

# Farm Financial Performance Measures

Based on: [www.farmbusinesssurvey.co.uk](http://www.farmbusinesssurvey.co.uk)



# Financial Performance Measures: What are they?

- Measure the **financial return** from inputs and investments into the business
- **Compare** your farm performance to similar businesses at [www.farmbusinesssurvey.co.uk/Benchmarking](http://www.farmbusinesssurvey.co.uk/Benchmarking)
  - Return on capital
  - Labour costs by £100 turnover
  - Machinery costs by £100 turnover
  - Farm Business Income by turnover
  - Rates of Energy Use

# Return on Total Capital

## % Return on Total Capital

$$\frac{\text{Farm Business Income}}{\text{Total Capital}} \times 100$$

Return is based on Farm Business Income- (net profit)

Total Capital is the total value of ALL farm assets

### A Poultry farm\* example from 2014/15:

Farm Business Income= £358,926

Total Capital= £2,816,621

$$\frac{358926}{2816621} \times 100 = 12.7\%$$

\*Average mixed tenure poultry farm in the FBS sample

# Return on Total Capital

## What does this mean?

- Average\* poultry farm= 12.7%
- Average\* cereals farm= 2%
- A Top Performing cereals farm= 3.2%
- Higher percentage means **more efficient** use of investment- a **better financial return**
- Lower percentage shows **less efficient** financial return

\*For an averaged mixed tenure farm in the 2014-15 financial year

# Return on Tenant's Capital

## % Return on Tenant's Capital

Farm Business Income

Tenant's Capital



Tenant's Capital is the equipment and stock needed to run a farm: machinery, livestock, stores, current crops and liquid assets.

**A Poultry farm\* example from 2014/15:**

Farm Business Income= £358,926

Tenant's Capital= £1,150,404

$$\frac{£358,926}{£1,150,404} \times 100 = 31.2\%$$

\*Average mixed tenure poultry farm in the FBS sample

# Return on Tenant's Capital

## What does this mean?

- Average\* poultry farm= 31.2%
- Average\* cereals farm= 10.7%
- Top 25% cereals farm= 21.6%
- Higher percentage means **more efficient** use of investment- a **better financial return**

\*For an averaged mixed tenure farm in the 2014-15 financial year

# Return on Capital Employed

An alternative measure to Return on Total Capital-  
more common in non-farm companies

In the Farm Business  
Survey this is  
net profit + interest  
charges



Earnings Before Interest & Tax

Capital Employed



The sum of equity and  
liabilities, calculated as:

**Total Assets - Current Liabilities**

**A Poultry farm\* example from  
2014/15:**

Earnings Before Interest and Tax=  
£382,647

Capital Employed= £3,205,219

$$\frac{\underline{£382,647}}{£3,205,219} \times 100 = \mathbf{11.9\%}$$

A higher percentage  
indicates **stronger**  
**financial performance**

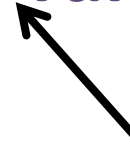
\*Average mixed tenure laying hen farm in the FBS sample

# Business Income per £100 Turnover

## Farm Income per £100 Business Turnover



Farm Business Income is the total farm output minus all costs, plus profit from sale of assets



Farm Business Turnover is the total output from agriculture, subsidies and diversification

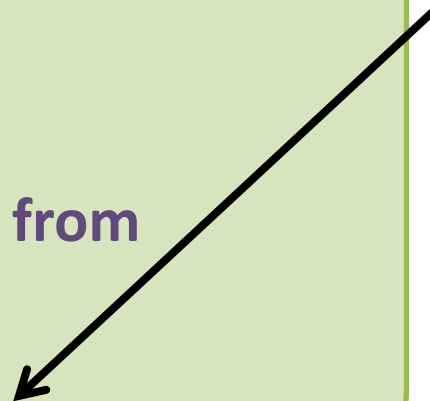
An Average Cereals farm example from 2014/15:

= **17.17**

A Top 25% Cereals farm example from 2014/15:

= **32.23**

A **higher** figure shows a better financial return from the total output of the business





# Labour Costs per £100 Turnover

## Wages and Salaries per £100 Business Turnover

Includes all regular and casual labour and farm manager salary

Farm Business Turnover is the total output from agriculture, subsidies and diversification

### An Average Cereals farm example from 2014/15:

Labour costs per £100 turnover= **6.41**

### A Top 25% Cereals farm example from 2014/15:

Labour costs per £100 turnover= **5.06**

A lower figure shows more **efficient labour use**- the business has higher financial output for each £ spent on wages and salaries

# Machinery Costs per £100 Turnover

## Machinery costs per £100 Business Turnover

Includes all machinery repairs, fuels and oil and depreciation

Farm Business Turnover is the total output from agriculture, subsidies and diversification

**An Average Cereals farm example from 2014/15:**

Machinery costs per £100 turnover= **19.91**

**A Top 25% Cereals farm example from 2014/15:**

Machinery costs per £100 turnover= **14.48**

A lower figure shows more **efficient expenditure on machinery**. The business returns higher financial output for each £ spent on machinery

# Performance Ratios: A Summary

**A Top Performing farm business will generally have...**

- **A higher** percentage return on **total** or **tenant's capital**
- **Lower labour** and **machinery** costs per £100 turnover
- **Higher** business income per £100 turnover