

Property and Business

JHWalter

Adding *Value* to Property & Business

SUMMER 2005

IT'S OVER! *What Strategy Now?*

The completion of registration for the SFP has, for many, been the hurdle which had to be overcome before change could take place. Now that the frenetic activity of April and May is coming to a close, it is vital to consider future strategy.

Clearly, commodity prices are at levels where only the finest of margins are potentially available, and alternative income streams are critical for financial viability. But what of the core farming business itself? Firstly, the temptation to use the SFP to support loss-making enterprises must be resisted.

The next step must be to consider *Net Margins* rather than gross margins (ie on arable farms, the margin after deducting labour and machinery costs). Nothing very new here, but it is a planning tool that seems to have been largely ignored recently.

A more detailed approach to management is required, leaving no stone unturned in the quest for profit.

The need for technical expertise almost goes without saying. However, the separation of subsidy from production means there is a need for some more flexible thinking. Some land is particularly expensive to farm and maybe this land should not be farmed, or perhaps switched to spring cropping, when cultural weed control can be used. If so, how does

additional spring cropping affect the overall labour and machinery requirement on the farm? Whilst spring crop gross margins can look poor against their winter counterparts, net margins may not, particularly when specific fields are considered.

Labour and machinery still remain a significant cost and a fresh look at the options here is also required.

As well as the more fundamental decisions of approach (eg contractors, syndicates, CFA's, etc), establishment costs need overhauling. We see many examples where costs are way above those which are viable, and a combination of lower unit cost, coupled with less intensive and more innovative cultivation techniques, is required.

Finally, those taking UK agriculture forward need to consider their own business skills and training. In other industries, significant resource is committed to improving management, whereas in agriculture most of the effort is concentrated on the technical function.

Given the way that businesses need to develop, management in all its forms is becoming increasingly important.

Realising this, **JHWalter** plan to hold seminars this autumn to provide an opportunity for managers of farms and rural businesses to address business management in more depth and develop these skills further.



David Wright
Managing Partner
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The County Property Auction

We are now preparing for the summer County Property Auction. This will be our fifth event at the Lincoln Hotel and a record entry of some 30 lots is expected. They will include building land, plots, a lake, farmland, investments, paddocks and a barn.

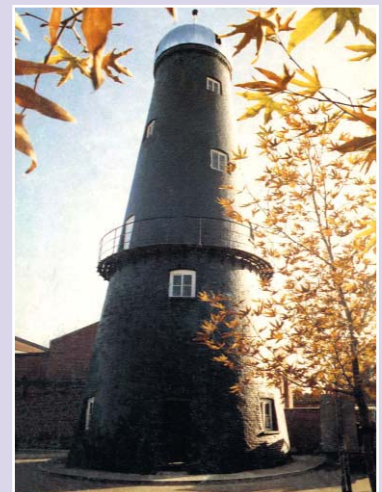
Auction is proving to work extremely well for any property which appeals to the cash buyer. There are a growing number of people purchasing property to create wealth, perhaps building a personal pension fund. These buyers appreciate the simplicity and rapidity of buying at public auction.

The properties in our sales attract a great deal of market attention simply because they are for sale by auction, differentiating them from the mass of property available by private treaty. And, of course, many of them are unique!

The County Property Auction has now been filmed twice by Channel 4's House Auction programme. The first programme featured Rob Ward selling the St Hybalds church at Manton, and the second programme, featuring Money's Mill at Sleaford (pictured below), sold in April, has yet to be broadcast.

We will be pleased to provide a free market appraisal of any property you are considering selling by auction, providing an honest opinion as to whether it is suitable for this highly effective method of sale.

**For further information contact
Rob Ward, Tim Atkinson or Simon Smith.
Telephone: 01522 504304**



New Business Ideas Vital for the Rural Economy

JHWalter has continued to assist businesses develop new ventures, initially through the planning process, then with funding and subsequent advice on commercial issues such as marketing, employment and further development.

Lessons learned include the long time lag between the germination of an idea to the venture getting under way, and difficulties in dealing with business planning - particularly marketing and financial control.

Other frustrations include the idiosyncrasies of the Rural Enterprise Scheme (RES), and whilst the move to assessments taking place at two month intervals (rather than three) is welcomed, there are still difficulties. RES remains an attractive source of funding, but there are other options and some of these provide a much quicker response than DEFRA.

So what themes characterise the successful ventures? These are:

- **Location** is vital as it is inevitably fixed, and, as such, a sensible assessment of how your venture sits in terms of locality, both in geographical and commercial competitive terms, needs to be undertaken at an early stage.
- **Innovation** is important commercially (there can only be so many "me too" products), and is particularly important from a grant perspective. Businesses need to create an angle which provides differentiation from those providing similar services or facilities. There have been, and will be, some excellent innovative ideas developed by East Midland farmers.
- **Skills** of the business operator are equally vital. Whilst these can be bought in, there is opportunity to develop these skills in house, over time and through training.

JHWalter plan to hold seminars this autumn to assist those with both farming and non-farming ventures in developing business management skills.

For expert advice telephone

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Taxing Issues

The Single Payment Scheme has far-reaching implications for every farm business in the East Midlands. Not least amongst these are the taxation issues, although these have often been ignored so far, with filling in the SP5a claim form taking priority! With this in mind, Henry Denchfield (**HD**) met Lincoln accountant, Richard Vigar (**RV**) to find out what is the current guidance.

HD: Has the Inland Revenue issued a definitive document yet, setting out their position with regard to taxation of the Single Payment?

RV: Not yet, but we are advised that it is imminent! However, we have been receiving some guidance from them. For instance, it is now confirmed that the value of entitlements will qualify for Capital Gains Tax Rollover Relief.

HD: How will the Single Payment be treated for income tax purposes?

RV: The old area payment attached to the product, so it was taxed when the product was sold. The treatment of the Single Payment for income and corporation tax purposes is fundamentally different as it is decoupled from production and will be brought in on a calendar year basis. This will mean that many businesses will pay tax on the Single Payment before it is received! Clearly, this has obvious cash flow effects and may persuade some farmers to consider changing the date of their year-ends.

HD: We think there may be a market for the transfer of authorised entitlements. What are the taxation implications?

RV: Capital Gains Tax will be payable, but the gain is taxed at only 10% after two years' ownership. It might be worth holding the entitlements for two years to save tax, but this saving should be balanced against the possibility of receiving a lower price in the market place at a later date.

HD: We hear of some farmers who are considering ceasing farming and just taking the Single Payment. What are the tax implications of this?

RV: This approach will undoubtedly reduce the allowability of some expenses. If there is no farming activity, the entitlements may no longer be regarded as a business asset. This may result in the loss of relief from Inheritance Tax and Capital Gains Tax. The best advice is to continue farming to some extent in some way, possibly using a partnership or contracting arrangement.

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Contract Agreements Maintain Working Farmer Status



With wheat, at the time of writing, £68 per tonne delivered for harvest 2005, some farmers and landowners will be considering whether or not to cease farming. However, these thoughts might rapidly disappear if prices were to return to the dizzy heights enjoyed in 2003/2004!

As discussed with Lincoln accountant Richard Vigar on the facing page, a farmer having taken the decision to cease farming has good reasons for maintaining his working farmer status.

This may best be done by entering into a "Contract Farm Management Agreement" with another farmer or farmer contractor. The contractor is paid for work done, the farmer takes a first charge on the profit and the surplus remaining is split between them to an agreed formula.

JHWalter are involved in negotiating and setting up a number of such arrangements. Early indications in the post MTR era are that landowners are keen to enter into a CFMA from the starting point that they retain the Single Payment and any environmental payments.

This means that their first charge and share of the surplus will be low. However, a mechanism needs building into the agreement that allows the landowner to benefit in the event that commodity product prices increase.

From the contractor's point of view, the current cost of red diesel should not be forgotten when agreeing contract charges - the days when a contractor would quote low prices as a loss leader, in the expectation of making up through his share of the surplus are long gone!

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Planning: Pain or Gain?

Over the past year or two interest in planning has increased significantly amongst those with farms and property in the countryside.

To encourage and service this growing demand we have established a specialist planning team, drawing together planning, agency, architectural and rural business skills, including funding. The team of six has dealt with numerous opportunities from Yorkshire down to Northamptonshire. The combination of skills ensures that planning "gain" is not simply obtained without thought as to how successful and/or profitable the result will be.

So where are the opportunities?

Possibilities principally fall into two sectors. First is "pure" development for sale. The second is development or change of use for existing and new commercial ventures.

Whilst there is generally resistance to rural residential development we have been successful in obtaining numerous consents for farmyard developments which in certain cases involve a new farm yard being created on greenfield sites. The residential development market is still strong providing potential for significant change in the underlying businesses. Some individuals have also benefited from small-scale development gains on gardens, which are classified as brownfield sites.

Many planning consents are sought to provide the basis for a new venture. We have dealt with a variety of cases over the last year ranging from farmshops to small and large commercial workshops and storage facilities, to offices, to haulage yards, etc. As ever, location is important, not only for planning, but more importantly the commercial viability.

Planning is a long-term business, and understanding the local planning process is essential in assisting our clients. Development of Local Plans, now to be replaced by Local Development Frameworks, is a lengthy process with representation and lobbying an important part of our work.

To discuss your "plans" call:

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or

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Farmland Market - Fundamental Changes?

In the first quarter of 2005, we sold 270 acres at Treswell in Nottinghamshire and 250 acres at Belton near Grantham. The strength of the market has been surprising, given the modest earning potential from arable land. It is no doubt partly due to the very short supply of farmland on the market.

I believe that we are seeing a fundamental change in land prices.

A recent auction near Doncaster saw arable fields of between 7 and 20 acres achieve £3,500 - £4,000 per acre. 40 acres at Plumtree Wolds made £3,850 per acre at auction. Small paddocks continue to make around £10,000 per acre. These are all parcels of land close to urban areas, where supply is short and demand is keen.

It is worth remembering that in 1982 most farmland was bought at around £2,000 per acre and a good 4-bedroom detached house made £30,000, equating to 15 acres of land. Today the same house is worth probably £300,000, equating to 120 acres.

Where demand is strong, land is cheap compared to other asset classes and as long as earning potential is not important to the purchaser, prices of £3,000 - £4,000 per acre are realistic.

As you move to the east of our region into more rural areas, land still languishes at around £2,500 per acre when sold in reasonable size blocks. Here the earning capacity is far more important. We may see prices rise, as farmers in the densely populated urban areas sell up at premium prices and relocate to the east.

I am frequently asked what difference subsidies make to the value of land? The mathematical answer suggests £300 - £500 per acre, but really it is all dependent on demand. For example, the land at Treswell, without historic entitlement, actually sold for more per acre than the land with it. *It seems valuing is still more of an art than a science.*

Tim Atkinson

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WATER RIGHTS TRADING

Could it be First Come First Served?

What is Water Rights Trading? Your license gives you the right to abstract water. The Environment Agency (EA), who control the water licensing system is proposing to allow these rights to be bought and sold on the open market - ie traded.

I have been liaising with the EA on a regular basis at both Head Office and local level, in order to clarify the circumstances under which Water Rights Trading can take place. Currently there are 4 categories of water availability, these being:

- 1: over abstracted
- 2: over licensed
- 3: no water available
- 4: water available.

In a catchment which is already "over abstracted" the EA are very unlikely to allow a Water Rights Trade to take place. In areas where there is "water available" there would be no value in trading your Water Rights, as in these circumstances a person requiring additional water would simply make an application to the EA to alter their existing license.

It is the middle two categories, "over licensed" and "no water available" where some opportunities may exist for Water Rights Trading.

In both categories, an application for a new license, or for an increased volume on an existing license, will most likely be turned down by the EA, but buying an existing license from someone else may be possible.

The "over licensed" category means the amount of water licensed to abstractors is

considered by the EA to be more than the catchment can support.

However, a significant number of license holders, may either no longer use their water, or only use a small proportion of it. This creates a situation where a catchment is over licensed, but not physically over abstracted.

The bigger the gap between the amount of water licensed and the amount of water physically abstracted - the greater the opportunity to trade Water Rights. The EA will set a limit on the maximum amount of abstraction they wish to see from a particular catchment.

It follows that in catchments where Water Rights Trading is permitted, it will be undertaken on a first come, first served basis, until the amount of water physically abstracted reaches the limit set by the Agency.

Another point worth noting is that under the old rules if you did not use your abstraction license for a period of 7 years, it could be revoked by the Agency. *Under new rules the period of non-use has been reduced to 4 years, after which it could be revoked by the EA. Furthermore, the new rule is backdated to commence on 1 April 2004.*

If you have water you no longer require, or if you require additional water, but cannot get it through the normal licensing system, please give me a call and we may be able to help.

Tom Wilkinson

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MACHINERY AUCTION SERVICE LEADS THE WAY

JHWalter has rightly earned the reputation of leading the way in machinery auctions.

Mark Cressey of Westhorpe Farms said after their highly successful auction earlier this year:

"The team from JHWalter prepared with thought and precision and executed the sale in a smooth and professional manner. We were delighted with the service and the final result."

Our service features:

- Step by step advice from the **JHWalter** Auction Team
- Individually tailored marketing campaign
- A full colour auction catalogue
- Access to over 7,000 active machinery buyers
- Specialist auction software and website
- Permanent buyer numbers
- Detailed attention to promotion, advertising and security

For full details of the service, please contact:

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Visit our new website at www.JHWalter.co.uk

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