

Highlights

Time for a Rethink on Westland's Share Price
DairyBase - What's happening on the farm?
Riparian Planting
Professional Feature - ACC Management

Off the Cuff

The 2013/ 2014 season is shaping up to be a good one with the payout around the \$8 mark at what looks to be an average production year. The majority of farmers will be receiving a large boost to their income, most of which will fall out to a bottom line increase in profitability.

As such, at this time of the year we are reviewing all our farmers' tax positions to ensure you are aware of your upcoming tax commitments and have the opportunity to take steps to mitigate that if you wish, or to voluntarily increase your tax payments to reduce potential IRD interest charges.

Increasingly we are finding our farmers requesting us to process their information through DairyBase. This can provide a valuable reference for both us, in terms of accounting advice, and also you for practical changes that may happen on the farm to increase profitability. For more on this see our article later in the newsletter.

Many of my clients have been raising with me the issue of the Westland Dairy Company share price and whether their belief that it is too low means they are having to subsidise new entrants into the market, primarily via the Dairy Company

taking retentions from their milk. I have explored this argument later in the newsletter. Please feel free to give me your view and don't be afraid to let your company know.

We will be attending AgFest again. Hopefully I won't need my thigh waders this year! We look forward to talking to as many of you as possible there.

This year we are also targeting ACC management as one of our key areas to inform and upskill farmers. Considering there is financial incentive for lifting your game as far as Health and Safety is concerned, due to the ability to receive discounts on your ACC levies, it may be of interest to look out for details of our ACC seminar coming up. This will be held on July 22nd and 23rd 2014 in Kokatahi and Hari Hari respectively.

We are still working on having our 20 year celebration during the winter period, details of which should be confirmed in the next month or so. Watch out for your invitations!

Only a couple of months left to the season. At this time of the year we do a lot of budgets for next season. If you haven't done budgets in the past and would like to consider using these to improve your financial management please give us a call.

Peter

West Coast Top of the South Dairy Industry Awards

The West Coast Top of the South Dairy Industry Awards are the pinnacle event for our dairy industry. Cuffs are sponsors of the Strategic Planning Award for the Farm Manager of the Year.

Congratulations to Alice Reilly in taking out this award for 2014.



Peter congratulates Alice Reilly, winner of the West Coast Top of the South Dairy Industry Cuffs Accounting Strategic Planning Award for 2014.

South Westland A&P Show

While the weather threatened to rain on and off for much of the day, it didn't deter another very successful South Westland A&P Show. Congratulations to the organisers and also to the winners of our prizes.



Bryce Thomson is the proud owner of a new 3G iPad simply for entering our free draw.

Stu Davidson took out the Cuffs Champion Jersey All Breeds 2 yr old, repeating his win in 2013.



Helen Foote's guess of 348 was the closest to the 352 jellybeans in the container.



Minimum Wage

From 1 April 2014, the adult minimum wage has increased from \$13.75 to \$14.25 an hour. The training and new entrants' minimum wage has also increased from \$11 to \$11.40 (or 80% of the adult minimum wage).

If you would like a complimentary copy of the SmartPayroll employer guide that provides an up-to-date comprehensive overview of what an employer needs to know please email Jackie at jackie@cuffs.co.nz.

At Cuffs we manage the payroll of a large number of clients. If you'd like to take the hassle out of this so you can concentrate on your real business, please contact us to discuss how we can help.

Minimum Wage for farm workers

There has been some legal developments around minimum wages for farm workers. If you employ farm workers for less than \$40,000 p.a. you should contact us for advice. We are advising that all employment agreements need to be reviewed.

Time for a Rethink on Westland's Share Price

Westland's current share price has been set at a nominal value of \$1.50 per share for over 10 years.

I think it's time for the share price to be increased. In saying this, I acknowledge that there are arguments both for and against changing the value but I think the time is right to make a change now.

Over the years the biggest argument I have heard to support the share price remaining at the status quo is **the ability to attract new suppliers**. It has been argued that getting new suppliers on board is beneficial to everyone as the plants were not at capacity and the spreading of the fixed costs of the plant over an increased supply lifted the payout for everyone. As an accountant I can understand the logic of this, however I think that increased supply could still have been found at a \$3 share price. Certainly Westland has had no problem attracting new suppliers. The Westland share price is still very attractive compared with Fonterra's current price of around \$6, both for farmers wanting to exit Fonterra and cash out their shares and farmers wanting to avoid the high capital cost of the Fonterra shares. There can be little doubt that the low share price attracted many, however, Westland has had to effectively turn the tap off as it reached capacity in the 2013/14 season.

Moving forward Westland is on the expansion path, looking at value added products to boost future payouts and remain competitive. Its latest announcement is the Dryer 7 project which is projected to cost \$102m and be able to process 23,000MT of product p.a. The big question is how much should existing suppliers be funding through the likes of retentions and how much should new suppliers be funding?

Westland's annual report for 2013 gives total assets of \$430m, liabilities of \$218m and equity of \$212m giving an equity ratio of 49%. The equity ratio has steadily declined with the ratio in 2009 reported as 60%.

It is clear that Dryer 7 will further deteriorate this ratio unless there is either a significant increase in capital from shares or capital from retentions. In fact to keep the equity ratio around 50% would require \$50m in additional capital. 30c of retention is expected to provide \$13m of this. This leaves another \$37m to fund, meaning ongoing future retentions. This is only one project and any other future projects will also require capital.

Westland's balance sheet shows net assets per share of \$3.32. One way of raising additional capital would be to increase the share price to say \$3 for new and increased supply.

Another possibility would be increasing the share price by the retentions each year. This at least may make the retentions more palatable to suppliers.

Finally, another argument I have heard for favouring retentions over increasing share price is that expansions like Dryer 7 will benefit all the existing shareholders due to increased payouts. While I don't disagree with this comment, the company is going to need quite a bit of additional capital if it wants to grow its value added business. Not all of this will be able to come from retentions so any new or growing shareholders should have a part to play in this.

I think now it's timely to have the share price discussion again.

ACC Earner Levy

Salary and Wage earners should have noticed a slight increase in their payslips from 1 April 2014 as the ACC Earner Levy deducted as part of their PAYE has dropped from \$1.70 per \$100 to \$1.45 per \$100.

This means someone who earns \$1,000 per week before taxes will get an additional \$2.50 per week in their hand which equates \$130 a year. Whilst the increase is small you need to remember to increase any employees you pay via automatic payment.



Copyright 2009 by Randy Glasbergen.
www.glasbergen.com



"Our annual company barbecue is next week. HR is in charge of the chicken and ribs, Marketing is taking care of the burgers and hotdogs, and Accounting is going to cook the books."

DairyBase

Platform for growth.

What's happening on the farm?

With around 70% of our farmers now using DairyBase, this tool is playing an ever increasing role in farm management.

DairyBase combines financial and physical performance measures to enable farmers to benchmark themselves against other West Coast farmers. As the data matches West Coast farms the volatility of two of the major influences in production, the payout and weather, are eliminated.

Using DairyBase encourages a farmer to question, analyse and make comparisons. Some farmers have discovered they haven't been doing as well as they thought when comparing themselves to the industry and DairyBase has provided the catalyst to make changes and do better.



Jeffrey Kay from Cuffs goes over the latest DairyBase report with DairyNZ specialists Kathryn George and Carolyn Nicholson.

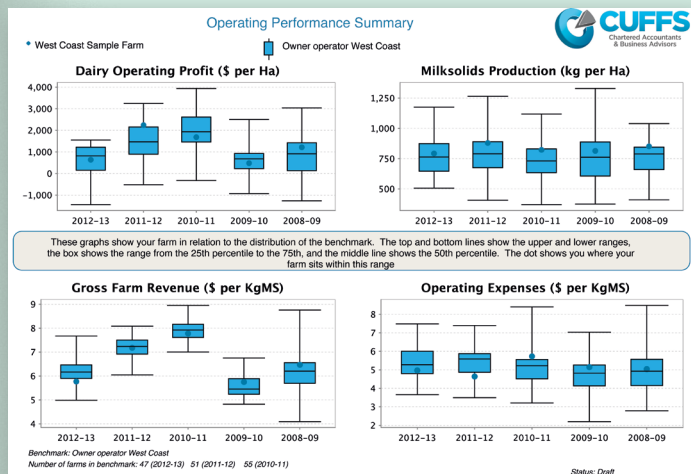
where the middle 50% of farmers sit. The line in the middle shows where the actual average is. The dot is your performance.

So, taking the example and considering the Dairy Operating Profit graph, the 12/13 year performance can be interpreted as being within the range of 50% of the farmers on the West Coast, but slightly below the average. However, looking over the years a number of questions spring to mind. Why was the operating profit so high (against that for other farmers) in the 08/09 and 11/12 years? What was being done differently from other years? What drove profits down in the three years it was below the average? Importantly, what is required to keep profitability at the top end of the region's performance?

Answers to these financial results are likely to be found in studying physical factors such as feed, fertiliser and the pre-season condition of cows, as well as in the financial data relating to farm working expenses. This information can be found in the other DairyBase reports. However, many farmers only have the financial data put in by us and don't record the physical measures. This makes it much harder to pinpoint what changes need to be made.

Presenting the data in the graphical format provides a very clear picture for farmers of how they are doing measured against their colleagues, especially if they are below average or at the extremes.

The dairy industry is one where regional benchmark data is available and it is expected to help drive productivity and best practice in dairy farming.



In this article I want to discuss how to interpret the graphical representation in one of the DairyBase reports. Refer to the graphs above, which DairyBase provided, as a sample.

They tell us, for West Coast dairy farmers, what the highest and lowest results are, i.e. the range. This is the top and bottom bar. Sometimes there can be one or two extremes so the measure in the shaded box shows the range for what is known as the 25th to 75th percentiles, or

Riparian Planting

Changes to the Income Tax Act 2007 now allow riparian planting made by farmers to be expensed rather than capitalised as development expenditure and amortised.

Section DO 2 (2) (c) permits a deduction for expenditure "in planting or maintaining trees or plants" for the purpose of "preventing or mitigating detrimental effects on a watercourse or body of water from the discharge of farming or agricultural contaminants."

The amendments extend the provision from just trees to now include shrubs and other plantings. The change was made as part of the Taxation (Livestock Valuation, Assets Expenditure and Remedial Matters) Act 2013 and applies from 1 April 2011.



Professional's Feature:

Rachael Fraine - ACC Relationship Manager, Delivery and Distribution

Protecting you and your staff from injuries on the farm with ACC

ACC receives an average of around 27,000 new claims every year for injuries that occur on the farm. These injuries cost around \$73,000,000 a year in claims.

The good news is, injuries on the farm can be avoided - safety often comes down to making the right choices, rather than luck. It is true that farm work carries more risks than many other occupations. However, you can choose to manage risks, and deliberately work in a safe way, so there's no reason why injury rates in farming should exceed those in any other industry!

Manual handling tasks

Feeling a bit sore after a hard day's work on the farm is normal, but if it keeps up, it may be a sign your work practices need to change. If they don't, the discomfort could turn into a more serious problem that affects your long term health.

Try to:

- change the way you work to avoid awkward postures and positions
- vary tasks so you don't do the same repetitive actions all day long

We are hosting seminars on ACC Management for Farmers from 12-2:30pm on the 22 July at the Kokotahi Hall and 23 July at the Hari Hari Hotel. Please check out our website for further details and registrations.

- reduce manual handling of very heavy objects – use a machine instead
- improve working conditions if you can, such as avoiding extremes of hot or cold
- change the hours you work or the number of breaks you take, so you're giving your body a breather – plan ahead to get extra help when you need it.

Protective equipment

On the farm you risk over-exposure to noise and chemicals. It's vital that you choose – and use – the right hearing protection, eye protection and respirators for the job. They often only take a few seconds to put on, and are well worth that little bit of effort when you consider the impact hearing loss or an eye injury can have on your quality of life.

Noise, especially, is a health issue on farms. Whether you're exposed to noise in the shearing shed or stockyards, from chainsaws, tractors, or other farm machinery and equipment, wear suitable ear plugs or ear muffs. Remember, if you have to shout to be heard by others you should probably be wearing hearing protection.

Fatigue

You know when you are too tired. Fatigue can affect your physical and mental ability to make safe choices when faced with hazardous situations on the farm. Adopt safe work habits so that fatigue doesn't catch you out. Drink water often during the day and try to take short breaks to refresh yourself. Plan ahead for busy times and organise things so you get enough sleep. Know the symptoms and causes of fatigue so you can anticipate and minimise its effects.

Machinery and equipment safety

Farm machinery can be extremely hazardous. Injuries from machinery can be prevented by taking a few simple steps. Always make sure your machinery is in good working order and you know how to use it safely. Make sure the machine guards are fitted correctly before starting up, especially after maintenance or repairs have been done. And always wear appropriate protective clothing.

For further information any matters relating to ACC Rachael can be contacted on 03 545 7843 Rachael.Fraine@acc.co.nz

In & Out of the Office

It's been a busy start to the new year for our team at Cuffs. We all arrived back to a 'new look' office. A key feature is the stunning scenes of the region that are printed on the wallpaper that are now prominent features in each room. You will see glimpses of some of the backdrops in the photos in this newsletter. If you are visiting the office, ask for a quick tour.

We farewell Erica Packham as she takes maternity leave for six months. Parenthood is an exciting time. We wish her and Denis well as they enter this new stage of life.

It is a big welcome to Sophie Roberts and Nitin Thakral who have just joined us to begin their careers in accounting. Sophie is profiled here and Nitin will be in our next newsletter.

Our team has been very busy scheduling accounts for next year. Those clients with March balance dates will have your letters with the month we propose to undertake preparation of your accounts. Please contact us if the month doesn't suit so we can make the change.

An increasing number of clients are using Xero accounting software. We now have two staff certified by Xero. If you are considering changing software please contact us.

Cuffs Ltd Xero Certified staff:
Jeffrey Kay and
Nitin Thakral.



A BIG welcome to Sophie Roberts

I come from a West Coast family stretching back a number of generations. I moved away to Canterbury for a handful of years before realising how much 'the Coast' had to offer, so I returned to appreciate it and be close to my family, especially my two nephews. I am currently studying toward a Bachelor of Accountancy and, when I find time outside of that, I am a keen sportswoman and enjoy the outdoors.



SPONSOR A SEAT

A challenge to other businesses!

Cuffs have signed up as a Gold Sponsor of the Hokitika Regent Theatre's Sponsor a Seat project. The campaign has achieved the halfway milestone towards its target to raise \$70,000. For further information email: manager@hokitikaregent.com or pick up a brochure from the theatre foyer.



Hokitika Driftwood & Sand Festival 2014



The beach returned and the Hokitika

Driftwood and Sand Festival provided a very colourful and prominent addition to the town in January. Well done to those who put in the hard work organising this icon event. Cuffs are a main supporter of the festival sponsoring the prize for the top sculpture.



Peter presents the \$500 prize and Driftwood & Sand Trophy to Janet Ebenhoh (left) and Kelly Joseph.