Spring 2015

eq agriculture news

regular news from our specialist agriculture team

'Progress to Profit' Farming Scotland Conference provides inspiration and debate

The 12th Annual Farming Scotland Conference took place on 5 February in Carnoustie, providing attendees with inspiration and thought provoking debate on a wide range of farming issues.

The conference, sponsored by EQ Accountants, Bell Ingram, Thorntons Law and RBS, was entitled 'Progress to Profit' and, with a carefully chosen group of speakers, addressed issues of environmental policy, grain markets, mixed farming and the rise of venison production.

Professor Nick Hanley, Environmental Economist at St Andrews University, outlined some developing ideas in terms of how agri-environment policies can be improved, suggesting that farmer co-operation and the auctioning of contracts for the supply of biodiversity of ecosystem services have the potential to deliver outcomes rather than just actions as well as to improve farming incomes.

Head of Procurement at Diageo International Supply, Angus Duncan, impressed the audience with the scale of Diageo, both within Scotland and worldwide, while highlighting the company's commitment to the Scottish agricultural supply chain, as its largest customer, and their desire to ensure that Scotland continues to lead the world drinks industry.

Commercial venison farming currently only represents two per cent of the Scottish venison market, but with demand for venison among consumers increasing by 25 per cent per annum, speaker John Fletcher, deer farmer and vet, emphasised the potential for the Scottish farming industry to meet this demand at the same time as giving itself a valuable diversification opportunity.

Jonathan Skinner, Farmers Weekly Young Farmer of the Year 2013, provided inspiration for farmers, young and old, demonstrating that with hard work, careful selection of activities and close monitoring of costs can lead to the fast but effective growth of a modern mixed farm.

Graeme Davidson, Partner at EQ Accountants LLP and Chairman of the Farming Scotland Conference, said at the conference:

"I am delighted that our speakers were able to cover such a range of issues today and I think that attendees couldn't fail to take a number of valuable ideas and thoughts back to their own businesses.

"I should like to thank all of our conference sponsors, our speakers and our attendees and look forward to seeing them again next year."

Breaking up ISN'T always hard to do

It's a very common scenario – a farming or land owning family reaches a point where one or more of the parties involved decide that the time is right to separate their interests. It happens more often than you might think, and it also proceeds amicably and with a satisfactory outcome for all parties more often than you might think.

There are, of course, examples across the country where it has all gone wrong, where families have fallen out and a break up of assets or business interests has been a very painful exercise. But, more often than not, a break up can avoid these negative outcomes if all the parties involved work together to achieve the desired outcome.

The hardest thing is often to raise the subject of unsettling the status quo in the first place. It does take a brave person to initiate that discussion with family members. It is important, therefore, that the logic for doing so and the desired outcomes and benefits of a break up are clearly set out in any early discussion.

Involving professional advisors at a very early stage is also vital. There will inevitably be financial, taxation and legal issues to navigate as a result of a break up. Ironically, the introduction of an advisor to proceedings at the wrong time can have a negative impact as their involvement by one party or another can be viewed as adversarial, however unintentional that may be. Ideally, advisors who know and are trusted by all sides in a break up situation will be able to mediate and help clear the way for a smooth process.

If the desired outcomes are established at an early stage all discussions can then be focussed on achieving them, even if compromises have to be made along the way. For each party to the split, fundamentally identify what they want, why they want it, and what are the negotiable and non-negotiable aspects. A degree of pragmatism is usually needed on all sides.

So, if you find yourself in this situation, seek advice and with a bit of luck and the right attitude you might find that breaking up isn't always hard to do.

Sector focus – dairy

Strengths	Weaknesses
• Direct supermarket contracts offer premium price (if available). • Scotland well suited to grass production. • Large herd size compared to EU average.	• Capital intensive. • Difficulties in sourcing labour. • Low price from standard non aligned contracts.
Opportunities	**Threats**
• Low grain prices reducing feed costs. • No production quotas from March 2015. • Development of higher value markets.	• Oversupply in the short term. • Strong GBP making imports more competitive. • Processor consolidation (less competition).

The problems facing the dairy sector have been well publicised in the farming and wider press over recent months. Oversupply has resulted in a significant drop in farm gate prices, with milk prices falling by about 10p per litre, from roughly 30p to 20p per litre on some contracts compared to a year ago. On a typical 200 cow herd averaging 8,000 litres per cow, this would equate to an annual drop in revenue of £160,000. Processor issues have added to the problem, with First Milk announcing in January that it was deferring milk payments by a fortnight to help address its own cash flow difficulties. The situation has been compounded by the fact that many producers have recently invested heavily in their business on the assumption that milk prices would be well above where they are at this point in time. The sector is therefore not without its challenges at present. How each business reacts will, as always, depend on individual circumstances. For those committed to the sector, understanding the cost of production will be crucial as will finding ways to improve efficiency and reduce unit costs. On farms where fresh investment is required to keep facilities up to date the decision may well be taken to exit the sector rather than risk additional capital, especially if alternative enterprises are an option.

Risk free return or return free risk?

Anyone operating a farming business should periodically ask the question: what level of profit should I be making given the resources at my disposal? While profits will inevitably vary from year to year depending on prices and weather, the average profit earned by an owner occupier should, in theory, be at least sufficient to cover:-

- Rental equivalent value of the land from either a contract farming agreement or seasonal let.
- Value of any subsidy rights over and above the rental value.
- Opportunity cost of labour supplied for free by the proprietor.
- Net capital invested in the business (all assets excluding land less borrowing).

As an example, the baseline profit for a 600 acre arable farm, with £700k tied up in stock and machinery, but with a £300k overdraft, is shown below.

Item	Detail	£
Cereal land rent	500 acres @ £80	40,000
Potato land rent	100 acres @ £400	40,000
SFP/BPS	600 acres @ £60	36,000
Farmer's own labour	Value of own labour	30,000
Net capital excluding land	£400k @ 4%	16,000
Total		**162,000**

The figures are purely there for illustration and exact values will depend on individual circumstances. You would also need to factor in any costs that would still remain, such as farmhouse costs and motor vehicle expenses, to get a valid comparison with what you are doing at present.

Whilst we are in no way suggesting that people give up active farming, performing such an exercise provides another useful way of benchmarking the performance of your business.

Farming will always involve an element of risk, but businesses need to start thinking about the level of profit they should be generating from their assets given the commercial risks they are taking. If your business is all return free risk, then perhaps it's time to look afresh at your business strategy.

Renewables still to the fore

On farm renewable energy projects have evolved significantly over the past ten years. During that time we have seen a significant shift in the advice we are being asked to provide. Initially, it was helping early adopters of wind and hydro energy (micro, small and medium scale) to understand the economic viability and tax implications of their proposed projects. As trusted advisors we were also involved in other aspects of these projects such as due diligence, supplier selection and funding requirements. This work continues, but the market has matured somewhat and there are fewer uncertainties to negotiate.

More recently we have seen significant numbers of clients exploring and implementing solar energy and biomass technologies. In many cases this has been on a scale designed to provide energy for a specific on farm purpose, for example, solar pv on shed roofs to power cold stores or chicken shed ventilation, or biomass to heat a grain dryer or a group of residential properties.

Feed in tariff (FiT) and Renewable Heat Incentive (RHI) subsidies have continued to form a significant part of the calculation when looking at viability and return on capital invested. Increasingly, however, we are seeing clients for whom the key factors are investing in the renewable energy technology itself and the direct impact they expect to see on their energy costs for years to come. The investment is seen very much as integral to existing operations and part of making the farm a lower cost, sustainable business.

Whatever the type and scale of the renewable energy project you are considering be sure to consult us or other professional advisors at an early stage.

Change to Whole Farm Review grant rates

WFR grant rates have changed for new applications to the scheme from 1 January this year in order to remain compliant with EU state aid rules. The changes are detailed below.

Claim stage	Old rates	New rates
Initial report	Up to £1,600 @ 80%	Up to £1,200 @ 80%
Follow up visit and action plan review	Up to £300 @ 100%	Up to £300 @ 100%
Further specialist advice	Up to £500 @ 80%	Up to £1,000 @ 80%
Total	**£2,400**	**£2,500**

Mark Wilken and Mark Smeaton of EQ are both accredited under the Farm Business Advisor Accreditation Scheme for Scotland (FBAASS) to undertake WFR work.

And finally…year end planning time

This time of year, as we approach the end of the tax year and the end of financial year ends for many businesses, is a good time to look again at allowances, reliefs and opportunities to reduce one's tax burden. Below is a list of some of the points which may be worth considering.

- Is your personal allowance for income tax, and that of your spouse or other family members, utilised for the year?
- Income levels – is your income for the tax year going to be close to but not over one of the thresholds where tax rates increase?
- Have shares of profit, dividends and/or bonuses been considered prior to 5 April?
- Capital allowances are available on qualifying expenditure on plant and equipment – can planned expenditure be accelerated or deferred to impact on taxable business profits?
- Have ISA allowances (£15,000) been used in 2014/15 for tax free savings?
- Pension contributions may be a useful tool to mitigate personal or business tax, particularly with impending changes to pension rules allowing greater flexibility at drawdown – have pension contributions been considered?
- Have capital gains tax annual exemptions (£11,000) been used in 2014/15?
- Agricultural subsidy entitlements (SFP) and milk quota which have been bought previously will have nil value at 31 March 2015 – how can you use the capital gains tax loss which arises?
- If acquiring property have you considered the impact of the new Scottish Land & Buildings Transaction Tax (LBTT) which replaces Stamp Duty Land Tax from 1 April 2015?

The above is not an exhaustive list. Please speak to your usual EQ contact about the planning opportunities available to you.

This EQ news bulletin was prepared by Graeme Davidson and Mark Wilken, who are agricultural specialists based in our Forfar office. Contact them for information on any of the articles contained within this bulletin.

EQ Accountants LLP
Forfar - Westby, 64 West High Street DD8 1BJ
Tel 01307 474274 Fax 01307 474275
Email: agriculture@eqaccountants.co.uk