

This months contributors

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WELCOME James Dunn, Managing Director of Promar International



Welcome to the April edition of Promar Matters.

Hopefully by the time you read this we will have put

the 'Beasts from the East' behind us, and spring will have finally sprung!

At Promar, we pride ourselves in the collection, analysis and provision of reconciled financial information. The article kindly provided by Keith McGuffie, senior agricultural manager at NatWest, references the

importance of accurate information to enable correct decisions to be made by funders.

Our Farm Business Accounts (FBA) package is ideally suited for this purpose while also providing the digital reporting solution that will be required by HMRC under the 'Making Tax Digital' mandate from April 2019.

A big thanks to all who completed our customer survey – we will use your feedback to refine our services. Congratulations to the Vaughan family on their prize draw success.

We hope you enjoy the read and please get in touch if you require more information.

CONTINUOUS EYE ON IMPROVEMENT MORE IMPORTANT THAN EVER



The latest Milkfinder herds report indicates continual improvement in efficiency for the

12 months to January 2018, when compared to January 2017, with the average herd increasing yield per cow to 26.7 litres per day, and yield from forage per cow to 6.8 litres per day.

Despite this positive trend, Nigel Davies, Promar's National Consultancy Manager is encouraging dairy businesses to continually set performance targets to influence on-going and future performance.

"Setting informed targets using data from previous months and years, and then adjusting them with an informed eye on overall profit is a beneficial management tool that will help ensure they're still realistic in light of seasonal factors," he explains.

"For example, the diagram on the right refers to an almost 10% difference in feed rates for the national Milkfinder sample between April 2016 and April 2017," adds Nigel.

"If April was a consistent month year-on-year, it would be appropriate for the average herd to aim for a feed rate somewhat less than 0.29 kg per litre for the month of April this year."

However, he points out that such a simplified target is likely to need re-thinking, factoring in the potential impact that the late spring could have on the optimum time for first cut, first cut quantity and quality, variable grazing platforms, and many other aspects that will affect cashflow.

"Taking this into account, climatic challenges may mean that the optimum feed rate needs to be higher than for the same month last year. Nonetheless, the business should still have a pro-active target to aim for," says Nigel.

NEWS IN BRIEF

Production up

Global dairy supplies increased by 1.8% in 2017, equivalent to an additional 5 billion litres worldwide. It is expected to rise again in 2018, though not as quickly, at between 1.2 and 1.3%, equivalent to 3.5 - 3.8 billion litres.

Feed prices up

Compared year-on-year, up to February 2018, the average price of **LIFFE** wheat has increased by 3% to £150 per tonne. The **CBOT** soya bean price has also increased 23% during the year to £312 per tonne.

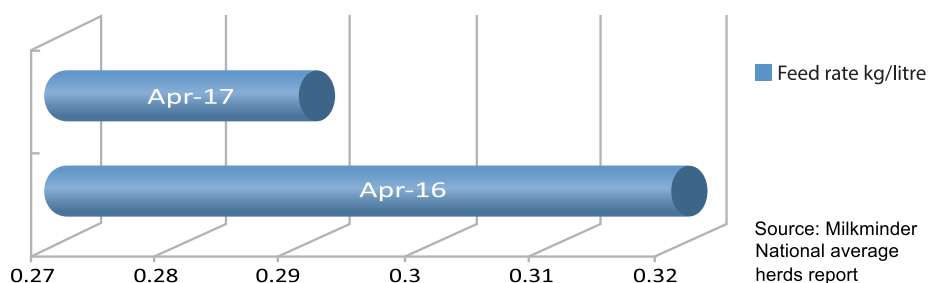
What this means

When viewed in the context of the United Nations forecast for growth in consumption of dairy products of between 0.5 to 1.1% per year in developed economies over the ten year period from 2016, then the very best producers will continue to benefit by challenging themselves to make the very most of the payment characteristics of their individual milk contracts, and start thinking now about their feed contracts for next winter.

LIFFE – London International Financial Futures and Options Exchange
CBOT – Chicago Board of Trade

"This is especially critical in a scenario where conditions are more challenging, and particularly so for such potentially variable months as April."

April feed rate kg/litre



DATA PROVIDES ACCESS TO FUNDING



With Brexit on the horizon, more farmers are looking to spread risk by investing back into their businesses. This means that the need to be able to demonstrate viability to outside lenders to secure new sources of funding is becoming increasingly important.

Keith McGuffie is a senior agricultural manager at NatWest, advising 45 commercial customers in Cheshire and North Wales. He explains how data from services such as Promar's Farm Business Accounts (FBA), can be pivotal in supporting bank lending decisions for agricultural clients.

"Over the last six months, we've received a higher number of requests for lending. Although some of this is no doubt driven by milk price, the ongoing uncertainty posed by Brexit means that more farms businesses are borrowing to build or diversify their income stream," he says.

Access to profit and loss, cashflow forecasts and farm performance data can all help to understand how well a business is performing. However, smaller farms may not have this information readily available.

"This is where the FBA data and Promar's expertise comes into play, as the due diligence we go through at NatWest means that it's vital to have detailed information from the farm to back up the lending decision," explains Keith.

Since returning to work with the agricultural sector in 2014, Keith has seen the working relationship with Promar increase, utilising data and insight to support the bank's decision-making process.

"Although farmers will often take consultancy advice on feed and nutrition, they may not consider the benefits of taking wider business or financial advice. In some situations, we've actively recommended farmers take the services of a consultant to help provide this vital insight."

Business support

Emma Thompson, Regional Manager at Promar, explains how FBA data has helped her customers.

"There are a number of reasons why a farm might need access to cash, from investment in the farm infrastructure or equipment, to increase cow numbers, or to diversify the farm business for example.

"However, in order to secure the funds, you have to be able to demonstrate what cost the additional debt will put on the business

and put a case forward to the bank on how you plan to manage this," she says.

Having a benchmark to work from and an understanding of what is working, and what may be putting extra strain on the business is key. Cost of production is often a measure that is used by the banks to show how efficiently a farm is operating.

"It's important to have complete transparency over your cost of production and be able to confidently demonstrate that you're profitable.

"There's now more of a requirement to have greater transparency over financial performance and day-to-day farm performance, and FBA can provide both."

She adds that fluctuating milk prices demonstrated over the past two years haven't helped to demonstrate long-term viability.

"It's all about giving the bank confidence, even through challenging circumstances, and having a sustainable plan in place to control the spend versus income when milk price is against you."

Whatever the requirement for funding, it's important to do your homework, says Emma. "Consider the overall performance of the farm and use your consultant to support you to unravel the data, and put a robust business case together."



Farm Business Accounts (FBA)

- Management accounts with individual enterprise gross margins and business performance
- Within year cashflow, including comparison with budget
- Completion of VAT records and returns
- Flexibility to use the system on a self input or bureau basis
- Year end annual reports provide an in depth breakdown of performance together with an accountants pack to ease the production of tax accounts