promar matters

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FINANCIAL YEAR TO MARCH 2018 ENCOURAGING ...BUT CHALLENGES LIE AHEAD

Tim Harper says the Promar Farm Business Accounts (FBA) results for over 500 specialist dairy farms for the year to March 2018 showed improved profits, but the prospects for 2019 and 2020 are less positive and there are a number of key actions that all farmers need to consider.

The 2018 headline figures

- Profit after depreciation of £96,318, significantly up from the £53,130 recorded to March 2017. Profit was over 60% higher than the average of the previous five years and only exceeded by the 2013-14 results.
- Total variable and overhead costs increased by 6.9% and 5.6% respectively.
- Average producer increased total output by 74,009 litres, keeping four more cows and producing an extra 188 litres per cow, without increasing feed usage.
- In conjunction with an average milk price increase of 2.86ppl this diluted the impact of cost increases, resulting in profit after depreciation per litre rising from 3.09ppl to 5.38ppl.
- Profit is only half the story. Other 'cash' costs including capital expenditure and non-trading items such as drawings and debt repayment need to be accounted for. The average farm made a cash deficit of £85,152 before the introduction of any new capital and total liabilities rose by around £18,000 to £563,310.

NEWS IN BRIEF

- **LABOUR SHORTAGE.** An RABDF survey reports an 11% increase in issues recruiting overseas staff with British workers not wanting to take up the strain. They say the likely outcome is more dairy farmers short of labour, hitting cow and farmer welfare.
- **MAKING TAX DIGITAL (MTD).** The Government's MTD initiative is scheduled to go live on 1st April 2019. From this date all VAT registered businesses must submit their VAT return electronically using MTD compliant software, such as Promar's Farm Business Accounts package, representing a major change to the processes in many farm offices.

The next Promar Matters will focus exclusively on what MTD will mean for farmers and how we can help.

What about the top 25% of producers?

What did they do to generate the better profits?

- Profit per cow of £864 compared to the average of £457.
- More milk per cow but a smaller herd size means very similar output.
- Virtually identical milk price to the average so it was all about efficiency with a significantly lower feed rate at 0.33kg/l.
- Variable costs control with lower bedding, vet and sundry costs saved 0.48ppl compared to average.
- Control of overheads, particularly wages, power and machinery and property costs saved £38,000, equivalent to 2.15ppl compared to average.
- Reduced debt per cow and ability to invest more capital per cow.

But what about the year to March 2019 and beyond? What are the prospects for dairy farming?

PROFITS WILL BE SQUEEZED

Looking ahead to the financial year ending March 2019, farmers have had to contend with a challenging forage season with tight stocks moving forward. But cows have kept milking well and milk prices have held up so far.

Going into the last third of the year, milk prices will come under pressure and feed prices have been consistently higher which, combined with increased usage will lead to higher feed costs. Oil is trading significantly higher which will fuel inflation in many cost areas.

Together, these will mean a big fall in average profitability to around £40,000, down over £50,000 on March 2018 and below the five year average. Borrowing requirements will increase to meet the cash demands on the business.

Looking further forward beyond 2019, farm businesses will have to react to the consequences of Brexit with implications for Single Farm Payments, Tariffs and exchange rates and continued pressure on costs. Any continuing trade war between China and America will hit global demand for dairy products.

FACING THE FUTURE – PLANNING FOR CHANGE

National Consultancy Manager Nigel Davies says dairy farmers need to consider planning and acting now to help insulate their businesses.

PREPARE FOR A CASH PINCHPOINT IN THE FIRST HALF OF 2019

Rising costs and a pressurised milk price will hit cashflow. Work out what it will mean for your business. Factor in an increased tax bill resulting from the higher profit achieved in 2018 to fully understand the cash demand on the business. With banks now looking more sharply at full farm viability, put adequate cash facilities in place in good time, being proactive rather than reactive. This process could take longer than you expect, so reduce the pressure on yourselves by starting it early.

PLAN FORAGE

Just as producers should have a monthly supply and demand budget for the cash resource that their business needs, they should have the same for their forage, planning how to rebuild stocks with a strategic reserve that is ready for the next late spring or dry summer. Think about managing risk.

PLAN NOW FOR REDUCED SUPPORT PAYMENTS

In all probability, we know they are going to change and could potentially wipe out 1.91ppl, which is the value of all support payments to the average producer in the sample. So the sooner you start adapting the better. To recover the 1.91ppl through feed efficiency would require the average farm to reduce feed rate by 0.08kg/l, achieving the same yield from 0.28kg/l – a 22% reduction. Realistically a number of additional efficiencies will be needed to fully recoup this potential loss.

WHERE ELSE CAN YOU DRIVE FURTHER EFFICIENCIES

There remains a wide disparity in the quality of calf management, youngstock management, milk quality and herd reproductive performance, all of which impact hugely on profitability. Challenge what you do now, set improvement targets and monitor performance. Small changes soon add up.

THINK LABOUR MANAGEMENT

The RABDF survey shows that labour will come under increasing pressure. Being a good people manager could be the difference between having someone to milk your cows or not. What can you do to build a more effective and skilled team? Staff management is an overlooked skill and must embrace training and development, delegation, motivation and communication of everyone in the team. And don't forget the external members of the team. The better producers work more closely with their vets, consultants, contractors, accountants etc. than the average and there is room for most producers to improve in this area.

Implementing changes and improvement can take time, but they happen most successfully when businesses have the best possible financial information to hand and are prepared to regularly step back from their businesses and take an alternative view.

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