

NATIONAL FARMERS UNION
ANNUAL
REVIEW
2019



NFU SUPPORTED BY

NFU Mutual



MESSAGE FROM THE DIRECTOR GENERAL

The past year has been characterised by political uncertainty with deal, no deal or even no Brexit being possible outcomes at different moments. To prepare for these outcomes while at the same time working on the wealth of issues that touch members' businesses today and presenting a positive image for the industry, requires the NFU to be well resourced and well organised.

That planning is undertaken through our 2,000 Days strategy. Now nearly at its half-way point, the strategy has sought not only to improve our performance but build resilience. Since 2017 we have focused on areas we believe are critical to the success of the NFU and have sought to:

- Grow our representative power
- Grow our non-subscription income
- Grow our services to members
- Grow our share of voice
- Grow our knowledge and skills

I am pleased to report that this year we have again made progress against all of these objectives. Today the NFU is stronger, louder and more responsive to members' needs than it was 12 months ago, providing more value for its members.

Of course we have only been able to grow by first defending and protecting our key strengths. To be successful we must have the best people, the right culture, an appropriate and adaptable structure and financial resilience. I am especially pleased that we have been able to invest in our staff leaders, something which we will begin to roll out for our member leaders in the year ahead.

Those strengths, particularly our network at local level supported by NFU Mutual, allow us to deal with unplanned events such as December's General Election or pushing back on the plethora of myths and misconceptions that seemed to plague the industry this year.



Moreover we are also able to take advantage of opportunities as they arise and demonstrate leadership in policy areas such as net zero.

I am very honoured to lead the NFU's staff team and proud of the work that we do on behalf of our members. However, the great strength of the organisation lies in the special relationship that our professional colleagues have with the membership. Combining the knowledge of specialists with an authentic farming voice ensures that the NFU remains a respected and credible voice within and beyond the UK. And having left the EU and carving out a relationship with that trading block and others, that special partnership has never been more important.

A handwritten signature in black ink that reads "Terry Jones". The signature is fluid and cursive, written over a white background.

T J Jones
Director General



FINANCIAL REPORT 2019

The officers present their annual report on the affairs of the NFU, together with the accounts for the year ended 31 October 2019.

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 recovered somewhat from 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 NFU Energy Limited.

During the year, the NFU Group showed an operating deficit of £3,880,984 (2018 restated: deficit of £3,486,827) 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 £540,242 (2018 restated: deficit of £446,288) for the year.

The total comprehensive income for the year is £5,208,394 (2018 restated: total expenditure of £5,236,004). This year-on-year variance is primarily due to gains on listed investments and investment property.

Members' subscriptions and related income has increased by £1.3 million to £33.1 (2018 restated: £31.8). Within this, the actual subscription income has remained constant at £19.2 million (2018: £19.0). As at 31 October 2019, NFU membership, excluding Countryside and Professional, stood at 52,709 (2018: 52,450).

Income also included contributions from the NFU Mutual of £6,125,667 (2018: £6,202,500). 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 £1.7 higher than the previous year at £37.0 (2018 restated: £35.3). 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

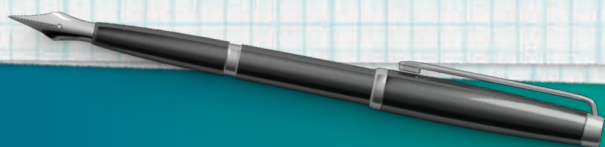
The value of our listed investments has increased over the year to £792 (2018: £75.5). The fair value gain for the year of £5,243,803 (2018: £1,346,229 loss) is reflected in the Statement of Comprehensive Income. These increases were in part due to a recovery from the market correction near the end of our 2018 financial year.

During the year, the NFU Governance Board undertook a review of its attitude to investment risk and as a result appointed Veritas Investment Management to manage the investments in the General Fund formerly managed by Rathbones. This process was almost complete by 31 October 2019 and has resulted in a one-off and unusually high level of cash in the portfolio as Veritas carry out the reinvestment process. The NFU Legal Board has kept its investments with Rathbones.

The yield from our quoted investment portfolios increased during the year despite volatility. Dividends and other investment income amounted to £1,855,487 (2018: £1,694,414). Rental income from our investment properties continued to perform strongly in the year at £2.4 (2018 restated: £2.4) 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 increased in value by £3.1 to £56.2 (2018: £53.1). These were valued by Hutchinson Morrison Childs as at 31 October 2019 apart from 1 & 2 Old Barrack Yard, which was at Officers' valuation.

The Central London investment market has experienced lean levels of activity throughout the whole of 2019. Buyers are willing to pay market prices, but vendors are reluctant sellers in the current climate, resulting in low sale volumes. UK Institutions have been the principal sellers in the London



market, with overseas investors (in particular Asia) being a strong/active buyer group. London real estate appeals to overseas investors as it offers a transparent market, high quality stock and landlord friendly leases.

The NFU also holds operational properties in order to fulfil its commercial and representational needs. As a result of a review to FRS102 the NFU has revalued as investment properties those offices where it does not, in whole or in part, use the office for its own operational purposes. The NFU has also taken advantage of the transitional arrangements offered by the review of FRS102 to restate its operating properties at market value. The impact of this is disclosed in note 2 to the financial statements.

POST RETIREMENT BENEFITS

The deficit on the defined benefit pension scheme, which is valued and accounted for in accordance with FRS 102, is disclosed in detail in note 12 to the accounts as £3.0 (2018: £2.5). The NFU paid £2.0 of pension deficit recovery payments (2018: £1.0) during October 2019.

The deterioration in the position over the period is due to the fall in corporate bond yields over the year, resulting in a lower discount rate which has placed a higher value on the scheme's liabilities. This has been offset to a large extent by better than expected investment returns, contributions paid by the NFU and fall in long term inflation expectations.

During the year, the Private Medical Insurance (PMI) provision fell to £7.3 (2018: £7.6). The main reason for this is that the actual premium inflation has been significantly lower than had been assumed. The reserve has also reduced slightly due to fewer than expected deaths over the year. The reduction in reserve due to the reasons above has been largely offset by the significant fall in discount rate over the year, due to changes in market conditions, which acts to increase the reserve. The PMI provision is also disclosed in detail in note 12.

RESERVES

Consolidated balance sheet reserves have increased by £5.2 to £129.2 (2018 restated: £124.0).

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 principle 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 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 three 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 (now called NFU Energy Limited) in August 2017 and the NFU will continue to investigate appropriate opportunities as they arise.

K Sutherland
Secretary

14 January 2020



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME YEAR ENDED 31 OCTOBER 2019

	(Restated)	
	2019	2018
	£	£
MEMBERS' SUBSCRIPTION AND RELATED INCOME	33,091,208	31,817,950
OPERATING COSTS		
Cost of sales	2,793,339	2,665,681
Members' representation	3,721,039	3,458,699
Promotional activities	1,507,470	1,645,763
Staff costs	21,592,047	20,619,972
Legal assistance scheme	1,530,063	1,354,180
Administrative costs	1,979,636	2,247,388
Establishment costs	3,848,598	3,313,095
	<u>(36,972,192)</u>	<u>(35,304,777)</u>
OPERATING DEFICIT	(3,380,984)	(3,486,827)
INVESTMENT ACTIVITIES		
Investment property rental income	2,433,940	2,409,190
Investment property rental costs	(45,238)	(150,030)
Interest on term deposits	52,091	42,473
Dividends and other investment income	1,855,487	1,694,414
Investment management costs	(191,545)	(194,007)
Amortisation of goodwill	(544,717)	(544,717)
	<u>3,560,018</u>	<u>3,257,323</u>
SURPLUS ON INVESTMENT ACTIVITIES	3,560,018	3,257,323
INTEREST		
Interest payable	(88)	(40)
Notional finance costs of defined benefit pension and private medical insurance schemes	(219,188)	(216,744)
	<u>(219,276)</u>	<u>(216,784)</u>
DEFICIT ON ORDINARY ACTIVITIES BEFORE FAIR VALUE MOVEMENTS AND TAXATION (carried forward)	(540,242)	(446,288)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

	(Restated)	
	2019	2018
	£	£
DEFICIT ON ORDINARY ACTIVITIES BEFORE FAIR VALUE MOVEMENTS AND TAXATION (brought forward)	(540,242)	(446,288)
FAIR VALUE MOVEMENTS		
Fair value gains/(deficit) on revaluation of investment property	3,120,000	(4,339,000)
Fair value gains/(deficit) on revaluation of listed investments	5,243,803	(1,346,229)
	<u>8,363,803</u>	<u>(5,685,229)</u>
SURPLUS/(DEFICIT) ON ORDINARY ACTIVITIES AFTER FAIR VALUE MOVEMENT AND BEFORE TAXATION	7,823,561	(6,131,517)
Taxation	(1,353,386)	1,292,582
	<u>6,470,175</u>	<u>(4,838,935)</u>
OTHER COMPREHENSIVE INCOME		
Private Medical Insurance Scheme:		
Actuarial gain	264,919	804,849
Current tax on actuarial gain	-	-
Defined benefit pension scheme:		
Actuarial loss	(2,542,104)	(1,448,095)
Deferred tax on actuarial loss	432,158	246,177
Revaluation of tangible fixed assets:		
Revaluation gain	583,246	-
	<u>(1,261,781)</u>	<u>(397,069)</u>
TOTAL COMPREHENSIVE INCOME/ (EXPENDITURE) FOR THE YEAR	<u>5,208,394</u>	<u>(5,236,004)</u>

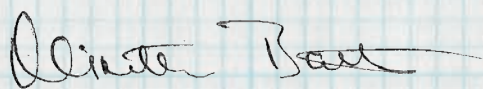
The surplus for the year arises from the NFU's continuing operations.

CONSOLIDATED BALANCE SHEET

31 OCTOBER 2019

	2019	(Restated) 2018
	£	£
FIXED ASSETS		
Intangible assets	1,565,328	2,102,627
Tangible fixed assets	16,313,113	16,222,828
Investments		
Property	58,205,404	55,085,404
Other	79,186,578	75,512,999
	<hr/> 155,270,423	<hr/> 148,923,858
CURRENT ASSETS		
Debtors	4,949,579	5,454,474
Cash at bank and in hand	2,387,554	2,059,944
	<hr/> 7,337,133	<hr/> 7,514,418
CREDITORS: amounts falling due within one year	(6,425,399)	(6,619,986)
	<hr/> 911,734	<hr/> 894,432
NET CURRENT ASSETS		
TOTAL ASSETS LESS CURRENT LIABILITIES	156,182,157	149,818,290
DEFERRED INCOME	(3,492,398)	(3,166,614)
PROVISIONS FOR LIABILITIES	(13,163,832)	(12,560,874)
	<hr/> 139,525,927	<hr/> 134,090,802
NET ASSETS EXCLUDING RETIREMENT BENEFIT OBLIGATIONS		
RETIREMENT BENEFIT OBLIGATIONS	(10,333,376)	(10,106,645)
	<hr/> 129,192,551	<hr/> 123,984,157
NET ASSETS INCLUDING RETIREMENT BENEFIT OBLIGATIONS		
RESERVES	<hr/> 129,192,551	<hr/> 123,984,157

The accounts were approved and authorised for issue by the Board of Officers on 14 January 2020 and are signed on its behalf by:





M B Batters
President



T J Jones
Director General

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