

STRESS TEST & REVIEW FOR AN UNCERTAIN FUTURE (AKA FASTEN YOUR SEATBELTS)



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Whilst no one can predict what the rural world is going to look like in terms of rural support and future trade deals post Brexit, businesses can take various obvious themes and use those to stress test their existing enterprises to ensure measures are taken to allow farms and estates to try and optimise resilience and profitability moving forward.

We also believe clients should use what might prove to be relatively benign times now to “fix the roof while the sun is shining”.

The surprising hung parliament result adds another dynamic to the whole picture. Albeit the Conservatives maintain a majority, the prospect of a Labour controlled government must now be greater than previously thought.

BREXIT

Turning to the more immediate and tangible concerns of Brexit, we see *certainty* in substantial changes to the current CAP support mechanisms and *strong probability* that the money received by most businesses in lowland England being substantially reduced unless there are significant changes to farming systems. The precise timing of these events remains to be seen.

This decrease in income could, for some sectors, herald a perfect storm in terms of profitability when viewed in tandem with the risk that undoing existing EU trade agreements may have some dire consequences for certain commodity prices.

Notwithstanding this, there will undoubtedly be considerable opportunities as change, in our experience, always brings opportunities. This represents the best chance the agricultural industry has had for decades to reset the way the food we consume is grown and distributed; and there may well be significant challenges to the current norm.

STRESS TEST & PLAN NOW

So, while many of our clients subscribe to the Churchillian edict to “keep bugging on” (a view we have considerable sympathy with), we are advising our clients to review their businesses as follows:

- ◆ Analyse current income streams and stress test businesses for a dramatic fall in current BPS income. This includes analysis of current rental income from farmland as a significant proportion of this is in effect supported by the current BPS regime.
- ◆ Take all steps to make businesses as robust as possible in the present climate through actions such as consolidation of current borrowings to lock into present favourable interest rates and using farming joint ventures to ensure top quartile performance on land farmed in-hand.
- ◆ Continue to review diversification and development opportunities. The government continue to espouse their intention to “fix the broken housing market” (although the efficacy of their intent will only be judged over time). Consider other alternative sources of income such as;
 - local generation and storage of power
 - tourism and leisure
 - natural capital opportunities
 - green space mitigation
 - other emerging and innovative rural income streams
- ◆ Continue to review the next generation strategy to minimise financial pressure on farms and estates when the inevitable generational change event occurs. Changes in the income profile received from the wider farm and estate business may interact with existing tax planning advice and this will need ongoing review to make sure certain assumptions still hold true in the wider business context.

Whilst the drivers of these reviews are the clear concern of imminent and substantial change to farm and estate businesses, it is interesting how often the net result of the process is both positive and invigorating. It is also, by definition, a catalyst for bringing in the next generation to such discussions.

However, our advice remains the same. Review the business now and make any necessary changes in order to strap in for what will be a rocky ride ahead.

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