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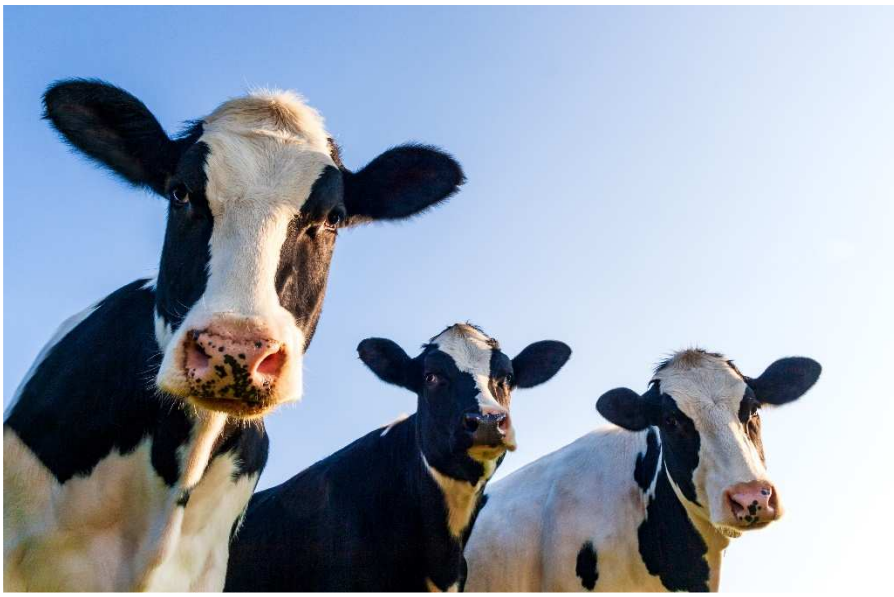
Your Rural Accounting Specialists | Chartered Accountants



NEWSLETTER

August 2022

R J PRESTON OFFICE OVERVIEW

The 2021/2022 year was one of the most challenging years that I have seen for our office for a number of reasons.

After over 25 years of operating our office under the MYOB accounting system, we took the bold step to move into Xero.

It is fair to say we underestimated the time associated with moving our office management to Xero, transferring all the accounting data bases across to Xero. It was also quite a learning exercise for all the staff, as many had only used MYOB before, to get to a point where they are very proficient with the new accounting system.

I, myself, and some of the staff that had been with us for a while, were not so proficient with respect to change. I think now, after having a good year under our belt, we are all reasonably confident with the system and are getting more confident in our abilities to run the accounting system.

We also found that, while we thought we were reasonably unimpacted with respect to the Covid virus, it was not so much the virus itself that influenced the office. Yes, we did have our lockdowns and our work periods from home but it was more the effect on the labour pool and the 2021 year saw us have a couple of long term staff retire and other staff that had been with us for a shorter period re-look at their career options so it meant that we did get behind in our workload and we thank you for your patience with respect to this.

The IRD were very good because of Covid giving all accountants a second due date of 31 May 2022 to have our filing numbers up to speed which we can thankfully say we did.

While the shortages nationwide of staff for every industry has not changed too much, we are pleased to announce that we have two new staff members joining our team in the next two weeks, both have extensive accounting experience although this will be their first foray into farm accounting. There will be some education with respect to the terms and the nuances etc of farming but from an accounting perspective they are very competent, well-respected professionals.

Within our existing staff over the last two to three years we have actively encouraged our staff if they prepare your accounts one year to continue preparing your accounts from year to year. It means they become very familiar with your job, and it also means that they take over a certain amount of ownership of the job and what we are seeing as a firm are some great client/staff contact which is of benefit to both parties. While Grant and I are here to deal with any higher-level needs that you have with respect to budgeting, farm succession and plans for the future; on a day-to-day basis, all of our staff are very competent in helping you with accounting issues that arise.

I would also like to thank all the clients that have helped with getting their information in for the AML process. I know it seems tedious and unnecessary in a lot of cases, but it is a government requirement and Michaela, our office manager, has been chasing a lot of you for the relevant information and I know the response has been very good so thank you and if you have any queries about this then please contact Michaela.

This year coming the focus will be on the requirements of the new Trust Act that was enacted in January 2021. It will mean that we will be chasing information about the beneficiaries of the trusts, that is, their full names, date of birth and contact details. Many of these are your children and are not directly involved in the farm at all presently but are beneficiaries of a trust and especially if we are trustees of those trusts, it is important that we know exactly what their situations are.

Here again, our administrative support staff, of Michaela, Gail and Cathy, will all be involved in contacting you at various times for details of this.

FEES

As with all businesses we are feeling the effects of the current inflation rates. You will appreciate that the costs of running a business have increased dramatically and to ensure that we maintain the same service that we have in the past fees for the 2022 tax year will rise. We obviously would prefer to be able to keep fees at current levels but it is not practical from a business perspective with the pressure on with respect to day to day costs.

As you may be aware, and highlighted in a previous email, Grant has had a few months technically away from the firm dealing with an issue that is often hard to talk about, because it doesn't physically manifest itself, and we have included in the newsletter a piece written by Grant about his journey with respect to mental health.

I think what Grant has written is not only very courageous of him to do but also very poignant for many farmers in New Zealand. It is pleasing to see that Grant has been able to utilise professional advice in this field and we are imminently awaiting his return to the office. While we cannot put a definitive date on that, until it happens, the office will operate as per usual and staff and myself are there if you should need anything.

GRANT'S JOURNEY

I have just had two months out of the office after experiencing burnout followed by depression and anxiety. I thought it might be worth sharing my story to help any others that might be going down the same track with all the current pressures that we face in our modern lives.

At the end of last year, I got into a negative headspace following the 2021 autumn drought which resulted in my winter feed failing along with being behind in the office work following our software change to Xero.

I always considered wellbeing and depression being a problem for people that were soft and had never given it any thought that it would affect me.

In December I decided to take only the minimum statutory holidays so that I could catch up on the accounting work. A few days later I started experiencing vertigo and a panic attack a few weeks later. I had never heard of a panic attack, but my heart felt funny, and I had tingling sensations down to my fingertips and I thought something must have been majorly going wrong with my health. The vertigo eventually cleared up after about three months which coincided with receiving an extension for filing the 2021 tax returns until the end of May.

Fatigue was an issue whilst I was experiencing the vertigo and more recently to the point where I needed to have a sleep at midday to get me through the afternoon. Prior to Anzac Day I had another panic attack while having a family holiday in Hanmer followed by dizziness, blurred vision and chest pain.

Once I got back to work, I explained to James I thought I had burnt myself out and we decided to reduce my office hours. I was still struggling with the physical symptoms so decided to have a week's holiday in the North Island. I had another panic attack when I was meeting some clients the day before we flew out. While we were away a further symptom arose in the form of anxiety and I struggled to go out for meals and even leave the accommodation.

Once we got back from the holiday the following two weeks were not much fun, the dizziness meant I could not even do my normal farm chores of shifting break fences and I spent a lot of time lying on the couch.

Researching on the internet about anxiety I stumbled across a newspaper article with a few wee brain hacks to prevent the dizziness and this made an immediate improvement.

My insurance broker advised that I meet with a chap called Rico Gomez from Neurofit as he had a coaching program that may be useful. It turns out that this is the best money I have ever spent and within a month I have gone from being in a bad state to ready to tackle any challenge that comes my way with a positive mindset.

The coaching program is a seven-week course. I see Rico on a weekly basis with the integral part of it being an application on my phone called a neuro-cycle. For 21 days you spend about half an hour each day and you work on the toxic thought and values which are the true cause of the depression, anxiety and physical symptoms. It is a step-by-step process of digging back into your memories and gaining an understanding of what makes you tick and why you do particular things and then you actually remodel those thoughts into a positive framework.

I guess this all sounds a bit airy fairy but there is scientific research behind this which deals with mind management and how different parts of your brain are stimulated by both positive and negative thinking.

Key Learnings

1. Live by your own positive values, these can never be taken away from you.

2. What you think grows – chose to be positive.

3. Depression and anxiety are a symptom that your mind is simply telling you that you need to make some lifestyle changes.

4. When we are born, we have survival instinct, this develops into movement followed by emotions and then finally logical thinking at around age seven.

5. If we revert back to survival mode, we end up with tunnel vision and losing our critical thinking.

6. Ninety percent of our brain is non-conscious, this is where our memories are stored. This affects your subconscious (emotions) which then in turn effects your conscious thinking.

7. Over 21 days it is possible to change and reconfigure your toxic memories into a positive framework. A further 42 days are required to cement the change which simply involves reminding yourself every day.

8. It is our choice how we use our mind and I have found this an absolutely fascinating journey on how the brain works and what we can do to control it.

If anyone wants to discuss this further, feel free to give me a call or drop me a line.

GRANT

THE ECONOMY, FARMING AND FUTURE

There are many commentators who are a lot more skilled and knowledgeable who regularly comment on the state of the economy, but we all do have opinions. With my role as a farm accountant my opinions clearly reflect the economy and the potential effect it is having on our farming clients and the country as a whole. It is fair to say that the economy is in a precarious position. Yes, our product prices for all of our primary produce are very strong. This is on the back of shortages and increased world demand of high-quality product. Covid, while it has had an effect worldwide medically and financially, could well have helped our primary producers as the demand for high-quality, clean green food has meant that gross returns per stock unit and per hectare have grown significantly over the last two to three years.

I know many of you have not reaped the total rewards of increased product prices because inclement weather in key parts of the year have either limited crop production, affected harvest and/or yields but certainly the prices that are available for the produce produced are near record levels. The constraints moving forward have been well documented in just about every agricultural publication. **It is the cost of farming.**

Cash farm working expenses are increasing across the board with all major items, fertiliser, seed, weed and pest and animal health with many of these being imported from other parts of the world and with our supply chain issues the prices have dramatically increased.

More recently we have seen a significant move in the interest rates, and it is fair to say if clients have not moved to fix their mortgages now, they have missed the opportunity. I think the window this time was very short with respect to finding the optimum position of moving from floating to fixed as the interest rates have moved very, very quickly. The effect of increased interest rates again, while there is an immediate impact on cash flow, it will not be until the end of the 2023/2024 year that we will see the effect on net profits and also maybe the balance sheets of farming clients.

At least with interest rates they do move up and down. There is a direct financial response with respect to interest rates to the state of New Zealand's economy and the world's economy. I do not think that will be the case with respect to cash farm working expenses. The level of expenses and costs associated we see now will be the new normal. While there will be anomalies where we will see variations in price ie fuel, I think generally the level of expenditure and the costs of key farm inputs that are here to stay.

While product prices remain high many farmers can absorb this without too much pain, but it is when the commodity prices come off their high, that is when there will be pressure on overdrafts and cash flow in general.

Looking at New Zealand and every other developed country one of the largest constraints that we are all facing is **labour**. Currently if we look at New Zealand, we have an unemployment rate in the mid 3% which is probably record lows over the last 20 or 30 years and to be fair to the people that are in that group, a lot of them are unemployable and certainly do not have the skills required to meet the demands of many industries that are looking for staff currently.

This leaves New Zealand, along with every other country in the world, looking at the migrant labour market and when you are relying on migrant labour and/or skills on the open market, it becomes a bidding war and those that can afford to pay get the necessary skills required for their economies. Unfortunately, with the size of New Zealand we do not necessarily have the financial well being to pay doctors, nurses and other skilled people as much as other countries and more and more we are trying to sell our job opportunities based on the intangibles of New Zealand, that is, climate, the cleanliness and our clean green image etc as a place for people to come and ply their skills.

This may well be okay when we do not have inflation but at the moment there is real pressure on everybody in the world paying their bills and meeting their costs, so the intangibles that New Zealand provides with respect to living conditions, clean green image and a great place for families to grow up for many take a backward position behind what they can be paid on a yearly and weekly basis. It becomes increasingly hard to attract those skilled people we need.

Added to this we have had three years where the world has technically been locked down and our young people have been unable to travel. In essence we have three years of graduates who have been forced to obtain work skills at home over that period of time and in doing so have made them more employable on the international market. Now with the world opening up they will travel, they will be sought after in places like London, Sydney and New York and those intelligent young people will be lost to us, not necessarily indefinitely, but certainly for a significant period of time.

With these head winds that we are facing it often seems insurmountable going forward and our confidence as an industry drops off considerably, but it is here that we have to remember that agriculture is the backbone of our economy.

Over the last 24 months it has been the only game in town so to speak and has contributed significantly to ensuring that our debt as a percentage of GDP has only increased by 9%.

What can you do on farm that will help in these tougher financial times?

At the moment product prices are high. I know costs have increased but I think what we need to look at here is the margin, that is, income has increased maybe 15%, costs have increased 10% however you are still 5% ahead. It is what we do with our gross margin that is important.

In times like this my suggestion would be focusing on debt repayment rather than focusing on specific deferred maintenance or projects going forward. I say this because interest is not a discretionary expense; it has to be paid and the lower your debt commitments are the easier it is to plan for the future.

EXPENDITURE

Back in the 70s and 80s there was a real push when times were hard to just shut up the cheque book and not spend anything. I don't think that is necessarily the case now because to keep a farm moving forward, in many cases, cash farm working expenses as a percentage of total gross farm profits need to be between 55% - 60%, not the old 50% that we used to quote. Targetting your expenditure is what farmers need to do. There must be some correlation with what you spend and what you produce or get back because of that spending.

I encourage you to shop around. You may have traditional associations with many merchants, but it is time to look for the best deal and challenge your existing suppliers to match any deals others can make.

With respect to staffing issues, it is about providing a work environment that your staff enjoy, providing enough time off and flexibility so you can maintain staff rather than having to go out and look for staff on a regular basis.

This coming 18 months a lot will be thrown at the New Zealand public. We have local body elections in the 2022 year, and we have a general election in 2023.

There will be many issues on the table and many of them will affect you directly whether they are environmental issues, labour issues or animal welfare issues. I encourage you in the next 18 months through the various forums that you are members of and can participate in to express your viewpoints so that hopefully meaningful change can happen and that moving to the future decisions that affect agriculture will be based on science, good practice and are affordable for the farmer and the consumer and general public going forward.