

Agriculture News



Regular News from our
Specialist Agriculture Team

Autumn 2024

Welcome to Autumn

Autumn on the farm is a season of reflection, as the land shifts from the vibrant greens of summer to the warm, muted tones of harvest time. Fields that were once bustling with growth now stand still with the fruits of labour stored away, hopefully hitting the market when the price is right.

The 2024 harvest has certainly been a mixed bag. At times all four seasons have made an appearance in the same day, leading to some extremely mixed results on the combine yield meter. Prices also continue to be volatile, with what some may described as a year of "Up Horn - Down Corn".

Of course, as one season comes to an end another starts. We hope that you enjoy looking forward, realising your plans for next year, and to reading this edition of our bulletin.

Bank base rate cut

The Bank of England cut interest rates for the first time since March 2020 on 1st August when it reduced the base rate from 5.25% to 5%.

The move will be welcomed by those with variable rate borrowing who will be hoping that we are now at the start of a rate cutting cycle.

Interestingly, the investment bank Goldman Sachs has predicted that UK base rates will fall to 3% by September 2025, so rates could still have significantly further to fall if their prediction proves correct.

Excessive tax rises in the forthcoming budget on 30th could also easily stall the economy, necessitating rate cuts to avoid a recession.

Do you have an 'Express Trust'?

Many farming and estate partnerships think that the answer to this question is no, however, they could be unintentionally falling foul of the rules relating to the Trust Registration Service (TRS). Where land is held on Trust for a partnership, generally registration with the TRS is required.

A common scenario in farming families would be the business is operated as a partnership between Mum & Dad and their grown-up children, but the farmland and buildings are legally owned by Dad. This will likely constitute an express Trust and would need to be registered with the TRS.

One important factor regarding partnerships is that in Scotland, land may be legally held in the partnership name (rather than owned personally by one or more of the partners) and in this case no Trust exists.

HMRC's guidance is, unfortunately, quite unclear and does not deal with some widely used farming arrangements. As a result, many farming businesses may be failing to meet the requirements. Until further guidance is provided it is sensible to register with the TRS for the avoidance of doubt.



The registration deadline was 1st September 2022 and the penalty for non-compliance is £5,000. HMRC recognise, however, that this is unfamiliar territory for many and have advised that a penalty for a first failure to comply will not be charged unless this was deliberate avoidance.

Whilst many view this additional compliance as an inconvenience, it can offer benefits in terms of providing legal clarity, reviewing existing partnership agreements and supporting a claim to Business Property Relief for Inheritance Tax. This also serves as a welcome reminder to ensure that the business accounts accurately reflect the land ownership.

Overall, whilst some additional compliance may be required the new rules could be a positive in relation to family tax planning matters.

The Irony of a Green Revolution

Nick Banks,
Head of Agriculture,
Scrutton Bland



Earlier this year we hosted an agricultural conference and the keynote speaker was Henry Dimbleby who published the government commissioned National Food Strategy commonly referred to as the Dimbleby Report in 2021.

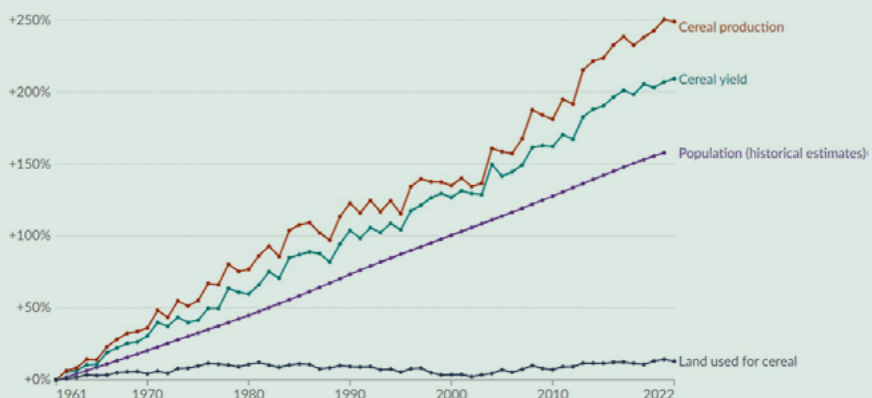
In 2023 he published *Ravenous*, a thought-provoking book which unpacks that report and challenges how the production of food and use of land must change to help our planet and counter increasing obesity through bad diet.

Dimbleby presented extracts from his work at the conference and one segment that particularly piqued my interest was the work of Norman Borlaug.

Borlaug was awarded the Nobel Peace Prize for his post second world war work to breed a rust resistant, short stemmed wheat that achieved vastly greater yields than varieties grown to date.

Given global population was soaring, the planet was destined for a food crisis with many facing starvation. Borlaug's work avoided that crisis as food production across the world increased to meet demand.

Not the graph presented by Dimbleby at the conference, but the following puts the outcome of Borlaug's achievement into context:



Source: Food and Agriculture Organisation of the United Nations (2023) from ourworldindata.org

The land used for cereal growing has not expanded significantly since 1961 but evidently the output of cereals has increased markedly and that outcome is known as the **Green Revolution**.

Understandably, Borlaug has been lauded and recognised for his achievements, but it seems to me that there is a certain irony to that green label given its legacy.

The advancement in food production technology was significant over that period. The new varieties saw widespread use of chemical fertilisers, pesticides and controlled irrigation. Farmers were encouraged to remove hedgerows to create bigger fields to farm on industrial scale. This intensive practice reduced biodiversity and destroyed soil fertility.

Dimbleby writes in his book that “since 1930 we have lost 97% of our wildflower meadows, half of ancient woodland, 56% of our heathland and 90% of our lowland ponds”. He adds “Wheat yields in this country doubled from 1970 to today, while the number of farmland birds fell by 54%”

It seems to me we are heralding another green revolution – one of Sustainable Farming Incentive, Countryside Stewardship and Landscape Recovery.

I have written letters to the Rural Payments Agency to support applications for capital grants to plant hedgerows. I participate in meetings planning the impact of decisions to take land out of production for nature, the capital allowance implications of changing a drill or a lower horsepower and lighter tractor and of course the capital taxes implication of whether some of what farmers are encouraged to explore remains agriculture.



The backdrop to all of this is climate change and the global agenda to reach net zero. Another green revolution is required but, in my opinion, this will potentially have a structural impact on the UK farming sector given the commercial implications and the viability of smaller scale farms.

We work with our farming clients to be on the front foot with the challenges faced during this period of transition from the basic payment scheme. We seek to collaborate with the circle of advisers around a farm business to make sure better decisions are made on a timely basis.

Being part of the agriculture community of the Sumer Group enables collaboration with like-minded advisers to share knowledge and understand better the emerging opportunities during a period of change for the UK farming sector.

For more information, please contact Nick Banks or any member of our specialist agricultural advisory team by calling 0330 058 6559 or emailing hello@scruttonbland.co.uk



Sector focus – Dairy

Like many sectors, dairy farming has become an increasingly specialist affair. Producer numbers have fallen, herds have become larger, and production has been concentrated in the wetter, Western grass growing areas of the UK.

In 2022/23 GB producer numbers are estimated to have declined by 8% from a year earlier, with total cow numbers falling by 100k over the same period. Despite this, total production remained relatively flat as average yields increased to compensate for reduced cow numbers.

Key facts on Great Britain's dairy sector per the AHDB are as follows: -

- 7,500 producers.
- 1.63m cows.
- Average herd size 217 cows.
- Average milk yield 7,580l.
- Total production 12.4 billion litres
- 43% of production goes to liquid market and 35% goes for cheese.
- Only 3% of production is organic.

Historically dairy farming was an attractive option as it was one way to make a living off a relatively small area of land and offered a year-round cash flow. Those days are now passed with production increasingly concentrated in professionally managed mega herds.

It's certainly not an enterprise for the faint hearted but can offer decent returns for those with the necessary passion, dedication, and attention for detail.

The industry has been very adept at embracing technological change over the years, with improved feeding and genetics leading to increased milk yields.

Productivity has also been enhanced by significant capital investment in buildings, slurry systems, milking parlours and in some cases robotic milking. This all comes at a cost however, increasing the capital intensity of the sector and in some cases requiring large sums to be borrowed to keep facilities up to date and efficient. When a major upgrade is required producers are often faced with a dilemma – invest in the future, often borrowing heavily to do so, or exit the sector. The latter will of course depend on the range of other options available.

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The highly specialist nature of many dairy farms makes financial analysis easier. As a single product business, it is very easy to work out the unit cost of production simply by dividing total costs by total litres produced. An exercise that all producers should be undertaking on a regular basis.

Taking a 10-year view, we expect the forces that have historically shaped the industry to continue with production increasingly focused on mega herds to achieve economies of scale in terms of labour and machinery. Niche opportunities will also emerge for small scale producers where there is scope to add value to the milk produced and or to sell direct to the public.

We summarise the pros and cons for the sector below.

PROS	CONS
Steady cash flow.	Lack of labour.
Rising UK population driving demand.	Heavy capital investment required.
Productivity gains from new technology.	Concentration of milk processing/purchasing.
Scope for consolidation/expansion as some retire from sector.	Pollution issues for slurry.
Scope for higher prices if enough decide to quit.	Greater scrutiny on animal welfare.

The New Phoney War

The first few months of WW2 saw little actual conflict on the Western front and the period is often referred to as the “Phoney War”.

It feels like we are in a similar position today, with the new Labour Government declaring war on taxpayers but with hostilities yet to begin in earnest.

We've had an initial skirmish in relation to VAT on school fees but little concrete detail of tax changes to come apart from the constant messaging that it will be “very bad”.

There is almost daily talk of “fiscal black holes”, the need for “painful choices” and for “those with the broadest shoulders to bear the greatest burden”, as if they aren't paying enough tax! It's little wonder that taxpayers are getting very anxious. Its almost akin to a form of psychological abuse.

Of course, it could all just be a clever exercise in spin and expectations management and when more modest tax rises are inevitably announced we will all feel relieved that it was not as bad as expected.

Although we do not know what will be revealed in the budget scheduled for the 30th October it is fairly certain that the tax burden will increase.

Some may be tempted to pre-empt any changes by acting now, for example by making gifts of assets to lock into current Inheritance and Capital Gains Tax treatment. Fine if you were planning to do this anyway but there is always the risk in these situations that taxpayers will be panicked into making decisions that they will later regret.

We will of course be analysing the budget in detail in due course and providing advice to our clients in the light of any changes. Watch this space for details.



Changes to the Furnished Holiday Let (FHL) Regime



The UK Government has recently announced major changes to the beneficial Furnished Holiday Let (FHL) regime, effective from 06 April 2025.

The changes are set to abolish the FHL regime, removing the tax advantages for Landlords who offer short term holiday lets rather than standard residential property lets.

The changes include the following;

MORTGAGE INTEREST

Mortgage interest on FHLs is currently treated as a deduction from rental income for income tax purposes. From April 2025, relief will instead be given as a 20% tax credit so for higher and additional rate taxpayers. This means a reduction in tax for individuals from 40% and 45% respectively in rest of the UK with greater reductions applying in Scotland.

CAPITAL GAINS

Capital Gains no longer qualify as a business asset, therefore claims for Business asset disposal relief, Rollover and Gift Holdover will no longer be available.

FHLS & PENSION CONTRIBUTIONS

Tax relief for pension contributions is limited to the higher of £3,600 or 100% of net "relevant earnings". From April 2025, FHL profits will no longer be treated as relevant earnings.

CAPITAL ALLOWANCES

Currently Capital Allowances are available on FHLs. From April 2025, these will cease, and you will only be able to claim a deduction for the cost of replacing domestic items.

Any existing Capital Allowance pools, however, can be carried forward and claimed annually as before.

What action should I take now?

A capital allowances review can be carried out and an amendment submitted to clients' **2022/23 tax returns** to capture any unclaimed allowances. This may generate a tax repayment for **2022/23**, ensuring that clients claim their full entitlement of allowances.

The abolition of the FHL regime presents both a challenge and an opportunity. By ensuring that all eligible capital allowances are claimed and appropriately reflected in the **2023/24 tax returns** (or in amended **2022/23 tax returns**), we can help our clients ensure that they have claimed their full entitlement to capital allowances. This will provide ongoing tax relief going forward.

If you were considering gifting your property, now might be the time, allowing you to take advantage of the Capital Gains Tax Gift reliefs.

Make better decisions by learning lessons from behavioural finance!

So, when do you change your tractor? Perhaps you have a policy of changing on a set number of hours on the clock or when repairs bills reach a certain level. Maybe you are motivated by the extra productivity that could come from a larger model after having undertaken a detailed analysis. Alternatively, it might just be when the neighbour buys a new one!

We like to think we're rational economic actors and make decisions based on objective facts but we all know this is not the case as the slightly flippant example above illustrates. Behavioural finance is an area of economics that fuses with psychology and seeks to explain the often-irrational behaviour of individuals when faced with financial choices.

Being seen to be keeping up with neighbours is an obvious example that can result in bad choices but there are several other situations that can easily lead to poor decision making as outlined below.

Boredom

Most successful businesses involve perfecting a process and then repeating this day in day out. Think of McDonald's as the perfect example. The same would apply to many farming enterprises. Whilst this may deliver financial returns it can lack excitement prompting the decision to make radical changes or start up a new enterprise altogether when the correct, but boring, decision might be to just seek out incremental improvements to the existing process.

Fear of missing out (FOMO)

In the age of social media, it is easy to believe that everyone is leading a better life than you. The same often applies in business where you think everyone else is making more money than you, making it very easy to get sucked into late-stage

financial bubbles. You end up investing at what in retrospect turns out to be the top and consequently lose money.

Recency bias

This is a cognitive bias that gives greater importance to the most recent event. If times are good you expect no reason for them to change, likewise if business is depressed now then you expect these conditions to continue. We would of course make better decisions if we looked at data over a longer time frame.

The cereal market in 2022/23 would be a good example of this. Wheat prices spiked at over £300 per tonne in March 2022 following Russia's invasion of Ukraine creating an expectation that this was the new normal, leading many to reject forward contracts for 2023 harvest in the expectation that prices would remain at these elevated levels (or even go higher) only to accept a far lower figure when it came to eventually sell the crop.

Being human we are prone to emotions and psychological influences that often result in suboptimal decisions. It's important to take time when making big decisions, look at all the facts and figures objectively and keep emotions in check. Understanding behavioural finance will not eliminate bad decision making but may help to reduce the extent of the mistakes we are all vulnerable to making.

Basic Payment Scheme 2024

Farm cashflows are starting to receive a much-needed boost with the early payment of this year's subsidy. Funds have been hitting farm bank accounts since Monday 9 September.

This is traditionally a tight time for cashflow on many farms, especially arable ones, where the full costs of growing the crops will have been incurred but sales proceeds are yet to materialise.

While the early receipt of the money is welcome, it may temporarily mask longer term cashflow issues which could appear later in the year. As always, when cashflow



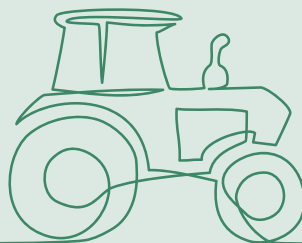
is an issue, we would advise our clients to have a twelve-month cashflow forecast in place. Cashflow forecasts help identify future pinch points so that mitigating action can be taken well in advance. Forewarned is forearmed as they say.

Upcoming Events Agri Expo & AgriScot

Our Agriculture team will once again be represented at Agri Expo and AgriScot.

Borderway **Agri Expo takes places at the Borderway Mart, Carlisle on Friday, 1st November.** Widely recognised as one of the UK's premier livestock events, it is sure to be a well-attended day. Full details can be found at **www.borderwayagriexpo.uk**

The Royal Highland Centre, Edinburgh, is set to hold **AgriScot on Wednesday, 13th November.**



Like Agri Expo, AgriScot is one of the preeminent events on the agricultural calendar with a variety of trade stands and seminars. Full details can be found at **www.agriscot.co.uk**.

Both events open at 9am, parking and entry is free.

We look forward to seeing you there!



With You.

We are always happy to offer free, no obligation, initial consultations, and often act on a consultancy basis only.

For more information on any of the services outlined in this bulletin, or to discuss a particular issue with one of our advisers, please contact our Agriculture specialists.

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