Farming Matters

PKF FRANCIS CLARK
Shared Ambition

NEWSLETTER
AUTUMN / 2023

- **Welcoming Generation Z into the farming business**
- **Regenerative farming**
- **Joining the family partnership**
- **Plus: Diversification, cyber, succession planning and more**

Welcome

Whatever your beliefs regarding climate change and global warming, it seems our weather is becoming ever more changeable and extreme in its nature, making farming ever more challenging. The weather is just one factor that needs considering.

Since our Farming Matters issue earlier this year, there have been plenty of changes and challenges to keep farmers on their toes including,

- interest rates continuing to rise and people feeling the pinch
- continued high and fluctuating cost of inputs and the uncertainty associated with this
- food inflation hitting the headlines with subsequent significant pressure being applied to supermarkets and ultimately farmgate prices, with the inevitable squeeze on margins
- further announcements regarding future funding opportunities (helpful) and legislation requirements (less helpful)

At the same time, it is encouraging that many of the accounts I see with years ends around March 2023 are often showing good levels of profit and for many record years especially where inputs had been purchased pre the Ukrainian war and products sold after.

However, there is little time to celebrate as the farming world moves on quickly. For some, there will be chunky tax bills arising in January 2024, at a time where the farming world is already quite a different place to the one where the profits were generated!

One issue that I am being asked more in the last couple of months is what will the position be for the agricultural industry under a Labour government?

2024 promises to be quite a year politically with US elections in November and potentially a General Election in the UK probably around the same time, if not a little earlier, noting that it could be as late as January 2025.

As the date gets closer it is becoming more apparent that Sir Keir's Labour Party have made great strides since the Jeremy Corbyn days and are now widely considered as an electable alternative.

We will obviously need to look at the manifestos of all the major parties to assess their plans for agriculture and the rural economy. I am aware that historically there has been a perception that the Labour Party is less farmer friendly. Who knows, but perhaps this is a bit of a myth as historically the farming industry appears to have done no worse, if not a little better under a Labour government.

We shall wait and see. Personally, I still feel that a coalition government remains a possibility and the way which Scotland and the traditionally Conservative rural seats, such as those in the South West, vote will be critical in the overall result.

Linked to the above is what the stance of all political parties is regarding inheritance tax (IHT). In the early summer there was some talk that the Conservatives were considering its abolition as a manifesto commitment. Whilst as a headline this might appear good news, to me this is only part of the story. The agricultural industry benefits from some significant IHT reliefs and through sensible and timely planning often IHT can be mitigated.

On the basis that the removal of IHT would result in other changes to general tax legislation whether that be significant capital gains tax changes, capital transfer tax, lifetime receipts tax or wealth tax, then the devil will be in the detail and potentially the overall implications on the agricultural sector might be far from desirable. I guess people need to be careful what they wish for, and my advice would be that you look to push on with any succession planning as soon as possible whilst we know where you stand.

As always, this issue covers lots of topical issues and hopefully covers something of interest for everyone. Hopefully the weather for the rest of the year will be more seasonal and whatever the rest of 2023 and beyond has to bring, we at PKF Francis Clark are always here to help.

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Welcoming Generation Z into the farming business

Members of Generation Z are graduating from university and beginning to enter the workforce. Some may be interested in entering the farming industry, while others may return to work on the family farm.

They are critical because they are the customers of tomorrow, but even more importantly they are the first generation of children who know what the future will be made of.

What defines Generation Z?

They are defined as people born between 1995 and 2012 and are the first true natives of the digital era. They are tech-savvy, educated and interactive, multi-taskers, desire independent work environments and need continuous updates and stimulation.

In addition, a large percentage of Generation Z say that an organisation's impact on society will influence their decision to work there.

Employing Generation Z

Farms and businesses will now be looking to employ Generation Z, with some joining the family business. To avoid potential conflicts, it is important that management and business owners born of an earlier generation can adapt to get the most out of this workforce.

One major impact will be that they will force businesses to change the way they use technology. Their IT and social media skills will enhance the workplace and businesses can remain relevant by leveraging this generation's technology expertise.

The world seems to be a more instant place for Generation Z. Many are not office types, which could suit the farming industry well and they will want more immediate dialogue, recognition and feedback.

How to motivate?

As farms look to the next generation and Generation Z children coming home to the farm, or as businesses look to take on Generation Z employees, how best to motivate them?

- This could be an opportunity to put them to work, unlocking new and innovative business initiatives. Give them a role that allows them to be interactive and creative
- It may be best to start by simply making them employees. Putting them on the payroll with a guaranteed monthly salary could be just what they want
- If it is a family member, you may want to lock them in and give them incentives to stay. This could be by giving them some shares in the company or introducing them as a partner in the partnership. Older generations may be able to gift some shares to the younger generation. Provided it is a trading business, holdover relief would mean no tax needs to be payable on the transfer and they should qualify for IHT relief. This could allow for some incentives like the paying of some dividends and some voting rights
- As a partner in a partnership, a new partner could enjoy a percentage of profits rather than just a salary. In addition, they could enjoy a 'pre-profit' draw for any agreed targets or initiatives met
- Generation Z are also incentivised by the business's impact on society and its sustainable footprint

How can we help?

Many of our team have a farming family background and understand some of the challenges in the rural sector. To get in touch, see page 19.

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Succession planning for farms

Failure to plan is planning to fail

For many farming businesses, succession planning is a vital part of their long-term growth, however many are reluctant to start the process and have those discussions early enough. Despite the next generation of farmers having experience and typically working all their lives amongst family, the patriarch/matriarch – head of family and farm – has usually grown up on the farm, so naturally there would be a large degree of emotional attachment.

When meeting with clients, I always stress the importance of succession planning and that failure to plan could lead to risk and potential family disagreements in the future. There can sometimes be a lack of willingness from the next generation to take on the farm, which can consequently leave farmers working into retirement due to a reluctance to give the farm up or a lack of options being available to them to proceed.

The first steps

The reluctance to start the process, especially for generational farm businesses, is the first obstacle to overcome, however early open discussions enable productive input from all, alongside new ideas. Many of my clients' key wishes are to ensure the farm remains within the family. Putting a succession plan in place allows entrepreneurship from younger, often enthusiastic, generations, workloads to be shared and diversification can be a possibility which can help shape the future of the farm. They allow a strong opportunity to ensure success and productivity in years to come, leaving a legacy for generations to follow. Plans can also be rolled out earlier than retirement age, if you wish, so that the fruits of your labour can be enjoyed.

Creating a long-term strategy

An important part of the succession planning process is writing down your long-term strategy, which will help visualise your plan. Start those difficult conversations with key stakeholders to allow you to put these plans in place in a timely manner, ensuring everyone is in an informed position when making those final decisions.

As well as ownership and future goals, you'll need to think about the different financial implications that your succession plan might trigger. For example, inheritance tax (IHT), capital gains tax (CGT), pensions and life insurance policies. We can support you throughout, providing you with solutions to those financial considerations.

When formulating a plan, one key consideration is transferring ownership to the next generation. Partnership protection is an area to explore when ensuring the running and direction of the business remains in the hands of family members.

If a business partner dies or wants to leave when they are diagnosed with a critical or terminal illness, the remaining partners may want to buy their interest in the business and keep control. Partnership protection insurance not only gives the surviving partners the financial support they need to purchase their interest in the business, helping them keep the business running and retain control in difficult times, but also safeguards the business, especially if the deceased partner's husband/wife has previously not been involved in the business or has a difference of opinion on the running it.

Splitting an asset between children

A question I'm often asked is "how can I/we provide for our non-farming children?"

Splitting inheritance fairly doesn't necessarily mean equally and you will need to consider how to divide assets between the children and, importantly, are you comfortable with the split? Assets, such as farm cottages, pensions, savings or buy-to-let properties, could provide you with a lump sum to gift to your non-farming child/children.

Regarding pensions, there is an option to nominate your pensions upon death to those individuals not involved in the running of the farm, as well as savings and cash funds. However, it is important to work through the cost of IHT, so you know what will be left for them after the tax bill has been met.

More often, if there are no or limited off-farm assets or the lack of appetite to divide the farm, you could leave the entire farm to all the descendants, with some or all of it in trust. This means that if land/farm assets are sold, the proceeds will be split between all of them, but this could lead to arguments and can become complex.

Another option regularly considered is a whole of life insurance policy written in trust. This will pay out a lump sum, upon death, to the individual(s) outside of your estate and the premiums could be paid by the farm business itself. Firstly, this can be far more cost-effective and will not put the farm under financial pressure to pay out or provide a lump sum through borrowing money to pay off their siblings and, secondly, it ensures the whole farm remains intact.

Focusing on your pension

Looking into how we use pensions to invest outside the business in a tax efficient way can provide an independent source of income in later life, separately from the farm. Pensions can help with your decision to gradually move aside and hand over more of the day-to-day management to the next generation. They can also offer protection from IHT and provide you with a tax efficient way to build funds that can be left to non-farming children.

Pensions have become more attractive following the 2023 Spring Budget which announced that the pension lifetime allowance is to be abolished, therefore removing the limit to how much value can be accumulated in pensions over a lifetime.

The Chancellor also announced the increase in the annual allowance (the amount you can save into a pension in a tax year) from £40,000 to £60,000, which is a further incentive to save money away from the farm business.

Let us help you create a legacy

At Francis Clark Financial Planning, we like to help you visualise your plan and provide you with solutions to meet all your needs. This will give you reassurance that succession planning doesn't have to be put off but is achievable and affordable for all parties involved.

Contact me or a member of the Francis Clark Financial Planning team and let us help you create a legacy that will be securely and safely handed down through your family for generations to come.

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To farm green you have to be in the black

From a food and farming perspective, the country is facing a dichotomy.

On the one hand, there is a growing movement towards 'sustainable' or 'regenerative' agriculture, with the focus being on improving soil health, water quality, ecology, biodiversity, and protecting and enhancing the overall environment.

Government policy and direct support is now focused in this area.

There are a growing number of initiatives, such as biodiversity net gain, carbon and woodland credits, which essentially are talking of land management rather than farming, with the focus being on the environment instead of food production and security.

On the other hand, there is a clear political agenda to keep food prices as low as possible, enhanced by the desire to keep inflation in check, regardless of the impact on producers.

To me, the question is can sustainable farming and cheap food coexist?

Ultimately, from my position as a trusted adviser to many agricultural businesses, the vast majority of farmers I speak to take their role as custodians of the countryside very seriously and are keen to seek opportunities to enhance this.

However, whilst there is general interest, to date take-up remains slow. Beyond the natural reluctance to be an early adopter, for many this comes down to finance.

The funds on offer from Defra's Sustainable Farming Incentive scheme are not yet attractive enough. Whilst others are more appealing, they do not cover the lost Basic Payment Scheme income that has been available for a generation and, to be honest, has enabled the cheap food in the supermarkets that we have all taken for granted.

A large part of sustainable farming that perhaps is often missed is the need for the farming business itself to remain sustainable.

Any change in system entails costs and some bedding in. Whilst there is no reason why a regenerative farming practice cannot generate a surplus in time – I've seen cases where it has taken five years plus to make a profit – it is often time that farmers cannot afford. To put it bluntly, to farm green you have to be in the black.

The trend in recent years has been to commoditise food, and whilst some will be able to differentiate their products, not every dairy farmer can bottle their own milk and not every arable farmer can have their own farm shop.

For the most part, farmers are price takers and a combination of farm gate price pressures from processors and supermarkets and continued high and fluctuating input prices has seen already tight margins squeezed.

Add to this reduced direct government support, additional legislative requirements and trade deals being signed that on the face of it disadvantage the sector, and it is not surprising that many are considering their longer term options. Some might commit their farms into long term environmental projects but what is clear to me is that the focus on cheap food poses a large risk to our food security.

I would have hoped that Covid, climate change and the Ukrainian war might have focused minds a bit more in relation to this.

The desire to keep our shelves filled with cheap food has seen products imported from countries with far lower animal welfare or environmental standards, which must be a concern. To a certain extent all we are doing is encouraging our farmers to consider the environment and take land out of production, and in doing so exporting the environmental impact elsewhere.

Surely environmentally it has to be sensible for food where possible to be locally sourced, especially where we have a competitive advantage, such as in grass-fed milk or beef with a much lower carbon footprint than importing from ranches in say Brazil, where the cattle are soya fed, maybe hormone enriched, and where the carbon footprint is much greater even before transportation.

Similarly, in Spain water is often pumped hundreds of miles across the country to irrigate crops in what is essentially a dust bowl, while eggs being imported from Italy are laid in cages that are banned in the UK. To me this is all utter madness!

In conclusion, I fundamentally believe in sustainable agriculture and the important role it has to play. Essentially, a lot of this is nothing new and for the most part going back to the way my grandfather and earlier generations would have farmed back in St Buryan in the first half of the 20th century.

It is all eminently sensible stuff and can be embedded into more modern farming techniques for the wider benefit of all. However, I do have concerns that to be farming in a sustainable way, you must first be farming.

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Joining the family farming partnership?

Becoming a partner has several tax consequences and for anyone becoming self-employed, such as joining a farming partnership, it's important to understand what this change in status means from a tax point of view.

I have recently joined the Francis Clark partnership and therefore from a tax perspective, have transitioned from being an employee to a self-employed partner.

Together with my colleague Aimee Raymond at Francis Clark Financial Planning, we look at the main differences between employment and self-employment.

Employed

As an employee, you generally receive a certain amount of remuneration each month as a salary. Employers deal with paying both employee and employer National Insurance contributions, pay-as-you-earn income tax and pension contributions – leaving the net amount which arrives in your bank account each month. At this stage no further tax is due and you can spend as you wish.

Self-employed

After joining a partnership, you must inform HMRC that you are now required to prepare and submit a tax return. This must be done by 5 October following the end of the first tax year in which you were a partner. From this point, you will need to prepare and submit a self-assessment tax return each year.

The partnership will produce a tax return and your share of the profits must be reported on your personal tax return. In turn, this will lead to your own personal tax liability, which will need to be settled by 31 January after the end of the tax year.

Depending on the level of profit, it is likely you will also start making payments on account, meaning a tax liability will be due in July each year as well.

Partners generally take monthly drawings from their share of the partnership profits and funds will need to be saved to pay the tax liabilities that fall due.

Pensions

Another consideration is saving for your retirement. As you are no longer auto-enrolled in your employer's pension scheme, personal contributions are down to you. Pension contributions attract tax relief at your marginal rate – for example, if you are a basic rate taxpayer and make a contribution of £8,000, £10,000 will be added to your pension pot.

Furthermore, pensions investment growth is free from income and capital gains taxes, and the fund value is often excluded from an estate for inheritance tax.

Personal pensions offer the flexibility to bridge the gap between your intended retirement age and the state pension age, which is due to rise to 67 by the end of 2028.

With a personal pension, to manage cashflow you can pause or reduce your contributions and take full advantage of tax relief when your income allows you to save more.

Sickness or worse

Employees often benefit from a period of sickness pay, but how would a self-employed individual replace their earnings if they are unable to work due to illness or injury?

If you had a cash machine issuing £2,000 per month it's likely you would insure it, yet there are many self-employed people who don't insure their earnings, putting themselves at risk of losing their income if they are unable to work.

A financial protection policy is highly recommended if you are self-employed, as it ensures you and your family would be provided for should the worst happen.

For more information, please get in touch with our team of experts on page 19.

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Don't forget tax implications when looking to diversify

With ever-present volatility in market prices, interest rates rising and basic payment scheme (BPS) reductions becoming more noticeable each year, farmers are increasingly looking at ways to create more stable income streams to support the rest of the business and ensure that cashflow requirements can be met.

Diversification has been popular in the industry for some time now and is an attractive option for those looking to generate extra cash, but whilst it can be good for spreading business risk, it is important to ensure that longer-term tax implications are not ignored.

Agricultural property relief (APR) gives relief from inheritance tax (IHT), usually at 100%, on the agricultural value of land and buildings used for the purpose of agriculture. Where assets are moved into non-agricultural use, as often happens when diversifying, APR will no longer apply, meaning these assets could fall into charge of inheritance tax.

However, such assets may still be covered by business property relief (BPR) provided they form part of a trading business. BPR is another IHT relief, available at 50% or 100%, and can be useful for farmers as it covers additional value above just the agricultural value of property (such as development value) and other business assets, such as machinery or business goodwill.

BPR is available for most businesses, but it is critical that the business meets HMRC's definition of 'trading'. For IHT purposes, the business needs to be 'wholly or mainly' trading (generally considered to be more than 50%), rather than 'wholly or mainly' an investment business.

Assessing the trading status of a business is likely to be subjective and HMRC will view the business in the round, but to help this they consider three tests which look at activities, assets and sources of income. Where they consider the business to be mainly trading, 100% of the business will qualify for BPR relief, whereas if they consider the business to be mainly investment, no BPR will be available at all. When diversifying, it is therefore crucial to keep in mind the overall balance of the business as the tax implications if BPR is lost can be considerable.

The diversification which most often causes problems is the letting of property, as this is an investment activity. It is not uncommon for businesses to let out surplus land or buildings and where the income from this is modest, there should be no IHT implications. However, if this grows it could easily generate more than 50% of a business's income. In such situations, it is key that other aspects of the business, such as assets and activities, are more heavily geared towards trading activities to support a future BPR claim.

Reviewing business structures to ensure that reliefs from inheritance tax are maximised can also be useful where diversification activities are undertaken. There may be opportunities to bring investment assets into a trading business to benefit from BPR, or conversely it may be favourable to split investment assets out if this might allow the remaining business to be BPR qualifying. Where BPR relief is likely to be lost, it may be possible to gift assets during lifetime to avoid an IHT charge. A capital gains tax charge could result from such gifts, but reliefs may also be available to mitigate this.

Diversification can present big opportunities for those looking to generate more regular cashflows or spread their risk, but the effects of changing asset use on inheritance tax reliefs should be a consideration factor. There are likely to be options available to meet the needs of both the business and the individuals involved, but early planning can help to preserve assets for future generations and avoid unexpected tax bills later on.

To get in touch with our team of experts, visit page 19.

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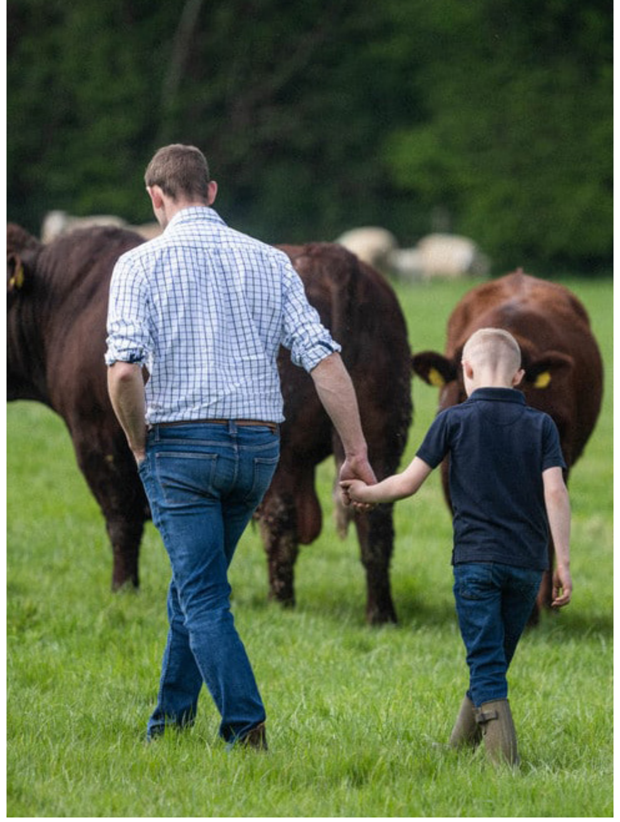
CASE STUDY:



The journey of Strawberry Fields

Originally founded by Roger and Jo Mounce more than 30 years ago, Strawberry Fields is now run by their son, Adam and his wife, Laura. Named Large Farm Shop of the Year at this year's Farm Retail Awards, we sat down with Laura to find out how the family-run farm shop has grown from a pick-your-own strawberry field to the popular destination it has become today.

"It's great when you and the team are working so hard and we're trying to cover a lot of ground with things, it's good for it to be recognised. It's a big boost for everyone and for others to recognise what we are doing is working and we're doing a great job" says Laura.

About Strawberry Fields

It all started in 1991 when Jo Mounce had the idea to start growing strawberries on a two-acre patch of land outside Lifton, near the Devon / Cornwall border. Despite locals saying, "it won't work, you can't grow strawberries here," Jo had a great crop the first year and the strawberry pick-your-own fields were open to the public. With a little weigh-and-pay caravan, locals would pick their own strawberries before going into the caravan to weigh their buckets and pay.

As popularity grew for strawberry picking, the family also displayed an old-fashioned barrow with an honesty box outside the family home full of home grown produce, Adam's free-range eggs and, of course, strawberries! The barrow can still be seen in the farm shop today.

In 1997, the farm shop land was purchased and when the farming sector was being challenged with foot and mouth disease in 2001, the Mounce family looked to diversify by putting in a planning application for the farm shop. Lifton Farm Shop was built and opened in 2002 and since then has grown year-on-year, with extensions being added in 2006, 2009 and 2019, with the restaurant being revamped in 2022.

Expansion

Since the farm shop was built, a function suite has been added to host events and to accommodate more covers in the restaurant. Strawberry Fields has become well known for seasonal events, including pick-your-own sunflowers, daffodils, wild flowers and tulips, as well as The Baby Lamb Experience, Miniature Maize Maze, Pumpkin Fest and Christmas Experience.

Despite expansion, the family have ensured they remain true to their original farming activities and core values with traditional family recipes and niche homemade products being key to the restaurant and farm shop. When looking at where to expand, Laura says: "It's looking at what works but it's also been very customer led as well… we listen to our customers a lot." The events that have been introduced then have a knock-on effect on the restaurant, but Laura says: "It's also about being quite niche, especially with our products in the shop. For example, you can't purchase our saffron bun from anywhere else. Keeping things interesting for both customers and staff is really important."

A production area has recently been added to the back of the bakery, providing more space and improving efficiency. "With wages and electricity only going one way, we knew we needed better facilities to make our products more efficiently to ultimately save money," explains Laura.

In addition to the farm shop, the family bought nearby Wooladon Estate in 2017, which they let out as holiday cottages before turning it into a wedding venue. They have also recently opened a brand new second farm shop and coffee shop at Buckfastleigh in Devon.

Sustainability

500-kilowatt solar panels were installed to power the ovens and farm shop but, not stopping there, a 500-kilowatt wind turbine was added in 2014. However, as the shop became busier, the need for electricity increased and another 150 kilowatts of solar panels were added. Strawberry Fields have now returned to being 100% self-sufficient. Laura commented:

"Although it was a huge investment in 2014, if we had to pay the market price for electricity at the moment, we'd be struggling."

Aside from providing energy for the farm shop and restaurant, the wind turbine and solar panels also provide electricity for the farm shop's four electric car chargers.

The supply chain at Strawberry Fields is short, with produce grown on the farm being sold in the farm shop and used in the restaurant. "We are the producers and sellers. There's no middle man with the things that we do. We have our own Ruby Red cattle, so all that beef goes through the butchery and then into pasties, pies and cottage pies, and ready meals, and in the restaurant as well," explains Laura.

Fresh breads and bakes are made daily and in addition to strawberries, a range of vegetables are grown, including leeks, cabbages, cauliflowers, carrots beetroot and broad beans. "They get harvested seven days a week and then come into the shop and restaurant every day. What's left over from the day before also goes into the restaurant to be used, so the whole model works quite well," explains Laura.

Overcoming some of the challenges

With the farm shop staying open during the pandemic, and the supply chain being so short, the team were able to continue producing on site. Despite the shop being extremely busy during those first couple of weeks, when the first lockdown was announced, it went quiet.

Within four days, an online shop had been set up (having worked overnight taking pictures and getting them uploaded to the website) and whilst the restaurant team packed, three or four vans were on the road every day delivering. Laura explained:

"Our biggest challenge has been in the last year or so, since the war in Ukraine and increasing prices of everything from packaging to wages."

"Our overheads have increased and we've got to put the price of a cup of coffee up to compensate for that. But it's how far we can push that to go in line with this. We've had to look at a lot of ways that we can be more efficient, making bigger batches of things and cutting out products that take too long to make. It's just working smarter really."

Biggest achievements

"Our biggest achievement is probably the growth we've had in the last four years or so," continues Laura. "Despite Covid-19 and the restaurant being shut for months, we've still had good growth year-on-year. If we had stayed the same and we hadn't invested, I don't think we would be growing year-on-year. But because we invest, keep going and doing new things, we need that growth, but it's nice to see that we have got that. At the minute we are up, so that's good. We just keep going, chipping away at everything and keep things interesting."

What's next for Strawberry Fields?

With events growing rapidly and the impact they have on the farm shop and restaurant, Strawberry Fields is only getting busier! Although in the early stages, Wooladon Estate is another string to the bow which is growing rapidly as a wedding venue. But that's not all. "We are set up in terms of facilities now to grow the Strawberry Fields range, so there's much more potential in the products that we can make ourselves," explains Laura.

Working with PKF Francis Clark

"We've been working with PKF Francis Clark for several years and Justin Gliddon is fantastic," says Laura. "We couldn't ask for a better accountant. He's always on the end of the phone if you need him for something. If he can't answer it, there's always somebody there that he'll draw on to answer a question."

Cash management becomes the priority

AS MARKET PRESSURES MOUNT

As dairy commodity prices remain subdued, at the same time as production costs remain high, which are potentially increasing on the back of global events, together Oxbury Bank and Kite Consulting have issued a joint 'Red Alert' on cash management.

The negative differential between income and the cost of production for some farmers is already in double figures, and the cash burn on farms is rapidly eating into surpluses made during the peak of milk prices last year. At the same time many businesses have remained ill-prepared for their tax obligations in January.

"Currently we can't see any prospect for a major upturn in commodity prices, and thus milk prices, any time soon," says Edward Lott, director of Kite Consulting.

"The short to medium-term market fundamentals remain poor, and we are now recommending that some farmers budget in the low 30p range, depending on who their milk buyer is. We hope it doesn't drop to that level, but we currently can't rule it out. Meanwhile, many producers have costs over 40p."

At the same time, high interest rates are likely to dry-up lines of credit that were in-play during the era of low-cost money, for example from feed companies or merchants.

"Our view is they aren't going to lend farmers money like they used to. **Many high street banks are also getting restless, and no longer have as much agricultural expertise or empathy as they did before.** They are putting more pressure on businesses, by asking for greater detail on likely cash flows and borrowing requirements, and in some cases are requesting mid-month projections as well as end-of-month ones and are refusing to cash cheques."This all means that working capital management is back with vengeance," adds Mr Lott. "We haven't had to worry about this for a while because money has been cheap, and margins have not been in negative territory. But it should be a priority for all businesses now."

Nick Evans, co-founder and managing director of Oxbury Bank – the UKs only dedicated agricultural bank - acknowledges the growing cash flow challenge but urges farmers to remain calm.

"Don't panic, and talk to your bank, and maybe us too if you aren't a customer. We are entirely committed to agriculture and believe in the long-term future of dairy. We understand that the fortunes of the sector have always been cyclical.

"The current downturn will feel sharper because of the higher peaks we have seen in 2022, and now we're going through the lows, but the market will settle back to a more sustainable price - historically it always has. But we recognise that there is an immediate cash crisis brewing for some, and we are working hand-in-hand with our farmers regarding their borrowings and cash flow."

Oxbury Bank's chief risk officer, Robin Hill, states that the solutions to cash flow issues are unique to individual situations, but typically fall into two broad scenarios:

1. Increased working capital facilities to help a farmer through the situation. This is usually applicable where facilities have been historically low, or non-existent

2. Proactive management of the current debt to ensure the actual repayment, rather than the contracted payment, is in line with the ability to pay. This can include a payment holiday or moving to an interest only period.

Fixed, rather than flexible, costs and finances can be trickier to vary - for example hire purchase rentals, rents, labour and interest charges. The latter in particular is causing unexpected increases, and in many cases unbudgeted increases, in fixed costs.

However, the good news is that lenders have a duty to work with their clients. "The first action is to speak with your bank if the repayment of the debt is not manageable within existing cash facilities," advises Mr Hill. "Do not bury your head in the sand, as ignoring the issue will not make it go away and is likely to make it worse in the long run. The same will apply to a lesser extent to land rents - talk to your landlord regarding deferral or a temporary reduction."

Mr Evans added: "If you haven't reviewed and optimised your variable costs and think you need to shave more off, then work with advisors to do so. They will help determine what your optimum cost of production will be, which isn't necessarily the lowest cost of production. They will also help you benchmark your costs against comparable farms with similar systems, to show where savings and improvements can be made." The sooner action is taken, the better the situation will be in the long run, advises Mr Lott.

"Cash flow problems are generally cumulative if action is not taken quickly and decisively. They can build up in the business, in the bank, in a farmer's mental health, until one or all of them snaps. It doesn't have to be the case, which is why we are issuing this red alert now.

"There are solutions to many problems, so be aware, and be ready to act fast."

Oxbury
The Agricultural Bank

VICTORIA CRISP
AGRICULTURAL RELATIONSHIP MANAGER
Oxbury | The Agricultural Bank

CYBER & agriculture

What industries come to mind when thinking about those least likely to be attacked by cyber criminals and organisations? Agriculture is probably near the top of that list; however this article will touch on why that is becoming a common misconception.

The war between Russia and Ukraine continues, including cyber warfare, with the fallout impacting many other countries. Frequent Russian state-sponsored attacks have been aimed at national critical infrastructure, and it shouldn't be surprising that the food industry is part of that infrastructure. The agricultural industry is experiencing a spike in cyber-attacks (one of the top 10 industries impacted), and they are well-funded and driven by technically competent hackers.

Now if we add an industry which has long ignored or not needed to be resilient into that mixture, we have a potential recipe for disaster. The potential impact of a successful attack on the agricultural industry is slowly beginning to dawn on people. Unfortunately, the speed of the industry's response to the attacks is not commensurate with the uptick in attack volumes.

For some farmers, margins are sometimes low and therefore significant impacts to operations can plunge long-standing, reputable businesses into the red. Technology is becoming a more prominent factor in agriculture, whether that be dairy, livestock or arable farming. A need for streamlining production and integrating heavily with supply chains opens up new vectors of risk not previously experienced.

Let's take arable farming as an example. Crop yields are heavily dependent on the weather and the accuracy of forecasts. Hacking weather prediction equipment and/or smart irrigation equipment can significantly impact crop growth and yields. The trickle-down effect of this will have knock-on impacts on food pricing nationwide. Supply may be unable to meet demand and before we know it, our critical infrastructure is under threat.

Similar risks apply to financial and business critical data. I remember a client who maintained all their crop yield calculations in a complex Excel spreadsheet which wasn't backed up… anywhere! That multi-tab spreadsheet was crucial to their financial results and forecasting year-on-year and yet so little time or attention was applied to securely maintaining that document. Identifying this level of reliance on data and securing it is fundamental to any organisation and its longevity.

To make real change in an organisation, responsibility and accountability need to be attributed. A recent government survey across all industries continued to identify a lack of accountability at board level for cybersecurity. If we consider the agricultural industry specifically, only 17% have a representative on their board accountable for cybersecurity. That's just 1 in 6 agricultural organisations. Combine this with the increasing relevance of cybersecurity to the industry and this is quite a concerning factor.

Organisations require a top-down driven approach to enact change and instil long-term cultural changes. A security conscious mindset is not something which can be adopted overnight, nor are robust internal controls and system configurations. It takes time, multiple iterations, and significant professional guidance.

There's no shame in not knowing how to address cyber risks to your organisation. Equally, it doesn't hurt to ask for a little help or guidance from the right professional.

To address the increase in cyber risk to this industry, organisations need to start talking about cybersecurity and resilience – what better way to start than with one of PKF Francis Clark's cybersecurity professionals?

Every day our specialists work with clients to demystify the world of cybersecurity and help them embark on a journey which is commensurate with their organisation's risk profile, risk appetite and strategic plans.

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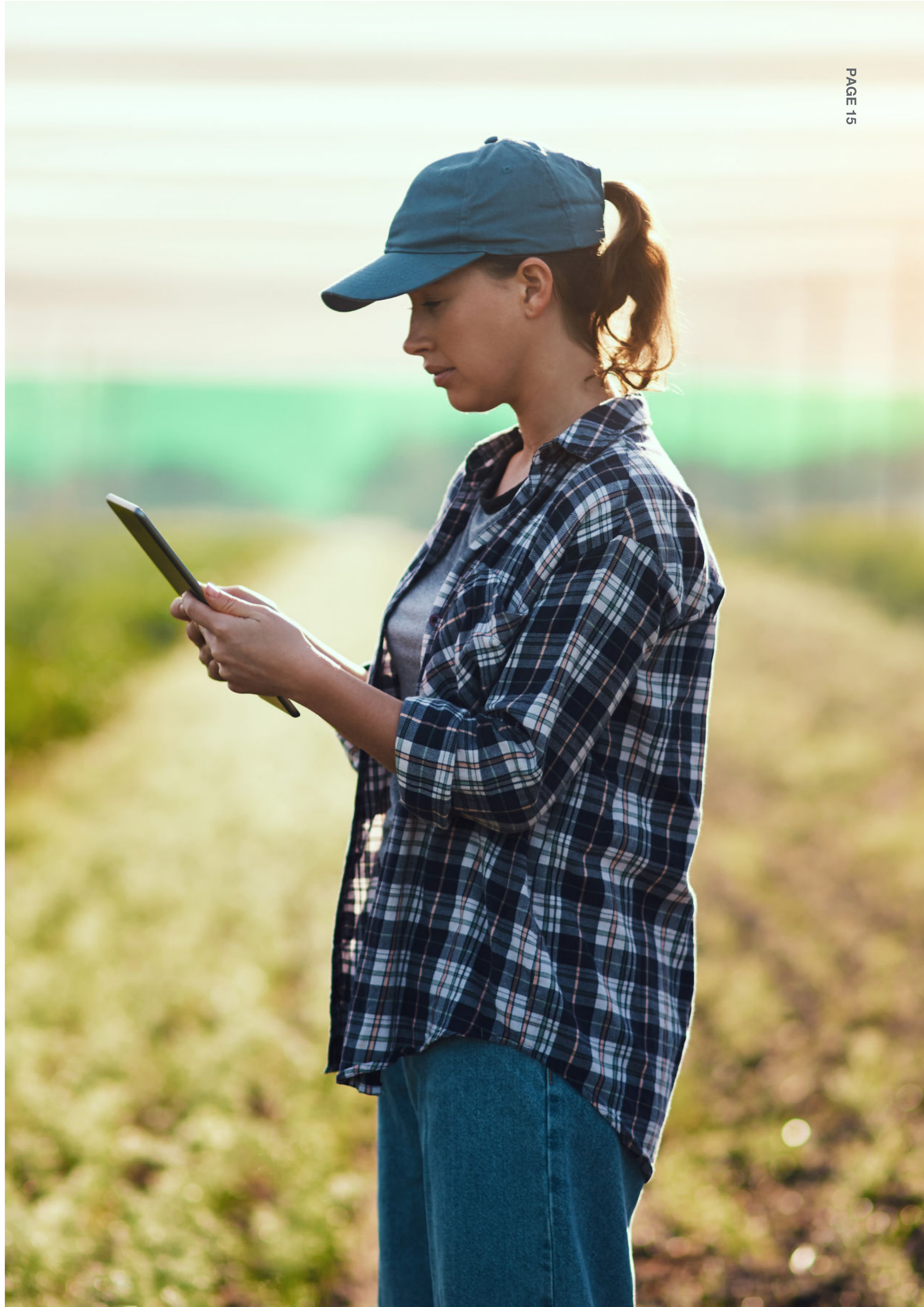

Focus on regenerative farming

In one of our latest Business Noodles and Doodles podcasts, Adam Henson and Duncan Andrews discuss the evolution of Cotswold Farm Park from its founding and original focus on rare breed preservation into tourism and accommodation.

They also spend some time talking about environmental concerns. Acknowledging that the NFU's net carbon zero target of 2040 isn't going to be easy, they believe it is crucial to be part of the regenerative farming movement.

Adam was positive about the general approach from Britain as being on the front foot on farming sustainability, with a lot of work going on in the wider industry, in the dairy world, in the beef world, through genetics, through feed conversion, diets, all those sorts of things to try to reduce methane from cattle too. He believes that the UK is 60% better when it comes to climate damage or positive climate contribution than other developed countries.

He also talks about ways of reducing our carbon footprint "using various forms of organic manure to reduce fertiliser input, adding legumes to all of grassland swards to cut out the use of fertiliser completely, precision farming, making sure we're putting the right stuff in the right place at the right time and really trying to limit any wastage whatsoever."

From my experience, environmental issues and considerations, such as those mentioned by Adam, are coming to the fore in many conversations with our farming and landowning clients.

Common questions are what they should or could be doing to ensure that they are best positioned to benefit from these schemes, in many cases to secure the long-term position of the farm with falling direct subsidies.

One of the fundamental considerations is the tax implications of adopting some of the schemes being introduced.
In particular, the potentially unforeseen inheritance tax implications if the new land use is no longer eligible for Agricultural Property Relief (APR).

I have long expressed my concerns and frustrations as to the difficulty in advising clients, with any certainty of the tax implications, of putting swathes of their land into Countryside Stewardship, Landscape Recovery or other similar schemes, particularly in relation to the ability for the land to qualify for APR and the knock-on effect on associated buildings and farmhouses.

The same principles arising in relation to biodiversity net gains projects, which become a legal requirement from 1 November 2023, while the need for nutrient neutrality measures to offset the phosphate and nitrogen impacts of developments is already causing major issues in some areas such that time is pressing on.

One hopes that common sense will prevail and that those entering their land into projects for a general environmental benefit will not be disadvantaged from a tax perspective, but we shall have to wait and see.

You can subscribe to our podcast series by visiting **podcasts.pkf-francisclark.co.uk**

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Listen to this podcast episode now, with Adam Henson and Duncan Andrews

Scan to listen

Get to know the agricultural team

Meet Georgina Stephens

Why did you choose accountancy?

I must admit that accountancy and its alphabetical placing in the A level list is how 14 years later I find myself writing this answer. You could say it chose me! As my first year of college did not go according to plan, I had to make a quick decision for year two.

With accountancy at the top of list and a family business at home it seemed like the obvious option. I believe that everything happens for a reason, and I feel very privileged to say that many years on, I love my job!

When and why did you join PKF Francis Clark?

One might say, I came to my senses in September 2015 when I was invited to interview for what seemed like my dream job. I was initially very concerned about coming from a very small practise but have never looked back. I was made to feel welcome and have forged some great friendships with current and ex-employees. The rural department has grown over the past eight years and I am very proud to be member of a great team! I enjoy working with a firm that I think is forward thinking and well placed to assist an industry that I am very passionate about and close to. Being from an agricultural background, along with many of my colleagues, we can understand and empathise with clients day to day lives, situations and concerns.

Tell us a bit about your role at PKF Francis Clark.

Working alongside Brian Harvey and the team in Truro, I assist with day to day compliance matters, annual accounts, VAT returns, bookkeeping and tax returns for a range of rural clients across Cornwall. I offer assistance, implementation and development of accounting software and procedures in all types of businesses, ensuring clients bookkeeping and accounting systems are as efficient and effective as possible. Training clients and staff members on the cloud-based technology has added a string to my bow in the ever-changing technical environment that surrounds us. Technology is becoming an influencing factor in what has always been quite a traditional industry. I am keen to ensure we can use this to everyone's advantage, hopefully saving time and money!

Where does your interest in the rural sector come from?

Growing up on the family sheep farm outside of Truro, my love for the woolly creatures and the outdoors started very young. It was inevitable I would have an interest in the future of British Agriculture. Despite moving away from the farm in 2014, I have always helped whenever possible.

I joined my local young farmers club in 2008 building strong friendships with farming and non-farming members. This expanded my knowledge and exposure to different farms and farming practises. I went on to become Chairman of Cornwall Young Farmers in 2015 at the same time I joined PKF Francis Clark. I cannot thank the team enough here for being so supportive of my 12 months at the helm.

My husband and his family farm on the banks of the Fowey Estuary. Running a 40 head suckler herd, boat yard, campsite and holiday cottage there is always something to do! Additional opportunities available for diversification to farmers is a keen interest of mine, whether they be great or small. Especially combining diversification and education of food. I believe there is a real need for individuals to understand the time, effort and risk that goes into something that is taken for granted. We unfortunately live in a time where farming and food production looks very shiny and glamourous when the reality is that it isn't.

What do you do in your spare time?

Many people who know me, would question whether I have any spare time, I like to keep myself busy! Combining a childhood of competitive swimming and living on the South East coast of Cornwall, I enjoy spending time in and on the water. Sea swimming, paddle boarding and kayaking when the weather allows are my favourite ways to unwind from a busy day in the office! I am also a very enthusiastic (and quite good) cook, so love any excuse to have a dinner party with friends and family!

My sister is a successful pedigree sheep breeder of Charollais, Dutch Spotted and Texels. I am a keen passenger and helper on sale days at markets all over the country. You cannot beat a trip away to a pedigree sheep sale, meeting and socialising with enthusiastic likeminded individuals.

We don't have to do your accounts to give you great tax advice

Increasingly, we are finding that farmers and agri businesses need more strategic advice, such as support with business structuring, succession, financing, profitability and tax mitigation.

With the world of agriculture and related business matters becoming ever more complex alongside the value of assets increasing, many farmers and their existing accountants find the idea of giving advice in these circumstances daunting. At PKF Francis Clark, we are keen to help farmers and agri-businesses in whatever circumstances best suit them. We offer a specific advisory service where we work in conjunction with a farmer's accountant to provide a joined-up and proactive approach to delivering advice on these important strategic matters.

Often, we find that it is ok for existing accountants to continue preparing accounts and we would remain on-hand to provide advice and support even after the initial advice is delivered. However, it is important to ensure the whole process is joined-up so that the recommended advice is implemented in a way that is not only effective but is reflected appropriately in the paperwork produced and the annual accounts.

Does advice have to cost a great deal?

The cost of taking advice is often a concern for farmers. After all, if you were looking at succession planning or a tax mitigation, there may be no immediate saving to the business in terms of cash generation. However, the longer-term consequences of getting these things wrong could be extremely expensive.

It is not unusual for us to review a business, consider the structuring, understand the family's aspirations, and implement our advice, including tax saving strategies, and see tax savings that can be measured in tens and hundreds of thousand of pounds or even millions. Loss of availability of inheritance tax relief including business property relief, can prove very expensive if assets are held in the wrong way or their use is not properly understood. On the other hand, agri businesses tend to have a significant number of tax reliefs available to them which they could take advantage of.

When it comes to tax mitigation, and particularly capital taxes including capital gains tax or inheritance tax, these areas are recognised as being complex but at the same time the opportunities are significant. With the right advice, the benefits can be considerable and having a relationship with a professional adviser who works in this area can give many farmers, landowners and agri businesses peace of mind.

"I never cease to be amazed by how hard people work and how much effort and care has gone in by generations to build up businesses only to find that planning to minimize tax liabilities is limited. Why give away unnecessarily a share of all that hard work to HMRC when you could be otherwise applying to either grow your business or benefit your families as an alternative?" is Mike Butler's advice.

How do we engage Francis Clark on an advisory-only basis?

Our specialist advisory team can work with our rural, land and agri businesses on an advisory only basis and would be happy to involve your existing accountants in an initial meeting to discuss your circumstances. If you would like to find out more, please contact either:

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James England | james.england@pkf-francisclark.co.uk

JAMES ENGLAND
SENIOR MANAGER
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Only a phonecall away

Farmers and agricultural businesses often have long standing relationships with their accountants but, with so many changes currently affecting agriculture, those same farmers are increasingly concerned that they are missing opportunities or may not be getting the best advice. They may also be concerned that their affairs have become far more complicated than in the past, with the value of assets having increased considerably and new income streams developed.

At PKF Francis Clark, our specialist rural and landed estates team are often asked to start by giving a review of farming families' tax affairs and to come in and talk about specific other aspects that may be of concern.

You may be concerned about your wills and inheritance tax, paying too much tax on profits, how you fund a new investment either in the farm or diversification, or how you treat the family fairly when it comes to structuring or passing on your assets.

We can also work with our financial planning colleagues to provide advice on later life care and planning for retirement. We often find our farming and land-owning clients gain considerable comfort from solutions that they may not have thought were possible.

We are always happy to come out and meet you without cost or indeed obligation and whilst we cannot give advice unless formally appointed, we are very happy to talk through areas where we help many of our existing farming business and explore where we can help you, your family and your business.

We are only a telephone call away, so if you would like an informal meeting, in confidence, call your local rural specialists.

Get in touch with our dedicated agricultural team

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PKF FRANCIS CLARK

Shared Ambition

We want the best in the field

If you want to be part of a firm with more than a century of experience sharing the ambitions of farmers, landowners and agribusiness and you're excited by what might lie ahead in the next 100 years, we'd love to talk.

We're always looking for managers, seniors and trainee accountants specialising in the farming sector to help us grow, as we expand our agricultural expertise throughout the South West.

We have deep, muddy roots in the rural farming community, working with over 550 farms and 45 landed estates across the region.

We work across the whole sector, advising some of the country's largest dairy, livestock and arable farms as well as related rural businesses. So we're looking for talented, passionate, ambitious people who live and breathe 21st century farming.

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