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Farming finance

Cash flow is king

If there’s one adage that will ring true for all industries, it’s that turnover is vanity, profit is sanity, but cash is king for business. *CPM* explores the current financial challenges farmers face and their cash flow considerations for the coming season.

By Melanie Jenkins

Farmers are facing a unique mix of circumstances which are having a financial impact upon their businesses, from the anticipated loss of BPS to the unforeseen war in Ukraine and its far-reaching consequences.

Though there were several years to try to prepare for the scaling back and eventual cessation of BPS, the reality of the loss of payment will be hard for many, especially with other pressures on cash flow, according to Will Gemmill at Ceres Rural.

“BPS payments will have halved by 2024 and by 2028 they will be completely gone. Historically it’s made up over 50% of the profit of many farming businesses, particularly cereal growers, so it’s a big loss.”

Adam White of Barclays concurs: “We’ve seen an increase in fuel, electricity and fertiliser costs impacting all business sectors. Arable and mixed farmers are having to plan cash flow requirements alongside making business decisions around potential yields and crop types, depending on where demand and prices are.

“Volatility is always a common challenge in agriculture, however, there remains uncertainty around the future cost of fertiliser, while fuel and electricity prices may remain high for a long period,” says Adam.

But there are positives out there as well, says Will. “We’ve seen rising commodity prices, which is good for those running arable farms but not so much for livestock farmers.”

Commodity price increases

The price of all commodities has increased a lot over the past year, and the war in Ukraine has only exacerbated this, he says. “Prices were going up before (see Short markets have long tails, page 8), but the war has sent them significantly higher. We’re now seeing spot prices circa £300/t for wheat and oilseed rape pushing above £800/t — this is a massive price increase, especially considering OSR was priced around £385/t a year ago.”

And the trend for higher prices looks set to continue through the 2022 harvest, says Will. “Though there’s over £40/t discount for 2023 wheat compared with the same month in 2022.”

The issue with commodity price increases for arable farmers is that their costs have risen at a similar rate to the commodities, he explains. “Two seasons ago ammonium nitrate fertiliser was costing £185-£200/t, and those who bought it ahead of the price increases in 2021 probably spent around £280/t, but subsequently it’s gone up and up and up.

“The concern for growers is twofold: if they try to buy it now, it could cost them up to £850/t — a threefold increase in price since last year — and getting hold of nitrogen isn’t easy either. This is an issue growers will see going through to next year because Ukraine was a big supplier of urea and Russia supplies the gas to produce ammonium nitrate,” says Will.

“It’s also causing concerns for the 2023 season. Some who can get hold of it now are considering buying to secure their nitrogen for next year, but this is creating cash flow issues.

“The rising cost of oil has in turn lifted the

Will Gemmill advises growers to avoid situations where they’re beholden to someone price setting.

The rising commodity prices are good for those running arable farms, but fertiliser, fuel and electricity prices have also risen.

price of red diesel from around 60p/l to near £1.10/l, causing concern for short term cash flow as many farmers may not have bought early and may have sold their 2021 harvest early at lower prices," he explains.

Other inputs haven't escaped price rises. "The cost of glyphosate has risen significantly with a general shortage and various other pesticides have crept up in price," says Will.

"So cash flow may have suffered with the reduction of BPS, the rapid rise in inputs and because farmers haven't been able to take advantage of the high commodity values at present. It's a bit of a cash crisis for some."

So what can farmers do? "There's lots of 'ifs' and 'buts' and 'maybes," warns Will. "But the main thing we're advising our farmer clients is not to panic as there are ways to deal with the situation. If you're concerned about going over your overdraft limit, go and see your bank manager. Speak to them and see if they can help."

Adam advises growers start conversations early. "Try and look at all possible scenarios and plan your cash flow requirements around these, looking at best and worst-case situations. Approach them with plenty of time ahead of any expected purchases, so they can support you with the finance you need.

"Overdrafts remain a good option for financing the long cash flow cycles in agriculture, however, do talk your bank about the best options," advises Adam. "For example, asset finance could support some farms by releasing cash from second-hand machinery, or a term loan may be more practical for longer term purchases to reduce energy costs."

He suggests making the most of mobile and internet banking. "These are useful for keeping a close eye on cash flow and also provides a quick and convenient way of contacting your bank easily. AHDB also provides some very useful tools for comparing costs and understanding management actions that can be taken on farm."

In the event that the bank manager can't help, there are specialist banks out there and sometimes merchants can assist as well, says Will. "Banks such as Oxbury offer short-term loans which can help with immediate cash flow issues and to tackle buying inputs at high prices, and merchants may be able to delay payments or put your grain sales against purchases."

Keeping a close eye on prices is also advisable, he says. "There's a lot of uncertainty because the Ukrainian war is at its height, but the general feeling is that gas prices have come off their peak, though the ripples are still likely to be felt in the market in 2023.

"When it comes to buying fertiliser for 2023 harvest, I wouldn't buy more than 20% of your requirement at this stage. See where the markets run. Experts in the industry are saying that prices will settle, and though this isn't assured, we think they will."

Alternative sources

One thing that may help drive down prices is that a number of countries are opening up their capacity to produce ammonium nitrate from gas, adds Will. "Places like Egypt are looking to create more urea and the hope is that CF will open up both plants in the UK, but I still wouldn't advise going mad for buying nitrogen for 2023 just yet as the war is having a major impact."

For those in need of replenishing their red diesel stocks, Will believes prices will settle down, but for those who have enough to either get through harvest or to the start of it, he suggests waiting a month or two when it might be a bit cheaper — especially if cash flow is an issue.

"The key thing for growers is to have a plan," he advises. "Don't be in a situation where you're beholden to someone price setting to you, where you're up against your overdraft limit or where things are out of stock. Shop around and see who can get you the right deal."

Growers could also look to cut the amount of fertiliser they're using this year, if possible, he says. "But get independent advice on this, see how much you can cut economically without losing too much yield. This might allow you to carry some forward to 2023.

"Using more organic manures may be another way to help reduce the need for bagged fertiliser and it's where Defra's pushing."

There might also be scope to cut back on red diesel during harvest and establishment, suggests Will. "Look at any ways you can sensibly reduce cultivations without reducing yield. This could be by adopting controlled traffic farming or direct drilling more," he says.

Farmers are having to plan cash flow requirements alongside making business decisions around potential yields and crop types, says Adam White.

The current situation may also provide an opportunity to revisit alternative forms of energy production, says Adam. "For example solar or other renewable energy sources may now be economically attractive on some farms."

It's also worth being aware that it's a route farmers may well have to go down, says Will. "So the current situation may help hasten our progress towards more regenerative practices," says Will. "It's the route Defra wants to encourage and will be directing funding towards."

So it might even be a good time to look at restructuring and adjusting the farm's system, he suggests. "Some growers had a good year in 2021 and are using their annual investment allowance to invest in new kit to change their system so it can become more profitable."

Overall, communication remains key, says Adam. "Ensure you're talking with your bank and advisors about short term cash needs and long-term spending plans. Having a complete overview of these can support in creating the best solution for the farm." ■

Some merchants may be able to delay payments or put grain sales against purchases to help with cash flow.