

Diversification project and SFP hedging bring added stability to family farming business.



Neil Wright (centre) with Geoff, Sarah, Shona and Peter at the free-range egg unit.

For Peter Reade, reducing his farm's exposure to commodity and currency rate fluctuations in order to add an element of financial stability was an important part of a recent farm diversification project.

Peter farms in partnership with his parents and children at College Farm in Ashbury near Swindon, and until 2003 ran a successful dairy herd. The milking herd was sold due to a combination of poor milk prices and the farm's fragmented layout, which made it difficult to run one large herd across the entire acreage.

Since then, the business has focused on a mix of livestock and arable production, managed by Peter and his son Geoff. However, an ambition to bring an additional

revenue stream into the business has recently seen the family business expand into free-range egg production.

"We wanted to find a way of diversifying the business so that the farm could generate a reliable income to support three generations," Peter explained. "We considered expanding the beef herd, but research showed that egg production would be more profitable and would allow us to intensify the farm's productivity whilst making better use of family labour."

Using manure to reduce fertiliser usage.

Peter's interest in egg production came about as a result of his role as a trustee and founder of the 'Send a Cow' charity, which promotes sustainable agricultural practices in Africa to help farmers out of poverty. Part of the charity's work involves educating farmers on

how to utilise manure more efficiently to improve soil fertility and productivity.

"I wanted to use some of the lessons learned in Africa to improve our own efficiencies and to make better use of the farm's resources," he said. "We were already using potash from the cattle manure to fertilise the arable ground and saw chicken muck as a cheap source of phosphates and nitrates which could help to reduce our annual fertiliser bill by as much as 40%."

But instead of buying chicken muck from third party suppliers, Peter decided to produce his own by constructing a 16,000 bird egg-laying unit.

"Free-range egg production provides a good return on investment," Peter explained. "We started looking at our options two years ago and settled on a John Bowler free-range franchise. Their team helped us with the planning process and building works, as well as supplying all the necessary advice and expertise to get the new venture up and running."

The new laying shed was completed in August 2010, and by November was producing 100,000 eggs per week. The unit is managed by Peter's daughter Shona and Geoff's partner Sarah, with the eggs being sold back to John Bowler. This gives the enterprise access to a guaranteed and instantly accessible market instead of having to establish its own customer base.

Funding the project.

Funding for the new project was arranged through Neil Wright, Lloyds TSB Agricultural Business Manager from the bank's Devizes office. "The figures that the Reades and John

Enterprises:

- 950 acres at Ashbury near Swindon
- Mixed beef and arable production
- New 16,000 bird free-range egg unit.

Objectives:

- Generate a reliable income to support three generations
- Add financial stability by reducing the farm's exposure to commodity prices and currency fluctuations.

Banking support:

- Hedging SFP for added business stability
- Protection against loss of life and critical illness
- Fixed-term loan to protect against rise in interest rates.



Peter Reade has diversified into egg production and hedged his Single Farm Payment to bring more stability to the family business.

Bowler presented showed that it was a viable and sensible business proposition," Neil describes. "The new enterprise is predicted to produce sufficient revenue to allow borrowings to be paid back over a relatively short time period.

"Peter has therefore taken out a fixed-term loan at 5.85% over 15 years. The new laying shed has a 25 to 30 year working life and as such will be able to generate a good income for the family after the loan has been repaid and before any reinvestment is required."

Protecting against loss of income.

Peter and Geoff have also taken out life assurance and critical illness policies with Scottish Widows to protect the family's financial interests should either of them be unable to work. The policies were arranged as part of the overall Lloyds TSB service and are designed to protect against the loss or injury of the business's key personnel.

"Through Neil, we invited a Scottish Widows consultant to one of our regular planning meetings and we took it from there," Peter added. "It was a very simple and straightforward process to choose the right type and level of cover to meet our needs and much easier than anticipated considering the level of investment being made."

Hedging his Single Farm Payment.

Peter also uses the Lloyds TSB Agriculture team to hedge his Single Farm Payment (SFP). "We forward sell our grain and buy fertiliser forward so that we can manage the farm's finances more effectively," he described. "We don't always get it 100% right, but this strategy adds an element of stability to the business and lets us concentrate on maximising productivity.

"The global economy is so volatile that it made sense for us to extend this policy by

hedging our SFP payments. You only need to look at what has happened recently to feed, fertiliser and grain prices to realise that the pound to euro rate can change markedly within a short space of time."

By his own admission Peter knew very little about how to go about hedging his payments, but Neil brought a Lloyds TSB Financial Markets specialist into the team who helped him to decide how much of his SFP to hedge and at what pound to euro conversion rate.

"For the Reades, fixing the interest rate on their loan, taking out life and critical illness cover and hedging their SFP payments is all about managing some of the risks that their business faces. This adds a much-needed element of stability to the way they operate and gives them added peace of mind," Neil concluded.



The new unit houses 16,000 free-range Lohmann laying hens and has capacity to be extended to 24,000 birds.

We can help...

If you are thinking of investing in a new business venture or would like to find out more about protecting against a loss of income from a loss or illness of key personnel or hedging your SFP, please call your nearest Lloyds TSB agricultural office listed on page 12. Alternatively, send an email to agriculture@lloydstsb.co.uk or visit our website at www.lloydstsb.com/agriculture