing cash flow issues. The interviewees’ estimates of the proportion of farming customers who are currently experiencing cash flow issues ranged widely. This is at least to some degree likely to be a result of differences in understanding of what cash flow issues represent amongst interview participants.

Figure 4 Share of Customers Experiencing Cash Flow Issues

Nevertheless, according to the interviewees, the proportion of their farming customers who are currently experiencing cash flow issues is on average 49%, 61% and 56% across the seven types of suppliers in Cumbria, South West and Wales respectively. All interviewed suppliers have observed an increase in the proportion of their customers experiencing cash flow issues during 2015/16. The majority of suppliers stated that the proportion has ‘stayed about the same’ during 2014/15, with some estimating two consecutive years of an increase in the proportion of their customers with cash flow issues. These results reflect the Defra information on developments in farming incomes.

All except one interviewee stated the low farm gate prices (especially milk), and their drop from the high 2013/14 levels, as the main driver of cash flow challenges at farm level. The other most commonly quoted driver (10 out of 21 interviews) was the delay in the Basic Payment Scheme (BPS) payment to farmers. Other drivers included:

- Bovine Tuberculosis (bTB)
- Banks slow to adjust
- Lack of cost control and low confidence
- Lack of leadership in supply control (nationally and world-wide farmers are continuing to increase production worsening the supply demand imbalance).

All interviewees except two have registered changes in their farming clients’ purchasing behaviour. Most commonly cited changes were:
• Customers’ spending/buying less
• Spreading and delaying payments
• Requiring credit
• Purchasing last minute
• Driving prices down (through negotiation).

Majority of suppliers are experiencing a direct impact on their cash flow resulting from the challenges at farm level. Most of the impacts were quoted as:

• Decreasing income/profit
• Reduction in work
• Outstanding cash
• Increasing number of debtors
• Increasing finance to cover commitments and pay staff
• Potential staff redundancies.

Suppliers are also experiencing increased risk and uncertainty due to the market unpredictability. Most suppliers have changed the way they operate their business, becoming more proactive as a result of the cash flow issues at farm level. The most common changes related to customer service and debt management, including:

• Closer communication with customers
• Setting up different payment options
• Training staff to provide customers support
• Targeting offerings to farmers’ needs
• Dropping margins
• Acting on debt earlier
• Closer debt monitoring and debt chasing
• Upfront payments

All, except one respondent envisage long term impacts resulting from the cash flow challenges at farm level. The most commonly quoted potential impacts were:

• Increased profit risk from market volatility
• Fewer farming customers, perhaps with larger farms
• Reduced profit
• Staff redundancies
• Limits to business scope and growth
• Reduced training and new technology investments
• Threats to business viability.
Interviewees’ Recommendations

As a part of the interview, respondents were asked to suggest recommendations which could limit the impact of farm level cash flow issues on the wider sector. The provided recommendations were classified into six categories. Table 4 presents these categories and the individual recommendations.

Table 4 Recommendations by Category

<table>
<thead>
<tr>
<th>Category</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farmer support</td>
<td>Education and tools for business, financial management, market fundamentals, planning and decision making.</td>
</tr>
<tr>
<td></td>
<td>Emotional and mental support.</td>
</tr>
<tr>
<td></td>
<td>Farmer welfare.</td>
</tr>
<tr>
<td></td>
<td>Mechanism to provide business advice to farmers.</td>
</tr>
<tr>
<td></td>
<td>Increase confidence.</td>
</tr>
<tr>
<td>Improved banks offering</td>
<td>Banks to provide credit to farmers instead of suppliers.</td>
</tr>
<tr>
<td></td>
<td>Banks to offer loans with flexible repayments related to farm gate prices.</td>
</tr>
<tr>
<td>Suppliers/farmers communication</td>
<td>Suppliers to put farmers first, target offering to help improve efficiency and reduce overall unit cost of production.</td>
</tr>
<tr>
<td></td>
<td>Suppliers to work closer with farmers, communicate.</td>
</tr>
<tr>
<td>Actions at farm level</td>
<td>Farmers to re-evaluate systems of production.</td>
</tr>
<tr>
<td></td>
<td>Move towards simple, low cost systems.</td>
</tr>
<tr>
<td></td>
<td>Scrutinize all costs, if don't need it, don't buy it!</td>
</tr>
<tr>
<td></td>
<td>Actively use budgets, cash flows and plan, do not just file them away.</td>
</tr>
<tr>
<td></td>
<td>Do not expand for the sake of it.</td>
</tr>
<tr>
<td></td>
<td>Sell assets, downsize to raise cash to cover commitments.</td>
</tr>
<tr>
<td></td>
<td>Re-evaluate investments under high milk prices, do not invest in assets that will increase unit cost of production in longer term.</td>
</tr>
<tr>
<td></td>
<td>Farmers work closer together with suppliers, communicate!</td>
</tr>
<tr>
<td>Policy requirements</td>
<td>Sort out BPS, pay on time, it is a major proportion of farmers' income!</td>
</tr>
<tr>
<td></td>
<td>Removal of the 6 days standstill rule from the bTB regulations.</td>
</tr>
<tr>
<td></td>
<td>Make it easier to sell stock from bTB restricted holdings.</td>
</tr>
<tr>
<td>Supply management</td>
<td>Organise a world-wide conference on supply control mechanisms.</td>
</tr>
<tr>
<td></td>
<td>Fixed priced contract for the majority of milk produced, with the rest on spot price.</td>
</tr>
</tbody>
</table>
6. Discussion

The worsening situation is affecting the wider economy.

The interviews have revealed a clear correlation between the cash flow challenges at farm and at the supplier levels. The key points raised were:

- Continuing downfall in farm gate prices is worsening cash flow situation at farm level.
- This is exacerbated by the delay in farm subsidy and for affected livestock farms by bTB.
- Farmers are reacting by:
  - Buying fewer inputs.
  - Negotiating down purchase prices.
  - Delaying payments to suppliers.
- It was suggested that suppliers are more affected by the decreasing farm gate prices as:
  - Farmers pass their cash flow problems on.
  - Payments are delayed (one supplier quoted delays of up to 6 to 9 months).
  - Suppliers have to provide credit which puts their own cash flow under pressure.
- As a result some suppliers have to obtain finance to cover commitments.
- Several suppliers are considering staff redundancies due to the drop in income.

Proactive efforts are being made to manage the issue by both farmers and suppliers.

- Numbers of debtors have increased for most interviewed suppliers.
- For some, debtor days have decreased, showing that farmers are trying to manage their debt.
- Some suppliers are supporting customers by offering different payment schemes.
- Most suppliers are trying to support their farming customers by:
  - Closer communication to find a way that works for both sides.
  - Targeted offerings to customers’ needs.
  - Lowering margins.
  - Staff training to better understand costs of production and farmers’ needs.
  - This is hindered by farmers having problems with communication, especially discussing problems, therefore delaying it until it is too late.

Risk minimisation efforts can have a negative impact on the sector.

Suppliers are wary of bad debt and most are proactively trying to minimise the risk by:

- Keeping a close eye on debtors.
- Tightening up cash collections.
- Requesting upfront payments where necessary.
- Some suppliers are diversifying away from struggling sectors and agriculture overall to lower their risk and improve profits.
- This could have a negative impact on the farming sector in longer term as more suppliers diversify to other sectors.
- Other short-term measures include:
  - Withholding bonuses.
  - Renegotiating with manufacturers.
  - Obtaining finance to cover commitments.
  - Considering staff redundancies.

Uncertainty and lack of confidence can be seen throughout the sector.

Although nearly all suppliers envisage some sort of negative longer term impacts on their business, these are not very clear. There was a prevailing sense of uncertainty amongst the interviewees about the long
and even short term prospects for the industry. This reflects the uncertainty and lack of confidence observed at farm level.

Issues raised were consistent but the suggestions on how to resolve these varied considerably. The interviewees’ recommendations on how to limit the impact of cash flow issues on the wider sector cover 6 areas:

**Policy issues:**
- BPS needs to be administered on time without delays, as it forms a major part of farmers’ incomes and the delays cause significant cash flow issues.
- Make it easier for farmers to sell livestock from bTB restricted holdings.

**Banks support:**
- Offer loans with flexible repayments automatically linked to farm gate prices, whereby repayments would stop if prices reached below certain level and would accelerate if prices reached above certain level.
- Provide credit to farmers for input purchases instead of suppliers, in order to de-risk the supply chain and improve the flow of cash.

**Supply management:**
- Organise an international conference on world-wide supply control to reduce volatility.
- Milk buyers to offer fixed price contracts for the majority of milk produced, with the rest on spot price.

**Communication:**
- Suppliers to work closer with farmers.
- Improve product offering to better target it to farmers’ needs (i.e. help improve efficiency, reduce costs).

**Support for farmers:**
- Education and tools for business management, planning and decision making.
- Mental and emotional support.
- Increase confidence.

**Much can be done at farm level:**
- Re-evaluate production systems.
- Cost control.
- Active use of budgets and cash flows rather than just shelving them away.
- Selling of assets to raise cash to cover commitments.
- Reassessing of expansion plans.
- Careful appraisal of investments to ensure that return on investment is achieved.

The uncertainty of price developments impacts negatively on confidence and complicates the planning process. It was observed that farms invest at times of high prices into assets that increase unit cost of production in longer term, resulting in cash flow issues when farm gate prices drop. It is advised that only investments with clear net returns and resulting in lower unit cost of production should be pursued.
7. Conclusion

The direct relationship between the cash issues at farm and supplier levels, as well as the uncertainty amongst the wider industry are apparent. This study has provided a few insights into how the different drivers of cash flow issues impact both farmers and suppliers as well as a wealth of recommendations from them on how to limit these impacts. It is important to note that this was a brief snapshot research and NOT an exhaustive study with a representative sample of businesses from the supplying sector. Therefore the results and recommendations should be treated with caution and evaluated accordingly.

The results presented in this report are not views of The Andersons Centre or the Prince’s Countryside Fund, they are a true representation of the conducted interviews.

The following are The Prince’s Countryside Fund’s recommendations for farm businesses, agencies and the wider rural sector to help support farm businesses.

1. Improved communication and collaboration between suppliers, banks and farm businesses focusing on the immediate needs to help with budgeting and managing repayments.

2. Cross-sector commitment to encourage businesses to engage with the farming help charities and the array of business tools and advice available. Support staff to increase their understanding of the range of practical and emotional support available to farmers through presentations and briefings.

3. Timely distribution of payments to farm businesses with clear communication of projected timescales. This will not only help to ease cash flow difficulties but also boost morale in the sector.

4. The financial pressures now being experienced require farmers to have a higher level of business skills than has been necessary in the past. Encourage more farm businesses to take advantage of opportunities to improve their skills in business planning and financial management.
   a. Access training in business planning and change management.
   b. Use online tools (and others) to identify and evaluate cost of production and efficiency savings for their business.
   c. Seek advice and guidance to influence decision making on longer-term investments.

The short- to mid-term prognosis for commodity prices looks set to continue with farm businesses receiving depressed prices across most commodities. The knock on effect of cash flow difficulties for farm businesses on the wider sector should be an issue of major concern for the future of farming and our rural economy. We must work together to mitigate these factors.
8. Glossary of Terms

BPS – Basic Payment Scheme is a direct subsidy for farmers under the EU Common Agricultural Policy. It replaced the former Single Farm Payment from January 2015.

bTB – Bovine tuberculosis is an infectious disease of cattle. It is caused by the bacterium Mycobacterium bovis (M. bovis), which can also infect and cause TB in badgers, deer, goats, pigs, camels (llamas and alpacas), dogs and cats, as well as many other mammals.

DEFRA – The Department for Environment, Food and Rural Affairs is the government department responsible for environmental protection, food production and standards, agriculture, fisheries and rural communities in the United Kingdom of Great Britain and Northern Ireland.

Farm Business Income (FBI) – for sole traders and partnerships represents the financial return to all unpaid (family) labour and on all their capital invested in the farm business, including land and buildings. For corporate businesses it represents the financial return on the shareholders capital invested in the farm business. Farm Business Income figures generally cover a period from March to February.

Gearing ratio – gives farm's liabilities as a proportion of its assets. If a farm has assets equal to its liabilities, this will give a gearing ratio value of 100%. If a farm’s assets are twice as large as its liabilities, the gearing ratio will be 50%. The gearing ratio provides a measure of the long term financial viability of a farm.

LFA - Less Favoured Areas. In recognition of the different physical and socio-economic characteristics across the regions, the European Union introduced the Less Favoured Area (LFA) designation to support farming where production conditions are difficult.

Liquidity ratio - provides an indication of the ability of a farm to finance its immediate financial demands from its current assets, such as cash, savings or stock. If the liquidity ratio is equal to or above 100%, then a farm is able to meet is current liabilities using current assets. If the ratio is less than 100%, then a farm is unable to meet its immediate financial demands using current assets.

Net worth - subtracts the value of total liabilities from total assets, including tenant type capital and land. This represents the wealth of a farm if all of their liabilities were called in.
9. References


DEFRA. (2015). Total income from farming in the UK - Table 1: Aggregate balance sheet for the United Kingdom agricultural industry. London: DEFRA.


Appendix A – List of Interviewees

Cumbria
Auction Marts
Feed Merchants
Seed Merchants
Fertiliser Merchants
Contractors
Vets
Agricultural Consultants

Company
Livestock Auctioneers Association
Jim Peet Agriculture Ltd
Watson Seeds
Omex
T W West Ltd.
West Lakeland Veterinary Group
HarveyHughes

South West
Auction Marts
Feed Merchants
Seed Merchants
Fertiliser Merchants
Contractors
Vets
Agricultural Consultants

Company
Kivells
Mole Valley
Bright seeds
NPK Ltd
Contractor
Friars Moor
Andersons Midlands

Wales
Auction Marts
Feed Merchants
Seed Merchants
Fertiliser Merchants
Contractors
Vets
Agricultural Consultants

Company
Carmarthen Livestock Centre
Mole Valley Farmers
G.O. Davies (Westbury) Ltd
Glasson Grain
Rees Bros
Farm First Vets
Agri Angels
Appendix B - Interview Questions

1. What goods/services do you supply and to which agricultural sectors?

2. In terms of percentages, what is the proportion of your customers that are currently experiencing cash flow issues (i.e. unable to pay/purchase, delay payment excessively, changed purchasing behaviour)?

3. How has this proportion changed during 2015/16 financial period compared to 2014/15?
   a. Increased
   b. Stayed about the same
   c. Decreased

4. If you can remember, how has the proportion of your customers with cash flow issues changed during 2014/15 financial period compared to 2013/14?
   a. Increased
   b. Stayed about the same
   c. Decreased

5. From the discussions with your customers, what are the main causes of these cash flow issues?

6. Are your customers changing their purchasing behaviour as a result of cash flow challenges?
   a. Yes
   b. No

7. If Yes, how are they changing their behaviour?

8. How do the cash flow issues at farm level effect you and your business?

9. As a result, did you have to change the way you operate?
   a. Yes
   b. No

10. If Yes, how did you change?

11. Do you envisage any long term impacts on your business of the increased fluctuations in farm cash flow levels?
   a. Yes
   b. No

12. If Yes, what might these be?

13. Have you got any recommendations/suggestions which could help in mitigating the impacts of cash flow issues on the wider industry?
## Appendix C – Codes and Categories

<table>
<thead>
<tr>
<th>Codes</th>
<th>Categories/Themes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Drivers</strong></td>
<td></td>
</tr>
<tr>
<td>Low/dropping farm gate prices</td>
<td>Market drivers</td>
</tr>
<tr>
<td>No leadership in production control</td>
<td></td>
</tr>
<tr>
<td>Delays and errors in BPS</td>
<td>Policy drivers</td>
</tr>
<tr>
<td>bTB restrictions</td>
<td></td>
</tr>
<tr>
<td>Lack of confidence</td>
<td>Lack of confidence</td>
</tr>
<tr>
<td>Banks reducing overdraft</td>
<td>Banks/finance pressures</td>
</tr>
<tr>
<td>Banks not flexible, not adjusting</td>
<td></td>
</tr>
<tr>
<td>Farmers lacking control over costs</td>
<td>Farmers' attitudes</td>
</tr>
<tr>
<td>Farmers allocating capital inappropriately when milk price is high</td>
<td></td>
</tr>
<tr>
<td><strong>Farmers’ reaction</strong></td>
<td>Changing purchasing behaviour</td>
</tr>
<tr>
<td>Spending/buying less</td>
<td></td>
</tr>
<tr>
<td>Driving prices down</td>
<td></td>
</tr>
<tr>
<td>Buying essentials only</td>
<td></td>
</tr>
<tr>
<td>Buying last minute</td>
<td></td>
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<tr>
<td>More frugal</td>
<td></td>
</tr>
<tr>
<td>Farmers require credit from suppliers</td>
<td>Passing cash issues onto suppliers</td>
</tr>
<tr>
<td>Paying little and often</td>
<td></td>
</tr>
<tr>
<td><strong>Short-term impact on suppliers</strong></td>
<td>Direct cash flow impact</td>
</tr>
<tr>
<td>Decreasing suppliers income</td>
<td></td>
</tr>
<tr>
<td>Reduced profit</td>
<td></td>
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<tr>
<td>Reduction in work</td>
<td></td>
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<tr>
<td>Outstanding cash</td>
<td></td>
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<tr>
<td>Increasing number of debtors</td>
<td></td>
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<tr>
<td>Increase finance to cover commitments and pay staff</td>
<td></td>
</tr>
<tr>
<td>Potential redundancies</td>
<td></td>
</tr>
<tr>
<td>Consultants busier than ever</td>
<td>Uncertainty and risk</td>
</tr>
<tr>
<td>Bank referrals risky</td>
<td></td>
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<tr>
<td>Uncertainty on sales and forecasts</td>
<td></td>
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</tbody>
</table>
### Suppliers’ adaptation

<table>
<thead>
<tr>
<th>Close communication with customers</th>
<th>Customers service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good relationship with customers</td>
<td></td>
</tr>
<tr>
<td>Set up payment schemes for farmers</td>
<td></td>
</tr>
<tr>
<td>Staff training to provide support</td>
<td></td>
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<tr>
<td>Dropping margins</td>
<td></td>
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<tr>
<td>Targeting offerings to farmers needs</td>
<td></td>
</tr>
<tr>
<td>Farmers not talking about problems</td>
<td></td>
</tr>
<tr>
<td>Taking action on debt earlier</td>
<td></td>
</tr>
<tr>
<td>Chasing debt</td>
<td></td>
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<tr>
<td>Upfront payments</td>
<td></td>
</tr>
<tr>
<td>Diversifying away from agriculture</td>
<td></td>
</tr>
<tr>
<td>Finance to cover commitments</td>
<td></td>
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<tr>
<td>Withholding bonuses</td>
<td></td>
</tr>
<tr>
<td>Planning further ahead</td>
<td></td>
</tr>
<tr>
<td>Negotiating with manufacturers</td>
<td></td>
</tr>
</tbody>
</table>

### Bad debt prevention

| Diversifying away from agriculture|                  |
| Finance to cover commitments      |                  |
| Withholding bonuses               |                  |
| Planning further ahead            |                  |
| Negotiating with manufacturers     |                  |

### Coping strategies

| Diversifying away from agriculture|                  |
| Finance to cover commitments      |                  |
| Withholding bonuses               |                  |
| Planning further ahead            |                  |
| Negotiating with manufacturers     |                  |

### Long-term impacts

<table>
<thead>
<tr>
<th>Increased risk from market volatility</th>
<th>Longer term impact on suppliers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduced profit longer term</td>
<td></td>
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<tr>
<td>Potential staff redundancies</td>
<td></td>
</tr>
<tr>
<td>Limits scope and growth of the business</td>
<td></td>
</tr>
<tr>
<td>Limits training and new technology investments</td>
<td></td>
</tr>
<tr>
<td>Could threaten business viability</td>
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</tr>
</tbody>
</table>

### Recommendations

<table>
<thead>
<tr>
<th>Education and tools for business, financial management, market fundamentals, planning and decision making</th>
<th>Farmer support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emotional and mental support</td>
<td></td>
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<tr>
<td>Farmer welfare</td>
<td></td>
</tr>
<tr>
<td>Mechanism to provide advice to farmers</td>
<td></td>
</tr>
<tr>
<td>Increase confidence</td>
<td></td>
</tr>
<tr>
<td>Banks to provide credit to farmers instead of suppliers</td>
<td>Improved banks offering</td>
</tr>
<tr>
<td>Banks to offer loans with flexible repayments, depending on farm gate prices</td>
<td></td>
</tr>
<tr>
<td>Suppliers to put farmers first, supply according to their needs.</td>
<td>Suppliers/farmers communication</td>
</tr>
<tr>
<td>Suppliers to work closer with farmers, communicate</td>
<td></td>
</tr>
</tbody>
</table>

**Cash flow crisis in farming**
### Actions at farm level

- Farmers to reevaluate systems of production
- Move towards simple, low cost systems
- Scrutinize all costs, if don't need it, don't buy it!
- Actively use budgets, cash flows and plan, do not just file them away.
- Do not expand for the sake of it.
- Sell assets, downsize to raise cash
- Revaluate investments under high milk prices, do not invest in assets that will increase unit cost of production in longer term.
- Farmers work closer together with suppliers, communicate!

### Policy requirements

- Sort out BPS, pay on time, it is a major proportion of farmers' income!
- Removal of the 6 days standstill rule from the bTB regulations.
- Make it easier to sell stock from bTB restricted holdings.

### Supply management

- Set up world-wide supply control mechanisms
- Fixed priced contract for the majority of milk produced, with the rest on spot price