

DOWN to EARTH

STRAIGHTFORWARD FINANCE FOR FARMS AND RURAL BUSINESSES

Plan well and focus on the long-term benefits of your NVZ investment

With just a few months to go before new Nitrate Vulnerable Zone (NVZ) regulations come into force, slurry storage systems will be an investment priority for many livestock producers. With non-compliance not an option, and investment in infrastructure a must on many farms, sound planning and securing affordable funding should be top priorities.



Jonathan Allright
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Plan early and stay in control

Despite the short timescales involved, there are a surprising number of farm businesses that have yet to comply with the new rules. For those farmers who are facing non-compliance, it is important that they view the impending regulations with a sense of purpose and ensure that they start planning immediately.



This sense of urgency becomes more apparent when considering the scope of some of the plans that will need to be implemented to ensure compliance. A well-considered plan will not only help to keep your project on track and keep costs under control but it will also improve the chances of securing cost-effective funding.

For some, compliance could amount to a considerable infrastructure investment. It is understandable that many farmers lack enthusiasm for what is essentially a regulatory requirement. Nonetheless, compliance will be imperative if Single Farm Payment income is not to be put at risk or fines imposed.

Sustainable farming approaches will influence future investments

When justifying any investment it is important to consider the broader aspects that are starting to shape our approach to farming. The premise of DEFRA's "Food 2030" strategy – to produce food within more sustainable farming systems – will increasingly influence investment decisions. Consumers are demanding sustainably produced food which in turn results in increased demands on farms to become more sustainable.

A concept gaining traction amongst some commentators is that of "peak oil" – the point at which world oil supply passes its maximum and begins a decline while demand shows no signs of abating. Some predict peak oil could occur as early as 2020.

The impact of this global issue at a farm level will be increased input costs for fuels, feeds, fertilisers and sprays over the longer term. This will increase the need to drive out savings on, for example, purchased fertiliser through the better utilisation of on-farm resources such as the nitrate value of slurry.

So, if one of the benefits of an NVZ investment is better utilisation of nitrates from muck and slurry, it offers a real opportunity for farmers to achieve improved business efficiency. In this respect it is possible to see a longer term financial benefit from an NVZ investment.

Low interest rates offer cost effective finance

For those farmers who see a long-term future in the industry, the current low interest rate environment and the need to comply may provide the trigger for a broader investment strategy that ensures the farm is well positioned for the future. Indeed, we are funding many plans that involve new or expanded livestock housing and milking systems.

AMC could help with the funding element of NVZ plans by offering flexible and simple funding solutions.

We would welcome the opportunity to support your plans for the future. This special edition of Down to Earth is part of that support. I hope you find it useful and that the information it contains helps you to progress your NVZ compliance plans.

Slurry storage investment brings farm efficiencies

The new NVZ regulations shouldn't be seen as a burden on your farm. Instead, investing in new slurry storage facilities should be viewed as an opportunity to implement cost savings and improve efficiency, as well as reducing winter workloads.

That is the experience of Kevin Jones of Bryn Mawr Farm in Flintshire, North Wales who has recently built a new slurry store to service his 270 cow dairy herd.

Kevin's farm isn't currently within an NVZ, but he has invested in a new slurry store nonetheless. "We are on the edge of an NVZ and will probably be included within it some time in the future," he explains.

"It made sense for us to upgrade the farm's slurry store so that we are compliant in the future, but also so that the farm is easier to manage. Cow numbers have risen over recent years to the point that we only had enough storage capacity for three weeks' worth of slurry.



Andrew Connah (left) of AMC discusses the farm's loan requirements with Kevin Jones.

"We were constantly tankering slurry throughout the winter which was causing untold damage to the grassland. As well as creating extra work, spreading that amount of slurry at the wrong time of the year was making a mess of the gateways and local roads."

Winter spreading via tanker also meant that the nearby fields were overloaded with manure. "That turned the grass sour and unpalatable and meant that we weren't benefiting from the manure's full nutrient content."

Kevin therefore built a 3,400 cubic metre concrete-walled lagoon, which provides an additional five months' worth of storage capacity.

The planning stage

Planning permission for the lagoon was applied for in the first half of 2008. Prior to this, Kevin sought the advice of the Environment Agency which he consulted at an early stage to ensure that his plans met with their approval. Kevin also spoke to his ADAS consultant who helped to design and locate the slurry store.

The ADAS report recommended that the store should provide a minimum volume of 2,800 cubic metres. But Kevin chose to build a larger store to accommodate the planned future herd expansion without out-growing the new facilities.

From seeking planning permission to completing the building works took more than 12 months, but the effort has been worth it. "Planning a project of this scale takes a lot of organising," Kevin says. "It can be a lengthy and time-consuming process, but the benefits far outweigh the costs. Overall the farm is easier to manage during the winter with less time spent carting slurry."

Reduced fertiliser costs

By using a team of contractors to spread the slurry to the correct fields during the spring, Kevin has already noted a significant reduction in fertiliser costs. "We have cut our annual fertiliser bill in two ways: not only are we using less fertiliser overall, we now only need to buy straight nitrogen instead of more expensive compound fertilisers."

Funding from AMC

The new slurry store was funded via a loan from AMC, which was provided on a 20-year variable rate agreement. "We chose AMC because their rates are competitive and because they leave you alone once the loan is in place. There are no annual charges or loan reviews to contend with which makes the whole borrowing process much less stressful," Kevin says.

Andrew Connah, AMC's Regional Agricultural Manager for North Wales, the West Midlands and Warwickshire comments, "Even if interest rates rise back to the levels that we have seen in the last 13 years, the savings that Kevin has made in reduced fertiliser usage alone are enough to service the costs of the loan," he states.

"The new slurry store will therefore be self-funding and will also ensure that the farm is compliant with any future NVZ regulations. Providing the loan was therefore a simple decision but we were also able to help Kevin by consolidating his bank overdraft and an existing loan into a single AMC facility. This has provided further cost savings as well as peace of mind to the partners on the basis that margins on AMC loans are set for the term, subject to loan conditions being satisfied."



The new slurry store at Bryn Mawr Farm can hold five months' worth of slurry and has resulted in reduced fertiliser usage and significant labour savings.

Avoiding the common pitfalls of project management:

Kevin Jones has the following advice for any dairy farmers who are yet to comply with the latest NVZ regulations:

- **Don't delay:** a project of this size involves a lot of organising. The 2012 deadline is less than a few months away so it makes sense to start planning immediately.
- **Find a competent contractor:** as the 2012 deadline approaches there will be a huge rush for building works to be carried out. The longer you leave it, the more difficult it will be to find a suitable and competent builder who is available to work within your timescale and budget.
- **Plan for the future:** any investment should consider future business growth and provide facilities which can cope with that growth.
- **Cost benefits:** the latest NVZ regulations shouldn't be seen as a burden. Investing in your farm's infrastructure can bring new efficiencies and cost savings to the business.
- **Contingency budget:** allow for any unexpected costs during the planning phase.

AMC – Helping to ease the burden of funding your NVZ plans

When coordinating any investment that is aimed at improving farm infrastructure and efficiency, it is important to follow a planned approach.



Keith Thomas of AMC

“Proper planning is not only about ensuring compliance with the NVZ regulations, it will also ensure that the financial burden on the business is properly managed,” says Keith Thomas, AMC’s Regional Agricultural Manager for Cheshire and the North Midlands.

AMC specialises in providing finance to farmers. Our straightforward approach to funding will help to make sure that your investment plans progress as smoothly as possible.

An AMC loan can be used to fund most aspects of an NVZ project, including:

- Extending or building new slurry storage capacity
- Installing a dirty water management system
- Roofing open yards
- Installing new cubicles or improving cattle housing
- Dairy unit relocation or upgrading as part of a wider investment strategy
- Expanding your herd.

Mr Thomas warns against borrowing over too short a term: “It is not advisable to finance a significant investment such as a slurry system through an overdraft. Short-term finance should only be used to fund the working capital requirements of the business.”



AMC can offer a range of finance packages that include medium-term working capital and project finance options and longer-term mortgage facilities (early repayment fees apply).

Adaptable finance options to suit your farm

The AMC Standard Loan

The AMC Standard Loan suits larger investment projects where a longer payback period is desirable. This loan can be taken on either a fixed or variable rate over a 5 to 40 year term, and on either an interest-only or repayment basis (minimum loan amount £25,001).

To fix or not to fix

“A key question is often whether to borrow on a fixed or variable interest rate. At the currently low Bank of England bank rate of 0.5%, variable rate loans may seem very attractive. But it is essential to ensure that the investment is still affordable at the higher interest rates that have been more typical of the last decade,” says Mr Thomas.

For some, a fixed rate loan might be a better option, especially if it is taken over a long period. Anyone considering this course of action should take independent professional advice.

“A fixed rate loan may offer you peace of mind by allowing you to budget your costs more accurately. However, you will have to accept that, at some times throughout the term of your loan agreement, your fixed rate might be higher than the prevailing variable rate,” adds Mr Thomas.

Interest-only loans

AMC can also provide interest-only loans where no capital repayment is required until the end of the loan. This allows capital repayments to be made in accordance with the business’ cash-flow and can free up cash for further business investments.

AMC Flexible Facility

The AMC Flexible Facility can be used as a project-based finance facility, such as a specific building project. This loan facility is provided over a 5 year term (minimum facility limit of £30,000) and enables you to

draw down funds when you need them (minimum of £5,000 applies).

“This type of funding option is particularly handy when you need to pay building contractors in instalments, and could be convenient if your NVZ project is likely to be completed in stages leading up to the 2012 deadline,” Mr Thomas adds.

“Another advantage of the AMC Flexible Facility is the choice of repayment method. You can choose the instalment amount (£5 minimum per month) and can also reduce the outstanding balance at any time (minimum of £500). It is also possible to withdraw further funds up to the facility limit if additional projects arise in the future.”

Slurry handling and spreading equipment

Alongside the regulations that determine slurry storage capacity there will also be restrictions on the way slurry is applied to land. With a greater volume of slurry to spread over a shorter period of time, you may be thinking about investing in new slurry handling and spreading equipment.

AMC can offer a Hire Purchase (HP) based loan through our finance partner Lloyds TSB Commercial Finance.

The key benefits of a HP package include:

- Being able to buy the specific machinery you need
- Flexible repayment schemes are available, freeing up cash to develop other areas of your business
- Purchases made under Hire Purchase qualify for Writing Down Allowances and interest charges can be claimed against taxable profits.

For further information on this funding option or for any of the loans mentioned here please contact AMC.

Contact AMC

As the NVZ deadline draws closer we would be pleased to discuss your plans with you. For more information and to discuss your plans in confidence, call the AMC New Business Team on **01264 334 747**



NVZ rules make economic and environmental sense says Environment Agency

There are sound economic and environmental reasons behind the latest NVZ regulations, according to Nigel Crane of the Environment Agency, and those breaking them face penalties and possible prosecution



Nigel Crane

The new NVZ rules are the Government's response to the European Community's Nitrate Directive which seeks to reduce the amount of nitrates from agriculture reaching water courses. There is sound science behind the regulations, according to Nigel Crane, Senior Advisor for NVZs at the Environment Agency.

"The directive sets the threshold for nitrates in water at 50 milligrams per litre, which applies in all 27 member states. This is exceeded in many areas of the UK in both groundwater and surface water, although we are seeing modest falls in surface water concentrations. But in groundwater in England and Wales, for every site where there is a falling trend in nitrate concentration, there are three sites showing a rising trend."

Nitrate removal costs

Mr Crane adds that the removal of nitrates from our drinking water costs many millions of pounds a year, while excessive nitrates can contribute to eutrophication and excessive growth of algae and other plants in lakes and waterways. The rules focus on the areas where the problem is at its worst which includes 62% of England, 15% of Scotland and 4% of Wales. Different farming systems, geology, soil type and rainfall all account for how vulnerable an area is to agricultural nitrate pollution.

Non-compliance could prove costly

The Environment Agency is responsible for ensuring that the NVZ rules are being followed by farmers and Mr Crane says it is a role it is taking very seriously.

"We will visit farms to make sure the rules are being obeyed and while we will take an approach that encourages farmers to be compliant we will take action if required."

Because the NVZ rules are one of the Single Farm Payment's cross-compliance Statutory Management Requirements, those breaching them could see their payments docked. Persistent or blatant offenders could also be prosecuted which can lead to fines.

"Those complying with the rules will expect those who have not made the effort to abide by them to be penalised," suggests Mr Crane.

Better fertiliser use

But Mr Crane urges farmers not to think of the new NVZ rules in terms of penalties or as being restrictive and costly burdens to their businesses.

"The new rules provide a framework for the better use and management of nitrogen fertilisers, including manure and slurry. Fertiliser prices will continue to rise over time and manure has a significant nitrogen, potash and phosphate value that can save farmers money."

One of the main criticisms by farmers of the new NVZ regulations is the introduction of closed periods during the winter that will prohibit the spreading of manures. These vary from between three and five months depending on soil type and land use. Pig and poultry producers need to have six months worth of manure storage capacity and other livestock producers five months.

"It may sound obvious but farmers should ensure that a slurry system prevents as much rainwater as possible from entering a store," says Mr Crane. "In many cases this can be achieved with relatively modest improvements to existing guttering and yard drainage. Dirty water management will certainly need to form a key element of any new slurry management system."

Plan well, plan soon

Farmers in NVZs must demonstrate that the necessary storage facilities are in place and comply with the slurry closed periods by 1 January 2012, but there are a number of measures that they should have already taken. For example, farmers in an existing NVZ should have compiled records on the livestock kept on their farms and also have calculated the amount of nitrogen produced by those livestock. Farmers in new NVZs have until 30 April 2011 to make these calculations although they should already have recorded the size of their farms and calculated their manure storage capacity requirements.

Because of the amount of time it will take to put new storage in place, Mr Crane urges farmers to start now in order to have enough time for the planning and construction process to take place in the run-up to the beginning of 2012.

"The Environment Agency wants farmers to comply with the rules as easily as possible, by planning early and implementing building works in plenty of time. By taking advice from us and other experts this can easily be achieved."

Advice on the new NVZ rules is available at the Environment Agency's website: www.environment-agency.co.uk/nvzs. Your farm advisor and EA staff will also be able to give advice. Software tools that allow farmers to calculate their NVZ requirements are available free at www.planet4farmers.co.uk





Good planning will ensure a smooth NVZ ride

New NVZ regulations are already partly in force and farmers have very little time before they will have to meet new slurry storage and disposal rules. That is the stark warning from Andersons Midlands dairy specialist Mike Houghton.



Mike Houghton

"Those farmers in relevant areas who have not calculated the amount of slurry storage they will need and who are not keeping up-to-date livestock and fertilising records are already breaking the rules," says Mr Houghton.

He fears that some farmers are ignoring the new rules in the hope that they will go away. "The Environment Agency, however, is taking them very seriously indeed. Because the rules are a European directive, the agency will be very keen to avoid any fines that come from their not enforcing the regulations properly."

Calculate now

He urges anyone who has not calculated their slurry output to do so as quickly as possible and to update any livestock or fertiliser application records. Free software is available from www.planet4farmers.co.uk.

Preventing rainwater from entering a slurry store is the most important initial measure to reduce slurry output. This might involve covering yards or loafing areas. Some farmers might be eligible for grant funding for such a development under the Catchment Sensitive Farming Grant Scheme. Regional Development Agency funding might be available in England, while partial funding is potentially available for slurry stores in Scotland.

More details of Catchment Farming Grants can be found at: www.defra.gov.uk/foodfarm/landmanage/water/csf/grants/capital-grants-scheme.htm.

Despite some modest recent gains in milk prices, Mr Houghton believes the investment required to make some farms NVZ compliant will be too great.

He urges any farmer who is considering giving up milk production or changing their production systems significantly to do it in a planned manner.

"A planned exit means a farmer is likely to get more for their stock and depart in a more tax-efficient manner."

Think ahead

Planning will also be key for those staying in production, especially if seeking to access funding, obtain planning permission and allow enough time for building work to be completed by the January 2012 deadline. The need to invest might also present the opportunity for a more radical rethink of the farm's future.

"The majority of farmers committed to staying in production will almost certainly have more cows in ten years time than they have now. They should therefore design a system which enables this expansion to take place and accommodate the outputs from it. Farmers might also want to consider the use of new technologies such as anaerobic digestors and slurry separation units which are likely to become more prominent in the future. The key message is to avoid designing a system that could eventually exclude these technologies."

Realise the benefits

Although complying with the new rules is likely to cost the business money, a calculation of the economic value of slurry is a relevant one. Mr Houghton says that a dairy cow producing 6,000 to 9,000 litres of milk produces approximately 53 kg of slurry a day or 19.3 tonnes a year. A tonne of slurry contains in the region of 6.0 kg of nitrogen, 3.0 kg of phosphorous and 1.2 kg of potassium, giving it an estimated fertiliser value of £4.70/tonne or £90 per cow per year or £18,000 for a 200 cow herd, if fully utilised.

Planning permission and funding

"Once the type and scale of the system has been decided, the farmer will need to secure planning permission and finance. A basic expanded store, in an agricultural area, located a sensible distance from populated areas, is likely to get planning permission in a month or so. A bigger, more complicated system will take longer."

The later plans are left, the greater is the risk of a project costing more. Doing things at the last minute often results in having to pay over the odds to secure the inputs and trades needed to bring the work in on time. Work will also need to be scheduled to minimise disruption to farming operations.

As well as securing planning permission and finance, a farmer must also plan the schedule of works, taking into account the specialist nature of some of the systems and that demand might be strong for contractors from other farmers.

"Few farmers will relish investing in NVZ systems, but it is essential that they do so in order to be compliant with the new rules and to avoid putting their Single Farm Payment in jeopardy. With forethought and proper planning, adapting to the new rules might even have a positive financial impact on livestock businesses," concludes Mr Houghton.

For more information, contact Mike Houghton on **01722 782800** or visit www.andersons.co.uk

Outline cost of slurry storage systems

	£ per m3
Above ground tower:	
Below 800 cubic metres	47 - 58
Above 800 cubic metres	42 - 47
Glass fibre reinforced (GRP) below ground effluent tank	380 - 450
Lagoon, fencing & lining	40 - 60
"Weeping Wall" lagoon, concrete floor, sleeper walls	65 - 80

How to get in touch with AMC

To establish whether AMC funding for your plans is viable, you can speak to one of our specialist New Business Managers by calling **01264 334747**.

To contact your local AMC representative, call us on **01264 334747** or visit **www.amc.co.uk** to find your nearest AMC Agent. Alternatively, contact your local AMC Agricultural Manager by calling them on the numbers opposite.

Can we help you?

Visit **www.amc.co.uk** for further information about NVZ's including planning tools and useful links as well as funding options available from AMC.

Useful links:

More information about how the NVZ regulations could affect your business is available from the following organizations:

DEFRA – Record keeping checklist, guidance notes & key compliance dates
Tel: 08459 335577

Web: www.defra.gov.uk/environment/quality/water/waterquality/diffuse/nitrate/index.htm

Environment Agency – Guidance documents & dedicated NVZ hotline

Tel: 01824 704060 (Monday to Friday: 8:30 – 17:00)

Web: www.environment-agency.gov.uk/business/sectors/32755.aspx

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