

Farming Matters

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RENNIE WELCH

accountants : audit . tax . investment . IT

Welcome

Welcome to our fifteenth edition of Farming Matters.

As the nights are drawing in and the winter crop drilling is drawing to a close, we are looking forward to next year's harvest and trading position with anticipation. The world is still appearing to be a troubling place just now with input price inflation still causing concern and even the availability of products being potentially uncertain.

In terms of tax policy, at the time of writing we have just had the mini budget where the Chancellor launched his growth plan focusing on driving economic growth. Whilst this was initially received well by business leaders, a large backlash from the public and other politicians has led the government to scrap the plan to abolish the 45% top rate of income tax. It remains to be seen whether the other changes will go ahead.

In this newsletter, Isla has looked at common areas that may be overlooked by farmers which could create cost efficiencies in future including benchmarking, forecasting and looking closely at business financing.



There are great opportunities for people to take advantage of modern accounting software.

Ross has also covered the importance and benefits of business budgeting and forecasting and this is certainly a very important area going forward. Not only because of the recent attitude of lenders. We have seen an increase in requests from banks for future projections to be prepared for them when looking at lending decisions where historically they could potentially be satisfied by looking at historic data. The longer lead time on machinery purchases and varying interest rates has also brought about a greater need for forward thinking. The availability of modern accounting software has been revolutionary in this area and has made the process much easier and slicker and we find that there are great opportunities for people to add value to their businesses by taking advantage of this.

We are pleased to welcome our 'Guest' writer to this edition, Brian Richardson, who is the UK Head of Agriculture for Virgin Money. In his article Brian looks at how to plan for your farm's future and he also stresses the importance of budgeting, forecasting and benchmarking.

We are also delighted to announce that Bev Marsh and her team of farm secretaries will be joining Rennie Welch toward the end of this year. We are very excited by this development and feel our combined teams will be strengthened by working together and that this move will help us to enhance the range of services we offer to farming clients going forward.

Lastly, we have included a brief article with a final update on our Office2Office Trek challenge which raised an amazing amount for Team Lukas. We are extremely grateful to everyone who sponsored us and supported us along the way.

I hope that you find these articles interesting and as always if there are topics that you would like us to cover in future then please let us know as we are keen to make the newsletter as useful as possible.

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Planning for a Successful Farming Future



Brian Richardson, UK Head of Agriculture for Virgin Money, discusses how to plan for your farm's future:

For farmers, the last five years have been challenging. Firstly, Brexit meant replacing CAP which had governed UK farming for fifty years. Whilst there were some issues, the policy had provided farmers a background they could plan around. New policy to replace this has been slow to evolve and has created significant change to the income of many farms.

At the same time the focus in agriculture has moved to Net Zero. Whilst agriculture accounts for 10% of total carbon emissions, being part of the solution to reducing UK carbon output has meant a close focus on farming. We have also endured Covid, in which UK farming did a fantastic job keeping food supply chains working.

A war in Ukraine is the latest challenge, with energy costs affecting all farming businesses, and input cost inflation spiralling. This uncertainty makes planning difficult, with many farmers having little option but to continue as before in the hope something will turn up in relation to price.

UK farming is resilient, and the skills and dedication of farmers has come to the fore in recent years. The UK's proportion of income spent on food is the third lowest in the world, despite producing high-quality food which is excellent value for money.

So, what will the next five years look like, and what can farmers do to ensure future profitability and success?

The direction of new policy is clear. Recent events have refocused the economic importance of food production, and the environment and Net Zero being seen as complementary to that food production. There are available grants targeting productivity and improving efficiency, I suspect rising as the debate between environmental security and food supply rebalances.

So how do you plan through this uncertain landscape and start to make real decisions for your business?



Budgets, cash flow forecasts, and benchmarking have never been more important. Yes, forecasting is difficult, but understanding what the future looks like is crucial so you can be proactive and not reactive to events.

'Deep diving' into your business is invaluable in helping you understand where investment may be beneficial. Involving advisors helps with objectivity, taking some of the emotion out of those future decisions.

Given the focus on Net Zero, it is advisable to conduct a Carbon Audit. This will highlight areas for mitigation, which will likely compliment efficiency and productivity improvements aiding the bottom line.

There are grants available for these reviews. Advisors will have first-hand knowledge of other farms, so can advise on how your performance compares and what they see working elsewhere.

At Virgin Money we recognise farming is a long-term industry and look to continue to support the sector in the future. That is easier when we have a clear understanding of a farm business approach to the current changes and understanding the actions you are taking to future-proof your farm.

I am positive about the future of farming, but it is going to be different. We look forward to working with our farmers and the wider professional community to support the sector going forward.

ABOUT VIRGIN MONEY

Virgin Money is a full-service digital bank, serving 6.5m customers across the UK. It offers market-leading products and services to meet the full range of customers' retail and business banking needs. Virgin Money aims to provide a consistently world-class experience for customers through its leading technology platform, telephone banking and a national network of innovative stores and business banking centres. By making banking better, Virgin Money seeks to deliver on its purpose of 'Making you happier about money'.





Business Budgeting and Forecasting

With the significant increases in grain prices, fertiliser, feeding, fuel, etc. over the past 12 months or so financial budgeting and forecasting has never been more important.

Some of the main benefits of budgeting and forecasting are:

- Enables identification of potential cash flow issues, giving you the opportunity, where necessary, to arrange additional borrowing, payment plans, etc.
- Estimate potential annual profits and in turn potential tax liabilities, giving you the opportunity to review your tax position and identify ways to maximise tax efficiency, such as making pension payments, bringing forward capital expenditure for allowances, etc.
- Identifies areas where possible savings can be made.
- If you are looking to renew borrowings/ take out borrowings your bank may look for this information as part of the application process.
- Assist with the management of input costs.

With the majority of farmers keeping their records on software following the introduction of Making Tax Digital, it's never been easier to prepare budgets, cash flows, etc. and then compare to actuals throughout the year to keep track of where the business is at financially. Keeping financial records digitally allows

business owners and their accountants to keep right up to date with how well the business is trading with more information available to help prepare future budgets and compare to previous budgets – certainly a huge step up from the old fashioned cashbooks! There are various software packages available, such as Xero and Quickbooks to name two, which are continually developing to keep pace with the changing requirements of business owners. New software specifically designed for budgeting is also emerging.

It is always important when preparing budgets and forecasts to be realistic with the values, although with no crystal ball available this can be difficult, as we are all well aware of the existing variables. Sometimes it can be useful to prepare two or three forecasts to account for different scenarios – for example, different grain or livestock prices – as this can help to highlight the best, and worst case situations.

As well as preparing forward looking reports it can also be useful to look at management accounts on a monthly or quarterly basis, comparing these to your budgets so that you can act on any significant variances, if necessary adapting plans going forward.

We are seeing more and more clients, not just farmers, come to us asking us to help with the preparation of forecasting reports to assist with their business decision making. If you feel the preparation of budgeting reports will benefit you and your business, please get in touch with myself or your usual Rennie Welch contact.

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It's never been easier to prepare budgets, cash flows, etc. and then compare to actuals throughout the year to keep track of where your business is at financially.



Focus for the Future

With everything that is happening in the world creating a lot of uncertainty for both individuals and businesses, it's more important than ever to ensure you are taking all the steps you can to ensure the future of your farming business.



As input costs continue to increase and the cost of borrowing soars, we need to put measures in place to minimise the risk of unexpected costs arising and putting further pressure on what may already be very tight margins.

In this article we will look at some common areas that can often be overlooked by farmers, which, with a little time invested now, could generate cost efficiencies in the long term.

PARTNERSHIP AGREEMENT

If operating as a partnership, then a good partnership agreement is key to ensuring the future of the business and its assets. The agreement can cover numerous areas of the partnership's operation, such as profit shares, salary levels, what happens in the event of a partner's death or retirement, etc.

Without a written partnership agreement, a partnership will fall under the terms of the 1890 Partnership Act. In short this means that changes to the partnership, such as the death or retirement of a partner, or dispute amongst partners, will lead to the partnership's assets being sold and the business being wound up.

BENCHMARKING

Whether done as part of a formal group or within a group of farming friends and neighbours, benchmarking and sharing ideas can prove hugely beneficial. Comparing your own costs and returns with those of others in similar farming set-ups allows you to identify areas where you are performing well, but equally aspects of the business that could perhaps be improved. You can then look at what others are doing differently/ successfully and consider whether these ideas could be implemented to improve the business' profitability.

FORECASTING

When decisions are taken to invest in new machinery or buildings, to expand the flock or herd for example, the initial outlay will be relatively easy to determine. However, it mustn't be forgotten that often decisions to expand or diversify will come with added working capital requirements, therefore it is imperative that cashflow forecasts are prepared in order to ensure the business has access to sufficient cash to meet its day-to-day requirements.

This can also be used to support cash management as we all know farming is a cyclical business, and bank balances will often reflect that. If there are months in the year where bank balances remain in credit, now that interest rates are rising, it may be worth considering moving that money to a different account that pays more interest, until such time as it is needed. With good forecasting then this can be more accurately planned.

FINANCE AND CREDIT

Very often, farmers won't look beyond their existing bank when looking to obtain additional finance – this can sometimes mean the level of borrowing required cannot be obtained, or it's perhaps too expensive. However, as with the purchase of livestock and inputs, etc, it is important to look at the available alternatives, compare interest rates, arrangement fees, length of credit and so on, as it may be that other lenders can offer you a better deal.

If you wish to discuss any of the points raised in this article, in relation to your own business, please get in touch with myself or your usual Rennie Welch contact.

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Common areas can often be overlooked by farmers, which, following the investment of a little time, can generate cost efficiencies in the long term.



Bev Marsh Farm Office Ltd



We are delighted to announce that the above business and staff will be joining Rennie Welch in November 2022.

As many will know, Bev and her team have provided farm secretarial and bookkeeping services to a large number of farming clients over the last few years, following on from a long period providing the same service through Nancy Hodge Farm Business Services. The team brings a wealth of experience and knowledge from working closely with farmers and rural businesses and has a very strong reputation for providing an excellent service.

Bev will join the practice as one of our Team Leaders and her colleagues Jo, Emma, and Maggie will also join the Rennie Welch bookkeeping team, continuing to provide an uninterrupted service to clients. Bev has confirmed that she has chosen to move to Rennie Welch as "being local and not too large an organisation fits with my goal of being able to continue to provide a personalised, specialist service to meet client requirements whilst being able to benefit from the support and expertise available through the Rennie Welch staff."

We saw the quality synergies between the two businesses and so we are

very excited by this development and feel that the combined team will be strengthened by working together. We are particularly pleased to welcome Bev and her colleagues to the practice as we share a very similar culture and ethos with a strong interest in the agricultural sector.

As agricultural specialists, we feel that this move fits with our agricultural focus and expertise of the practice and will support our work and complement and enhance the range of services we offer to our farming clients.



**115.39 MILES
43 HOURS
56 MINUTES
28 SECONDS**

**TEAM
LUKAS**



RENNIE WELCH
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Rennie Welch Office2Office Trek



We would like to express our gratitude to everyone who sponsored us during our recent challenge and helped us to raise £11,942.08 for Team Lukas. Partners and staff took on the challenge to complete a 115-mile trek between our three offices over six days.

The walk was split over three weekends and saw us walking a loop between our offices at Kelso, Melrose and Berwick. The weather was very good to us, and although the trek was very tough, we had lots of fun.

We always had Lukas in our thoughts, knowing the fundraising we were doing was going to help provide him with the ongoing therapy he needs to thrive, give him the best quality of life and allow him to live up to his full potential.

We would also like to thank those that cheered us on along the way, provided us with cakes, traybakes and words of encouragement, and our farming clients who allowed us to walk over their fields. It was lovely for us to actually see the farms and bump into clients. We all need a well deserved rest now before we think about planning another challenge!

What would you like to see covered?



If there are topics that you would like to see covered in future issues please let us know and we will endeavour to include these going forward. Please contact Isla Young on 01573 224 391 Isla.Young@renniewelch.co.uk

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