NATIONAL FARMERS' UNION

ANNUAL REVIEW 2018

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MESSAGE FROM THE DIRECTOR GENERAL

The challenge for the NFU this year as last has been to deliver positive change on the issues which touch members' businesses today while working on the longer term challenges for food and farming.

Moreover, we need to push for the best deal for farming at the highest levels of government while having the structure and expertise in place to make sure our farming members are effectively represented at a local and regional level. Crucially we have the strength and depth within the organisation to complete these tasks, for instance simultaneously lobbying for police services and Government to tackle the scourge of rural crime while advancing the best interests of British farming in the Brexit discussions and plenty more besides.

To manage the evolving policy landscape while continuing to be the voice of British farming, NFU staff and members must be effective campaigners, convenors and co-ordinators. Back British Farming Day, the joint industry and government drought summit and the response to the Government consultation on the future of agricultural policy demonstrates how one NFU can lead the industry through even the most uncertain times. And to maintain that position we continue to invest heavily in our staff and increasingly in our members to equip them with the skills to be authentic advocates and effective activists for British farming.

As the number of issues facing farming grows, we have needed to recruit more staff, especially in critical areas such as our Group Secretary network, communications and policy. To sustain that we need at the same time to attend to our financial resilience. Our 2000 Days plan has seen us continue to develop sources of non-subscription income, examine our costs and seek out efficiencies where we can.

Thanks to the hard work of staff and members alike our subscription income also grew last year. Indeed on a like for like basis, income, the area and the numbers of farmers and growers we represent have all increased. This is crucially important for our financial resilience but also our representative power. At a time of challenge from different quarters we are proud to have a politically strong union that has access to and commands the respect of the most important stakeholders for farming business.

It is a great privilege to lead the NFU's staff and work closely with its members. I am pleased to report that our organisation continues to be in good health in the areas that matter most – policy expertise, share of voice in the media, financial resilience, and representative power. I know our members will expect us to make the case for the best conditions for British farming to thrive both now and in the future. Rest assured we are fully focussed on this objective and we are determined to make the voice of British farming heard where it matters most, creating a better future for our members.

Terry Jones

T J Jones
Director General

FINANCIAL REPORT 2018

The officers present their annual report on the affairs of the NFU, together with the accounts for the year ended 31 October 2018.

The NFU's financial performance has been good again this year despite continuing uncertainty in the wake of the decision for the UK to leave the EU. Membership income has remained steady and our investments have performed well despite a market correction in October 2018. Our financial position remains strong.

PRINCIPAL ACTIVITIES

The principal activities of the NFU are to champion British farming and provide representation and professional services to its farmer and grower members.

BUSINESS REVIEW

Consolidated results have been produced for the year. These results include the NFU General Fund, the NFU Legal Fund, NFU Services Limited and FEC Energy Limited.

During the year, the NFU Group showed an operating deficit of £3,450,777 (2017: £2,285,089 deficit) on consolidation. Coupled with the surplus on investment activities, this resulted in the audited accounts showing a deficit on ordinary activities before fair value movements and taxation of £475,819 (2017: surplus £1,081,237) for the year.

The total comprehensive expenditure for the year is £5,265,535 (2017: £19,099,730 income). This year on year variance is primarily due to the inclusion under FRS 102 of the actuarial gain on the NFU Staff Pension Scheme of £12.2 million last year, whereas the current year includes an actuarial loss of £1.4 million.

Members' subscriptions and related income has increased by £1.9 million to £32.0 million (2017: £30.1 million). Within this, the actual subscription income has remained constant at £19 million. As at 31 October 2018, NFU membership excluding Countryside and Professional stood at 52,450 (2017: 52,442).

Income also included contributions from the NFU Mutual of £6,202,500 (2017: £6,331,833). The NFU's long standing relationship with the NFU Mutual remains extremely important to us and we place immense value on their support.

Total operating costs are £3.0 million higher than the previous year at £35.4 million (2017: £32.4 million). This is mainly due to increased staff costs to fill vacancies and meet demand in key areas such as Brexit and the future shape of agricultural and trade policy.

INVESTMENTS AND PROPERTY

The value of our listed investments has decreased over the year to £75.5 million (2017: £76.9 million). The fair value loss for the year of £1,346,229 (2017: £7,726,018 gain) is reflected in the Statement of Comprehensive Income. These falls were in part due to the long anticipated market correction near the end of our financial year.

In October 2018 the world equity market had its worst month since 2012, with the benchmark MSCI world index down 7% in October. This fall has more than reversed earlier gains, leaving the global index down 3% so far this year. October also saw significant declines in most major equity markets, with falls of 9% in Japan and the Euro area, 7% in the US and 5% in the UK and emerging markets.

The equity 'sell off' and the bounce in early November (subsequent to the NFU financial year end) reflected two conflicting readings of the global outlook. For the bears the best is over. The bulls think that the recovery has more life left in it and that investors have become too pessimistic. As in all such debates only time will tell who is right and market and political uncertainty will persist. We will continue to monitor the situation closely with our fund managers, Baillie Gifford and Rathbones.

The yield from our quoted investment portfolios fell although remained high by historical standards despite this volatility. Dividends and other investment income amounted to £1,694,414 (2017: £1,993,342). Rental income from our investment properties continued to perform strongly in the year at £2.2 million (2017: £2.4 million) due to the lease of 25 Knightsbridge to Emirates National Bank of Dubai and some new occupancy at number 27.

Our Knightsbridge investment properties have decreased in value by £4.3 million to £53.1 million (2017: £57.4 million). These were valued by Hutchinson Morrison Childs as at 31 October 2018 apart from 1 & 2 Old Barrack Yard,

which was valued separately by Chestertons. The Central London offices market has been remarkably resilient over the last two years, but is not immune to the wider economic uncertainties. It is likely that the investment market could be on the cusp of a correction due to the UK's economic performance worsening and downward pressure on office rental values.

The NFU also holds operational properties in order to fulfil its commercial and representational needs.

POST RETIREMENT BENEFITS

The defined benefit pension scheme, which is valued and accounted for in accordance with FRS 102, is disclosed as a deficit of £2.5 million (2017: £2.0 million). The NFU paid £1.0 million of pension deficit recovery payments (2017: £1.0 million) during October 2018. The main reason for the change over the period is worse than expected investment returns. The increase in deficit has been partially offset by the small increase in the discount rate.

During the year the PMI provision fell to £7.6 million (2017: £8.4 million). The main reason for this is that the actual premium inflation has been significantly lower than the 12% per annum assumed.

Consolidated balance sheet reserves have decreased by £5.3 million to £123.5 million (2017: £128.8 million).

RISK MANAGEMENT

The NFU's activities expose it to many types of business risk and risks to the farming economy as a whole. The NFU's financial, investment and other strategies seek to mitigate risk wherever practical and possible. A risk register, including Brexit related risk, has been approved by the Governance Board and is reviewed regularly by the Audit Committee.

The principal risks to the NFU are to its income, which is largely made up from subscriptions from farmer and grower members and contributions from the NFU Mutual. The main current uncertainty as to the ongoing level of subscription income surrounds the nature of any Brexit deal and the shape of a future domestic agricultural policy as indicated by the Agriculture Bill. The NFU has actively consulted members, including an Extraordinary Council meeting in December 2018, and led on food industry initiatives while engaging with other stakeholders and Government at the highest level to make the case for farming and highlight the potential impacts of the likely outcomes. We have also increased the scope of our London office in anticipation of policy setting moving from Brussels and set up an EU Exit and International Trade Unit headed up by a dedicated director.

The NFU's property and investment portfolio is well diversified between real estate and listed investments. The risk to property income has been mitigated by having a blue chip tenant on a long term lease. Our investment portfolio is split between two fund managers with very different styles. Another key growth measure is to further diversify our sources of income. The first step to achieving this was made with the acquisition of FEC Energy Limited in August 2017 and the NFU will continue to investigate appropriate opportunities as they arise.

K Sutherland
Secretary

9 January 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME YEAR ENDED 31 OCTOBER 2018

		2018		2017
	£	£	£	£
MEMBERS' SUBSCRIPTION AND RELATED INCOME		31,992,026		30,114,728
OPERATING COSTS				
Cost of sales	2,665,681		2,445,718	
Members' representation	3,458,699		3,533,239	
Promotional activities	1,645,763		1,389,899	
Staff costs	20,620,131		18,516,456	
Legal assistance scheme	1,354,180		1,414,528	
Administrative costs	2,267,963		2,276,234	
Establishment costs	3,430,386		2,823,743	
		(35,442,803)		(32,399,817)
OPERATING DEFICIT		(3,450,777)		(2,285,089)
INVESTMENT ACTIVITIES				
Investment property rental income	2,235,115		2,370,106	
Investment property rental costs	(41,536)		(65,119)	
Interest on term deposits	42,473		34,818	
Dividends and other investment income	1,694,414		1,993,342	
Investment management costs	(194,007)		(188,916)	
Amortisation of goodwill	(544,717)		(90,786)	
SURPLUS ON INVESTMENT ACTIVITIES		3,191,742		4,053,445
INTEREST				
Interest payable	(40)		-	
Notional finance costs of defined benefit pension and private medical insurance schemes	(216,744)		(687,119)	
		(216,784)		(687,119)
(DEFICIT)/SURPLUS ON ORDINARY ACTIVITIES BEFORE FAIR VALUE MOVEMENTS AND TAXATION (carried forward)		(475,819)		1,081,237

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

		2018		2017
	£	£	£	£
(DEFICIT)/SURPLUS ON ORDINARY ACTIVITIES BEFORE FAIR VALUE MOVEMENTS AND TAXATION (brought forward)		(475,819)		1,081,237
FAIR VALUE MOVEMENTS				
Fair value (deficit)/gains on revaluation of investment property	(4,339,000)		760,000	
Fair value (deficit)/gains on revaluation of listed investments	(1,346,229)		7,726,018	
		(5,685,229)		8,486,018
(DEFICIT)/SURPLUS ON ORDINARY ACTIVITIES AFTER FAIR VALUE MOVEMENT AND BEFORE TAXATION		(6,161,048)		9,567,255
Taxation		1,292,582		(1,935,227)
(DEFICIT)/SURPLUS ON ORDINARY ACTIVITIES AFTER TAXATION		(4,868,466)		7,632,028
OTHER COMPREHENSIVE INCOME				
Private Medical Insurance Scheme:				
Actuarial gain		804,849		1,662,950
Current tax on actuarial gain		-		(322,612)
Defined benefit pension scheme:				
Actuarial (loss)/gain		(1,448,095)		12,201,643
Deferred tax on actuarial (loss)/gain		246,177		(2,074,279)
		(397,069)		11,467,702
TOTAL COMPREHENSIVE (EXPENDITURE)/ INCOME FOR THE YEAR		(5,265,535)		19,099,730

The deficit for the year arises from the NFU's continuing operations.

CONSOLIDATED BALANCE SHEET
31 OCTOBER 2018

	2018	2017
FIXED ASSETS	£	£
Intangible assets	2,102,627	2,632,801
Tangible fixed assets	17,761,363	17,145,364
Investments		
Property	53,051,000	57,390,000
Other	75,512,999	76,929,213
	148,427,989	154,097,378
CURRENT ASSETS		
Debtors	5,454,474	5,186,639
Cash at bank and in hand	2,059,944	4,416,503
	7,514,418	9,603,142
CREDITORS: amounts falling due within one year	(6,619,987)	(6,890,261)
NET CURRENT ASSETS	894,431	2,712,881
TOTAL ASSETS LESS CURRENT LIABILITIES	149,322,420	156,810,259
DEFERRED INCOME	(3,166,614)	(3,654,651)
PROVISIONS FOR LIABILITIES	(12,560,874)	(13,934,844)
NET ASSETS EXCLUDING RETIREMENT BENEFIT OBLIGATIONS	133,594,932	139,220,764
RETIREMENT BENEFIT OBLIGATIONS	(10,106,645)	(10,466,942)
NET ASSETS INCLUDING RETIREMENT BENEFIT OBLIGATIONS	123,488,287	128,753,822
RESERVES	123,488,287	128,753,822

The accounts were approved and authorised for issue by the Board of Officers on 9 January 2019 and are signed on its behalf by:

M B Batters
President

T J Jones
Director General

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