

RURAL NEWS

BROWN & CO | AUTUMN 2017

BROWN & CO

IS IT TIME FOR A REVIEW?

With the impending departure from the European Union, uncertainty over future trade deals, volatile currency and a likely changing subsidy system, has there ever been a more important time to consider reviewing your farming business?

The approaching changes and uncertainties will inevitably create as many opportunities as issues or concerns for those involved in the agricultural sector. However, with two years before significant change, this surely creates a great opportunity to ensure your business structure is sufficiently robust to cope and succeed.

There is a full range of assessments that a business should make, but near the top of the list are the management capabilities. Only the most capable, with a strategy for succession planning to take care of the long game will thrive. Which enterprises and the number of sectors the business is involved in may prove critical as a means of spreading risk, as will the availability of management data and financial information, key to help with decision making. Also, the business structure, financial ratios and the cost structure for each enterprise will be critical in maximising overall returns.

Making the most of each asset, whether that is land, buildings or management and staff, will become more important. As will the need to restructure and potentially reinvest in other sectors, in some cases. The challenges ahead may seem daunting to some, but exciting to others and this will depend on your attitude and approach.

What is certain is that the profitability of certain farming sectors cannot, on their own, stand the potential volatility going forward and those businesses without a varied and structured approach will be more vulnerable if no action is taken. Recent research undertaken indicates that for most businesses there is room for improvement. All that is required is an open mind, flexible approach and a business plan for the future.

POULTRY DIVERSIFICATION

Diversification options are currently on many farmers' minds in a bid to strengthen their position in the build up to changes that Brexit may present to the agricultural industry. Instigating a new enterprise can provide a vital alternative income stream, as well as providing new and interesting challenges that can reduce the risk associated with volatile commodity markets and offer a solution, should unfavourable changes be made, in particular to direct farming subsidies.

Diversifying into poultry has proved to be a popular and effective way to potentially off-set volatile cereal market prices associated with arable farming and has more recently provided a stable and profitable income stream. On top of this the payback period (being in the region of 10 years), depending on production capabilities, has shown to be shorter than many other investments.

Broiler and free-range egg unit investments have been favoured in recent years. This has resulted in UK egg production rising from 10 billion in 2015, to 10.3 billion in 2016, of which 50% are free range. This is however set against UK consumption of 12.6 billion eggs annually an increase of 2% on the previous year. With regards to broiler production in 2015, 930 million birds were reared equating to 1.4 million tonnes of meat. This represents an increase of 3% on the previous year. UK consumption of poultry meat in the same year was 2.3 million tonnes, with the majority being chicken meat.

With a range of entry points into the poultry sector, from self-managed, joint ventures or rental options, the poultry sector gives farmers and investors alike an opportunity to get involved.

If poultry is an enterprise of interest, or if you are looking to diversify in general please contact your local office to gain some expert advice.

CHALLENGING TIMES
CREATE OPPORTUNITIES

PROACTIVITY IS THE KEY
Talk to our specialist advisors to
help maximise your business potential

AGRICULTURAL WATER ABSTRACTION LICENCES ARE UNDER THREAT - CAN YOU PROTECT YOURS?

Over the last few years it may not have felt like water is a scarce resource across the country, particularly bearing in mind the weather conditions we have experienced during harvest. However, the Environment Agency are in the process of reviewing licences, with a view to cutting back licences to levels equal to average historic usage.

Whilst the time might have passed to protect your current licence, construction of a winter storage reservoir could future-proof your business by securing your water supply and perhaps enhancing it by facilitating a switch from summer spray to winter fill abstraction. The newly launched Countryside Productivity Scheme is now open for applications with one of its key objectives being water resource management. Eligible projects will improve productivity, help grow the business through water resource management and create jobs, or bring more money to the rural economy.

The grant will fund reservoirs, abstraction point creation, fill pipes, pump controls and distribution mains, metering equipment and best practice application equipment. The maximum funding rate is 40%, which can amount to a significant sum of money.

The grant is open to agricultural businesses growing or intending to grow irrigated crops and importantly, those applicants seeking an increase in irrigatable area will need to ensure that the water body to be abstracted from is of a suitable status.

The availability of clay on farm can reduce the cost of reservoir construction by 50% by avoiding the need to use a Butyl Liner, so a full soil analysis should be undertaken to find suitable clay if at all possible. By securing abstraction licences and future-proofing your business in this way it is possible not only to secure an income stream to be gained from irrigated cropping, but also in changing times a secure water resource on farm will undoubtedly enhance capital values of agricultural units.

Brown&Co have had significant success in securing grant funding for reservoir projects over the years and are well versed in the process of putting robust applications together.

SUMMARY:

- **Deadline for applications 3rd April 2018**
- **Need to have Abstraction Licences and Planning Permission in place**
- **Eligible Items include: Reservoir, Pumps & Pipework, Best Practice, Application Equipment, Software & Sensors**
- **Minimum Grant £35,000 at 40% Grant**
- **Water Body Status Dependant**
- **Measurable benefits to be provided (outputs, jobs, wider outcomes)**



PHONE MASTS UPDATE

The Digital Economy Act 2017 received Royal Assent on 27 April 2017 and has wide ranging implications on the 'digital world'. Of particular interest to landowners may be the changes to legislation on phone masts, as outlined in Schedule 1 of the Act. Key changes to note are in relation to site sharing and remuneration – the financial implications of which are always bound to be of interest to affected landowners.

In terms of site sharing, landowners will no longer be able to prohibit tenants from site sharing and therefore associated sharing fees are likely to become a thing of the past. Although this may be a blow, it is not unexpected and we can at least be thankful for the continuation of the basis of remuneration.

Throughout consultation, the network providers and their associates argued that remuneration for sites should, under the Act, amount to compensation, rather than consideration. i.e. the difference in value to the land with and without the mast in a "no scheme world", instead of an open market rent; such payments akin to that paid by infrastructure providers acquiring property through compulsory purchase. The implications of this would have been likely to cause a significant reduction in payments due to landowners.

To the benefit of landowners, this change was not adopted and subsequently, rental arrangements will continue to be agreed on an open market consideration basis.

With a continued pressure on network providers to reduce infrastructure costs, we are aware of increasing activity from these providers (or their agents) seeking to renew leases and review rents, at a lower rental level. In some instances it appears that landowners are, incorrectly, being told that the basis of remuneration has changed to a compensation basis. Many of Brown & Co's clients have masts on their land and as a firm we are actively involved in the negotiation of new terms with network providers on behalf of landowners. Our work has amassed a range of open market rental comparables on which we can draw during negotiations, which, coupled with our previous negotiating experience, positions us well to act on behalf of landowners.

So, the key take home message for landowners with mast sites is to note these changes and if in doubt consult an agent for advice, or to negotiate and ensure that a fair open market payment is agreed, as there is a market out there.



FARM INSPECTIONS UPDATE

Will I get an inspection?

In accordance with EU regulations, the Rural Payments Agency have to visit and inspect a percentage of ELS, HLS and CSS agreements each year. Farms are partly selected at random and partly targeted for 'Risk'. Farms targeted for being at 'Risk' can often be highlighted to the RPA by concerned members of the public for issues such as blocking public footpaths, significant run-off, or animal welfare to name a few.

What do I do if I am selected for an inspection?

In the best case scenario, agreement holders are given a notice period of 48 hours before an inspection commences, however the RPA does have the authority to arrive on the farm at any time and request permission for an imminent inspection. By accepting payments from the RPA for Stewardship schemes and the Basic Payment Scheme (BPS) you have already given consent for them to undertake these inspections. The length of the inspection will vary depending on the scope (i.e. cross compliance and/or stewardship) and the size of the holding. They typically range from a few days to a few weeks.

We highly recommend that the inspector is accompanied by an individual who fully understands the requirements of the scheme under inspection. This person can either be yourself, a member of staff, or a trusted professional. It is not only useful for the inspector but important for you to demonstrate that the requirements of the scheme have been adhered to in line with the prescriptions for the payments.

What happens next?

The inspector will write up the inspection formally into a report which will then generate a recovery letter. These documents will be sent independently to the agreement holder. The timeframe for this process can be anything from a few months to a few years. Therefore if you have had an inspection in the past and not received any documentation from the RPA, do not presume you have passed the inspection without a penalty.

I have received a fine, what can I do?

Do not panic. We have a team of experienced consultants who have successfully contested both Stewardship and BPS fines, and whilst we cannot guarantee to eliminate your fine completely, we will fight your corner to ensure that the penalty is fair and appropriate for any mistakes made.

Furthermore, if you are concerned as to whether your farm is currently compliant with BPS and / or Stewardship, we also offer on-site spot checks to highlight any breaches or issues, giving you peace of mind for any future inspections. If you wish to discuss further any of the information contained within the article, please do not hesitate to contact us.



DRONES - WHERE TO IN AGRICULTURE?

Successful use of drones in agriculture relies on them collecting data and converting it to a usable format, typically something that can be plugged directly into other farm machinery or used to make management decisions. Most of us only see the drone buzzing noisily above our heads, but that is only a part of an Unmanned Aircraft Systems (UAS). The whole system includes the unmanned aircraft, the sensors attached to them, flight controller and software packages (often in 'the cloud') that are used to process the data they gather.

Most of the UAS currently being employed in agriculture are just above hobbyist grade with flight times and payloads considerably less than militarised UAS, but their low expense, open source software, programmable flight intelligence and satellite based navigational control offer promise. From the farmer's perspective there needs to be clear economic and agronomic benefits before they move away from the cheaper platforms to either purchase larger more capable solutions and sensors, or to engage the services of a provider.

Three areas prevent the sector from maturing. Operationally the law greatly restricts how far from the operator a UAS can be flown, decreasing the coverage achievable. Technologically, farmers need readily exploitable information that is compatible with machinery already on their farms and in the market. Commercially there needs to be economically viable business models; in the United States individuals and companies offering UAS precision services reported only 27% were breaking even or making a profit.

It does not appear that the concerns of farmers are being felt by anyone else. Farming media typically portrays the technology in a positive light, reporting on the effect it will have on agriculture through their application, the service industry that it will create and the size and value of the UAS market. Market research valued the European Agricultural Drone market as being worth US\$60 million in 2016, rising to over US\$250 million by 2024, with the agricultural UAS market expected to have the highest growth for the period to 2024.

Uptake of drone technology in UK agriculture, through ownership or hire, is between 16% and 20%. Studies into the uptake of technologies has shown 20% uptake is the point at which adoption takes off. Only time will tell.

Some people have already moved beyond drones to Smart Farming which emphasises the use of information and communication technology in farm management. This development will be leveraged by technologies such as the Internet of Things and Cloud Computing. And in the process will introduce more robots and artificial intelligence in farming.



ALTERNATIVES TO MACHINERY OWNERSHIP

Most farming enterprises in the UK cannot operate without farm machinery in one form or another. Let's be honest, who doesn't love a tractor?

However, the way in which farm businesses actually source such machines can not only have a significant impact on their cost structure, but also on the day-to-day running of the business.

There is a simple method used to determine whether a machine is more viable to own or hire, which could save you money.

Firstly the amount of work that the current machines on the farm are doing needs to be calculated. Many farms will know the number of hours per year that each machine does, this is the start point but knowing when in the year this work is done is also critical.

Secondly the current ownership cost of each machine can be calculated using depreciation, repairs, interest, insurance etc. Once this cost is calculated you will know how much it costs you to have that machine before putting someone on the seat or fuel in the tank.

Once you have this information you can then get a quote to hire a similar machine on a per week basis. As you have already planned which months the machine is going to work in, you can work out the maximum number of weeks that machine will be used in a year.

Following this you can multiply the per weekly hire cost by the number of weeks you require the machine. If the figure is higher than your ownership cost then it more viable to own the machine. If the hire cost is lower than your ownership costs, it's more viable to hire that machine in. Here is an example:

Machine	No. of weeks worked	Weekly Hire Cost	Total Hire Cost	Ownership Cost	Difference	Outcome
400hp Crawler	22	£1500	£33000	£35000	-£2000	Better to hire
350hp Wheeled tractor	18	£1200	£21600	£30500	-£8900	Better to hire
220hp Tractor	39	£1000	£39000	£20750	+£18250	Better to own
170hp Tractor	39	£900	£35100	£11000	+£24100	Better to own

The Brown&Co labour and machinery costing service builds up information from the machinery fleet, work rate, fuel usage, labour utilisation and down time to provide an accurate cost, understanding the true cost of operations.

- Provides a true cost per operation by crop type across multiple enterprises
- Helps review labour utilisation and efficiency, including down time
- Identifies where machines, implements and workers are costly and where improvements can be made
- Assesses the true cost of taking on new opportunities
- Calculates accurate costing when reviewing contracting rates
- Efficiently plan machinery changes in advance to keep costs as low as possible



FOR PROACTIVE AND PROFESSIONAL ADVICE CONTACT YOUR LOCAL BROWN&CO OFFICE:

Banbury: 01295 273555

Brigg: 01652 654833

Bury St.Edmunds: 01284 725715

Grantham: 01476 591991

Holt: 01263 711167

Huntingdon: 01480 432220

King's Lynn: 01553 770771

Melton Mowbray: 01664 502120

Norwich: 01603 629871

Retford: 01777 709112

Spalding: 01775 722321

Caribbean: 001 758 451 6151

Poland (Torun): 00485 6621 1062

Romania: 0044 7787 126700

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