Whitley Stimpson

CHARTERED ACCOUNTANTS AND BUSINESS ADVISORS

Agricultural Spotlight

Autumn 2022 | Issue 25

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Welcome to the Autumn 2022 edition of Agricultural Spotlight.

The latest issue of our Agricultural Spotlight features an update on the current global agriculture markets, a recap on the super capital allowance, and a brief guide to starting succession planning for your farm.

This update was prepared and went to press before Liz Truss launched her disastrous “mini-budget” and well before we had the appointment of Rishi Sunak as our new Prime Minister. We hope to bring an update to a more stable and clear agricultural policy in our next edition in the new year.

The outlook for British agriculture – addressing the issues

It is no secret that British agriculture is facing some of the biggest changes since the post-war years when production was ramped up to ensure our farmers could feed a hungry, battle-weary nation.

Unfavourable trade deals; the biting phase out of BPS; soaring input prices; the necessary but challenging drive for sustainability; labour shortages; unpredictable weather … the list goes on and on.

Add to these a turbulent political landscape, with new (and now ex!) Prime Minister Liz Truss's views on farming as yet unknown, and the cost-of-living crisis, and it is easy to conclude that agriculture is set for a bumpy ride in both the short and longer term.

So, what are the main challenges facing the industry, and what is likely to be the outcome?

Here, Ian Parker, our agricultural expert, sheds some light on some of the sector's most challenging issues.

Input costs

Input costs, particularly fuel, feed, and fertiliser, have been one of the top concerns for British farmers this year. That's hardly surprising when you consider nitrogen spiked at more than £1,000 per ton.

The roots of the problems are buried in the COVID pandemic when China began to emerge from lockdown. This caused the demand for fertiliser, which was cheap compared to the price of wheat, to increase exponentially, putting pressure on demand.

The pressure was hugely exacerbated in February 2022 when Russia invaded Ukraine, sending prices spiralling to unprecedented levels.

But the war caused another issue that was actually beneficial. It kept the grain prices high, shielding many farmers around the world, including those in the UK, from the worst effects of the fertiliser price.

That is, until the Black Sea agreement.

It is impossible to criticise an arrangement that releases food to millions of people across the world who are on the brink of starvation. Since the deal was signed, more than two million metric tonnes of grain have hit global markets.

But from the farm economics point of view, it is less desirable. It increased grain availability and drove down prices. And with grain prices dropping faster than fertiliser prices, making ends meet could become a real challenge for British farmers.

Sadly, the problem is likely to get worse before it gets better.

As many of you will know, making nitrate fertiliser is one the world's most energy demanding processes, meaning it is at the constant whim of energy prices.

Russian gas is now so expensive that some fertiliser manufacturers in the UK and Europe are simply stopping production and mothballing sites.

This, sadly, is likely to lead to major disruptions to fertiliser supply and the next round of price hikes at a time when commodity crop prices are falling.

The simple fact is input prices are likely to remain high because the factors that drove them up in the first place haven't yet gone away.

Phasing out basic payments

As if the input cost crisis wasn't enough of a financial burden, the year-on-year reductions in BPS are now starting to bite.

Many are sceptical about its replacement – Environment Land Management schemes (ELMs) – and its capacity to take up the slack.

There is a fundamental difference in how DEFRA views BPS and ELMs and that is at the heart of the issue. BPS is essentially profit. It is viewed by DEFRA as a payment for the ‘right to occupy land’. Governments are rarely fond of rights payments.

ELMs by contrast is aimed at providing public money for public goods. It is a payment for managing land in a way that improves soil health, increases biodiversity, and reduces carbon emissions. Or better still sequesters carbon from the atmosphere.

But achieving these things costs money and many believe that for every pound farmers get in from ELMs, they will have to spend a pound in achieving its aims. So, whereas overall farm income might sustain, profitability is likely to take a nose dive, which could stifle future investments.

That said, overall farm incomes for most are unlikely to sustain at the same level. The fact is, to achieve the full objectives of ELMs and therefore unlock the highest payments, farmers may well have to jump through hoops. Many may choose to take lesser payments while searching for new markets to diversify into instead.

Invariably this is likely to lead to less food being produced and a time when arguably, we need to incentive farmers to grow more.

Trade deals

Trade deals are another area of concern, although one that could also offer hope to British farmers if negotiated in the right way.

However, that is going to take some significant political will, and some skilful bartering, and whether Liz Truss’s administration is up for the fight is a question yet to be answered.

Certainly, Ms Truss’s role as Foreign Secretary in brokering the Australian trade deal is unlikely to fill the UK agricultural sector with confidence.

The deal was condemned by the NFU as one-sided and one that heaped more pressure, not less, on farmers in the UK.

NFU President Minette Batters said the deal didn’t enable the control of food imports produced below the legal standards required of British farmers, something that should be a concern for all. After all, what’s the point in introducing measures to drive up sustainability and animal welfare practices, and then buying in cheap imports from producers not governed by the same?

However, a modicum of good news was announced earlier this month. Ms Truss said the Australia deal will be scrutinised by MPs, and that could potentially lead to beneficial changes for British farmers.

Only time will tell. Either way, hopefully the backlash and subsequent scrutinising of the deal will ensure lessons are learned and future deals will genuinely open new, tariff free markets to British agriculture.

Labour shortages

Labour shortages have had a profound effect on the UK farming and food industry since the Brexit deal, which significantly curtailed the sector's access to temporary EU workers.

The impact has been exacerbated this year by the war in Ukraine which has stemmed the number of seasonal workers coming here from that region.

In fact, according to a report in the Guardian newspaper from August this year, labour shortages are responsible for £60m of food being left to rot on British farms.

This would be treacherous at any time, but when so many families are struggling to make ends meet and feed their children, it is doubly so.

The government did try to tackle the problem by issuing 38,000 short-term visas to those working in the food production industry. Sadly, however, farming alone requires almost twice as many workers as this.

But, to give her her due, Liz Truss has also made an announcement on this issue. She says she intends to ease the restrictions on foreign labour with a short-term expansion of the seasonal workers scheme, to buy time for the industry to work out a longer-term solution.

Although this comes too late for the £60m of wasted food that could have been enjoyed by British families, it does signal an intention to provide genuine help to British farmers on a critical issue.

Conclusion

So, what does all this mean on the ground?

Well, the landscape is changing, that is for sure. In the short term, farmers are likely to face some pain as the cost-of-living crisis reduces demand for high value products, inputs costs remain high, commodity prices slip back, and the major retailers compete aggressively to provide the best value to the consumer during these financially straitened times.

In the medium turn, greater challenges loom. The changes in payment scheme, meeting sustainability targets, and the drive to produce food of a quality few other countries can, while ramping up efficiencies and turning a profit.

But British farmers are nothing if not resilient, innovative, and entrepreneurial. They will need all that resolve if they are to survive and prosper. But by leveraging advances in technology, adopting new practices that combine food production with environmental improvement, and exhibiting that sheer bloody-minded determination most of them possess, thrive and prosper they will.

All this will be made easier if the political will exists to forge truly beneficial trade deals, and labour shortage issues can genuinely be resolved.

But integral to this survival will be farms being run on more commercial terms than ever before, and it is here a trusted advisor can really add value.

Tax planning, financial reporting, cash flow management, and many other financial management measures will become more important to the future of every farm business in the UK.

That is why, as this new dawn approaches, Whitley Stimpson will be with you every step of the way, to help ensure the future is bright for you, and the generations to come.

If you would like to discuss financial management measures with regards to the future of your farm, please telephone Ian Parker on 01295 270200 or email ianp@whitleystimpson.co.uk.

Farmers urged to act quickly to access super capital allowance scheme costs

Farmers whose business operates as a limited company have just eight months remaining to take advantage of the 'super capital allowance' that provides 130% tax relief on major purchases of plant and machinery.

The allowance was introduced by the government in April 2021 to boost business investment but comes to an end on March 31st, 2023.

The scheme could see farmers operating as a limited company save tens of thousands of pounds in corporate tax if they apply in time.

For example, it could see taxes cut by up to 25 pence for every pound invested, creating a corporate tax saving on a £1m investment of £247,000.

This is compared to £190,000 under the previous regime*.

But Ian Parker, Director of Whitley Stimpson, urged any farmers wanting to take advantage of the scheme to apply as soon as possible.

To claim, any plant or equipment purchased must be delivered and in use before the March 2023 deadline.

Ian said: "With the scheme remaining open for another eight months, it might seem like there is a long time left to apply.

"But in reality, this isn't the case. That's because to claim the 130% tax relief on the purchase, it must have been delivered and be in use on the farm.

"Buying big plant or machinery is not a quick decision. They are expensive bits of kit and making decision on what to buy can take time.

"If you add lead time to this, all of a sudden the remaining eight-month window doesn't seem long at all, and I would urge any farmers wanting to access the scheme to do so as soon as they can."

The super capital allowance scheme is only available to farmers who operate as limited companies, not to sole traders or partnerships.

For more information about accessing the scheme, call 01295 270200 or email ianp@whitleystimpson.co.uk.

Succession planning – a guide for getting started

With drastic changes to support payments looming, increased environmental and sustainability regulations, labour shortages, and a host of other issues impacting on agriculture, it is fair to say farming is on the cusp of massive changes.

Understandably, therefore, we've seen an increase in enquiries about succession planning as some older farmers feel the time is right to let the next generation step in and take the farm forward.

But for many other farmers, succession planning remains a difficult conversation to have. As a result, it is all too often placed on the back burner, sometimes for many years, until due to ill health or age related decline, it can no longer be avoided.

Or, in the event of a sudden death, no succession planning is in place at all, causing extra stress and worry for the remaining family at an extremely difficult time.

Neither of these situations are ideal and can easily be avoided if the issue is discussed in a timely manner. To help facilitate this challenging but vital conversation, we have produced our summary of what succession planning involves, to help guide farming families through the process.

Key areas to consider

Before starting a conversation around succession planning, there are some key areas that need to be considered. We feel the most important include:

- Is the land you farm owned or tenanted? If tenanted, on what type of lease?
- Who owns the assets of the farm?
- What direction do you see the farm taking going forwards?
- How will each family member be involved in the farm/farming operations in the future?
- Do you plan to diversify away from general farming activities?

Understanding these points will enable you and your advisors to better understand what you want to get out of the succession planning process and put a plan in place to achieve that.

It is also important to understand the tax implications of succession planning and ensuring that you receive the right advice. The two key taxes to consider throughout this process are Capital Gains Tax (CGT) and Inheritance Tax (IHT).

CGT is likely to be involved if you plan to give away some of the farming/business assets to the next generation whilst you are still alive. However, much of this CGT can be deferred by making appropriate claims for Holdover Relief so it is important to receive expert advice before doing anything, to ensure it is carried out in the most tax efficient way possible.

IHT should not be a major issue so long as the correct planning is done at this stage – another reason to address succession planning sooner rather than later.

Agricultural and Business Property Relief ensures that the farm and other business assets can be passed on to future generations without significant tax liabilities being payable, so again, it is important to work with an expert on this, to ensure everything is correctly put in place.

Once you have completed your succession planning exercise you should be able to tick the following boxes

- Your Will has been updated to tie in with your succession plans and every family member involved also has one
- You have planned for the practical issues such as payment of any tax liabilities, your retirement income and housing needs
- You have agreed with all family members concerned the timing of the handover so that there are no hidden surprises
- You have communicated your plan to all external stakeholders of your farming business such as the bank, suppliers, and your customers
- Any partnership/shareholder agreements are consistent with the family's wishes and Wills

Summary

At Whitley Stimpson, we understand succession planning can be a difficult topic to raise within a farming family and that putting it to one side for another day can feel like the easier option.

But this approach rarely works out for the best and with a robust plan in place, all family members can sleep more easily knowing that when the time comes, the transition of the farm across to the next generation will occur in an efficient and worry-free way.

Our experienced team can take you through this difficult process in a sensitive and respectful way.

To discuss succession planning for your farm, get in touch with Ian Parker on 01295 270200.

Government-backed Recovery Loan Scheme extended

UK businesses struggling with economic uncertainty may have been thrown a lifeline with the extension of the Recovery Loan Scheme – a low-cost borrowing initiative which is backed by the Government. diversifying into agritourism may be a temping option for many farmers.

The scheme was first launched in April 2021 as a replacement for the Coronavirus Business Interruption Loan Scheme (CBILS), introducing one crucial difference – businesses applying for the borrowing were no longer required to have been directly impacted by the COVID 19 pandemic.

It was initially set to run until December 31st, 2021, but in the Autumn Budget 2021 the then Chancellor decided to extend the scheme by six months, leaving it open to June 2022.

Now, with applications to that scheme closed, the Government has announced a new iteration of the Recovery Loan Scheme, which is due to run until June 30th, 2024, giving businesses extended access to the low cost borrowing.

Under the scheme, businesses can borrow up to £2m to aid recovery from the COVID pandemic or simply to invest for the future. The Government guarantees 70% of the borrowing, but the business's assets could be called on to make good any default on repayment. However, the borrower's private residence cannot be taken as security.

Ian Parker, Director of Whitely Stimpson and agricultural finance expert, said the extension of the Recovery Loan Scheme was good news for farmers and other rural businesses.

He said: "The Recovery Loan Scheme has been a great success and has helped a lot of businesses bounce back from the economic turmoil of the past few years.

"One of the positives of the scheme is that unlike its predecessors, you don't have to demonstrate your business was impacted by COVID to be eligible to apply, which means that it could provide low-cost borrowing for farmers facing a number of issues, such as soaring fuel, feed, and fertiliser prices.

"With the new iteration of the scheme having launched in August, now is a good time to look into it, to find out if it is right for your business."

The scheme is open to businesses with a turnover of up to £45m, and covers a wide range of products including loans, overdrafts, asset finance, and invoice finance facilities.

The borrowing term can be as little as three months and runs to a maximum of six years.

Ian added that it was the flexibility of the scheme which made it particularly attractive to farmers.

"Because the funding can take a number of forms and over a term prescribed by the borrower, it can be tailored to meet a farmer's current demands and situation," he said.

"Couple that with the fact it is relatively low-cost borrowing, 70% of which is guaranteed by the Government, and it is certainly a viable option for farmers looking to secure new funding."

To discuss the Loan Recovery Scheme or any other form of farm funding, call 01295 270200 or email Ian on ianp@whitleystimpson.co.uk.

Talk to someone who understands the real issues

Accounting for agriculture, farming and rural business is a specialist area that requires expertise and an understanding of the industry. Our dedicated team come from farming backgrounds and offer a clear understanding of the issues facing farmers.

We provide professional knowledge and hands-on experience in the agricultural sector. We have worked with agricultural businesses for over 90 years, providing the expert advice that is required to help you enhance the potential of your farming business.

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