



AGRICULTURAL INSIGHT

August 2017



Introduction

In the seventh of its half yearly survey of attitudes in the farming sector, MHA asked a sample of visitors at Cereals how they felt about various current issues. The survey follows on from similar sampling at LAMMA and Cereals over the last four years, and threw up some surprising answers.



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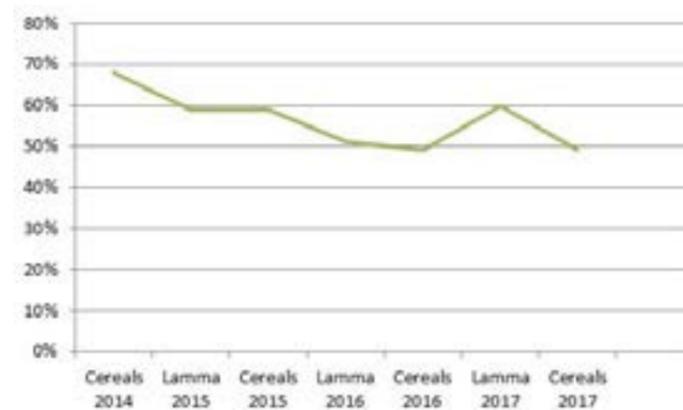


Cereals Survey Results 2017

Optimism

When asked for a prediction of business growth in the next 12 months, the majority of respondents (51%) foresaw their businesses showing static or negative growth with only 17% expecting growth to be high. These were almost exactly the same proportions as the sample taken at Cereals in 2016, and significantly lower than the feelings at Lamma six months ago where attitudes were more bullish with optimism at 60%. At the time that was attributed to the fall in sterling post Brexit pushing up the prices for agricultural produce. Although prices have held up subsequently, it seems that market and political uncertainty is starting to have an impact.

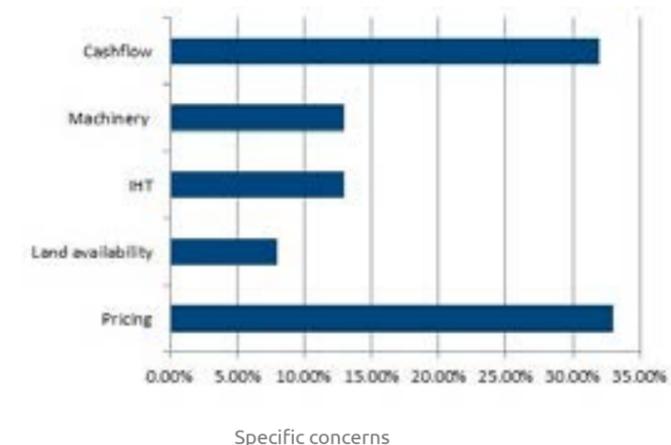
Over the longer term the “positivity index” has now dropped from nearly 70% to 49% and the Lamma 2017 result is starting to look out of line with an underlying downward trend. Bearing in mind that attendees at the two big arable events of the year tend to be skewed towards the larger and more prosperous arable farms of the southeast, the results probably under-represent the depth of concerns across the wider industry.



Prediction for business Growth

Concerns

Respondents were next asked for the nature of their specific concerns in the run up to harvest 2017. With cereal prices being some 40% higher than they were a year ago, largely on the back of currency fluctuations, pricing is less of an issue with only 33% seeing it as their main worry compared to 43% a year ago. Cashflow (which may be another way of expressing low profitability) remains a problem, however, with 32% seeing it as a key factor. Taken together these two areas still worry 65% of respondents, only slightly down from 69% last year. Unsurprisingly, at a time when the wheat price was little more than the cost of production, pricing was the major worry with 43% citing it as their major concern, followed by cash coming second at 26%. Other concerns such as funding machinery replacement, the availability of land and inheritance tax are still important issues, but clearly it is the short term financial issues which are at the top of the “worry list”.



Specific concerns



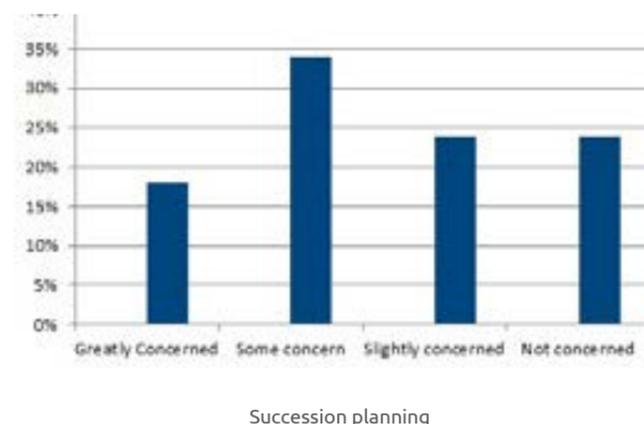
“At a time when succession and profitability are such big concerns for UK agriculture, the role of the specialist agricultural accountant has never been more important”

Succession Planning

As usual, succession planning is an important area. Agriculture is of course a long term business, and perhaps uniquely in the UK economy it is one where the “short term view” is one which only covers the concerns of the current generation. When asked the specific question “How much of a concern is succession planning?” 52% felt either some concern or great concern with a further 24% being at least slightly concerned. Only 24% 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.

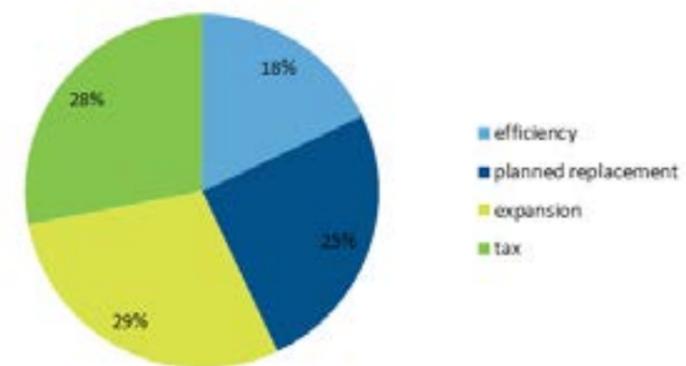
These figures were almost exactly the same proportions as those which were seen at Cereals a year ago – so on the one hand the problem is no greater than it was then (albeit that the respondents are all a year older). Alternatively it means that many businesses are still failing to address the problem.

The policy of “mending the roof while the sun is shining” appears to have little attraction at a time when the rainclouds of ageing, subsidy reform and political uncertainty gather.



Machinery Purchase

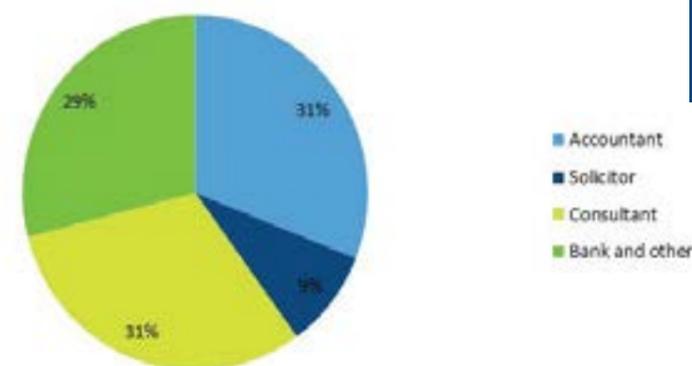
As one might expect at a trade fair, many respondents are at least thinking (even if only wishfully) about replacing their kit. However, when asked “What factors influence machinery buying decisions?” the results were very different from those obtained a year ago. This year the four options of increased efficiency, planned replacement, expansion and tax efficiency were broadly equal, whilst twelve months ago 58% of respondents were primarily looking for greater efficiency. It is hard to see why this might have changed: perhaps last year tax was less of an issue and businesses were primarily looking to increase productivity, and now with bigger bills on the horizon tax is starting to be a factor?



Other Matters

In addition to the key areas listed above, the survey also looks at several less obvious (but still interesting) areas. As usual, we asked which professional adviser the farmer consults before taking decisions. This year accountants and consultants shared the honours at 31% each with the bank manager or other adviser being approached by 29%, and only 9% referring to their solicitor. These figures are reasonably consistent from year to year. Of course, 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 the accountant remains the first port of call for the majority, as we believe the accountant should normally be part of the advisory team whenever major decisions are being discussed.

The regular contact which builds up between the accountant and the farming family over the years make him or her 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 the UK agriculture, the role of the specialist agricultural accountant has never been more important.



Making Tax Digital

This year we also added two particularly topical questions in the light of the proposed implementation of the Government’s “Making Tax Digital (MTD)” initiative. Firstly we asked whether respondents had even heard of MTD – 58% had, but given that, at the time of the survey, we believed it was less than a year away, it was somewhat worrying that 42% had not. We also enquired as to the nature of the bookkeeping system kept by each respondent: 61% used accounting software, with the remainder using cashbooks or “something else”. Perhaps unsurprisingly there was a degree of correlation between those issuing electronic accounting systems and those who were aware of MTD, but it was by no means an exact match. Since the survey was taken we have of course heard that the introduction of MTD has been deferred until the relevant government software has been more fully tested – something which those who experienced the pitfalls of the introduction of the new BPS system in 2015 will appreciate.

As mentioned above, there is a feeling that attendees at these trade shows tend to be drawn from the larger and more prosperous arable farms of the southeast. If less than 60% of them are aware of MTD now, it indicates that across the whole sector, HMRC will have an uphill struggle to roll out the message even though the implementation date has been pushed back to 2020.

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