FARM ADVISORY SERVICE

November 2016

News in brief

Brexit window opens – let's use it to plan ahead

Theresa May has announced that Brexit negotiations (triggering of Article 50) will start by March next year which means we might expect the UK to leave the EU by 2019. Coupled to previous guarantees made by Philip Hammond to pay BPS up until 2020 this provides a window of time in which to plan ahead. The difficulty is that in terms of the external economic and political environment it is very hard to know what to plan for other than years of uncertainty.

The UK government has so far failed to give any clear indication of it's strategy (if indeed it has one) and the market's continue to give their own verdict on this information vacuum by buffeting the pound up but mainly down.

This means for now that farm businesses need to focus on factors within their control. For many the current weak sterling exchange rate offers an opportunity to boost revenue from the market and BPS. For some the priority may be consolidating short term debt into long term fixed rate loans to lower charges and risks from a rate rise. For others it may be about planning out succession so that the next generation can tackle the challenges and opportunities that may lie ahead *(see the article on Inheritance Tax on page 8).*

Farm Management Handbook and Agribusiness News free on-line

All businesses will benefit from forward planning of enterprise mix, budgets and cash flows. To assist in this the SAC Farm Management Handbook remains an invaluable tool. The 2016/17 edition will be available in early November (*see page 10 for further details).* In addition to the printed copies, for the first time the SAC Farm Management Handbook and Agribusiness News will be available online at www.fas.scot Thanks to the support of the Scottish Government's Farm Advisory Service the on-line versions will be free so widening access to these essential tools at such an uncertain time.

Next month…

- Sector focus: Meat trade flows and tariffs
- Management matters: Milk futures contracts

Contents

SAC Consulting, Rural Business Unit publication
This month's editor: Julian Bell
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Changes to recording of cattle movements

- *New cattle recording system to replace CTS Links on 1 January 2017*

A new online cattle movement recording system called ScotMoves is to be introduced in Scotland at the start of next year. This new system will operated through ScotEID database and will replace the existing Cattle Tracing System (CTS) linked holding system.

At present, using CTS Links, keepers of cattle can register holdings they regularly use. This means that cattle movements between these linked holdings do not need to be electronically recorded they just need to be recorded in the herd register within 36 hours of the movement taking place.

For the purposes of recording cattle movements linked holdings do not comply with EU legislation and in the event of animal disease outbreaks they also raise concerns over traceability of animals. It is for these reasons that the Scottish Government are introducing the new system.

Although the benefits of having a central record of all cattle locations are understood, especially when disease outbreaks are concerned, it has been met with concerns about the timing of electronically reporting movements.

Under the new system, movements of cattle must be reported within 48 hours. Although this is a longer time frame than originally proposed by the Scottish Government and as currently exists under SMR 7 for the recording of movements in the herd register, it is shorter than the 72 hours allowed under the CTS system. This rule change has the potential to result in a higher number of cross compliance breaches and penalties.

To try to ease the concerns surrounding this issue the Cabinet Secretary Fergus Ewing has issued reassurances that under cross compliance there would be no financial penalties for first time breaches; which is at least comforting.

All cattle keepers, including those currently using linked holdings, should have recently received a leaflet from the Scottish Government about the changes. Further information, including a questions and answers document with details on how to register for ScotMoves can be found in the following documents:

http://www.gov.scot/Resource/0050/00506060.pdf

http://www.gov.scot/Resource/0050/00506059.pdf

Use of plant protection products could be banned on EFAs in 2018

EU Agriculture Commissioner Phil Hogan recently confirmed he still intends that his proposed ban on pesticides on Ecological Focus Area (EFA) land will go ahead, despite 18 member states opposing the move.

The member states that opposed the pesticide ban on grounds that it would undermine production were the UK, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Greece, Hungary, Ireland, Latvia, Lithuania, Luxembourg, Poland, Portugal, Romania, Slovenia and Sweden.

The ban on the use of pesticides would apply to EFA catch crops, nitrogen-fixing crops and land lying fallow. If this new rule does go ahead it is likely to be 2018 before it is implemented.

On the plus side Hogan has now agreed to keep the minimum duration for land to lie fallow at six months and not increase it to nine months as was previously proposed and to introduce a ten week period on catch crops which will provide more flexibility on sowing dates.

A final decision on greening changes is expected by the end of the year, or early 2017, watch this space!

Brexit - Article 50 to be triggered next year

Prime Minister Theresa May has confirmed that Article 50 of the Lisbon Treaty will be triggered by the end of March next year. This will commence the two years of formal exit negotiations with the EU and means that by the summer of 2019 the UK could have left the EU.

Since Article 50 has never been used before the UK will be entering a period of unknown territory on how exactly the Brexit process will work and how long it will actually take. Many expect that negotiations will take considerably longer than two years, especially since it will have to be agreed by 27 national parliaments.

Regardless of the time frame, getting the best deal for the industry is essential. However, it will only be once negotiations officially begin that it will become clearer what kind of deal the UK will seek from the EU. In the interim it leaves many unanswered questions about the single market, other trade deals, tariffs, direct payments, market volatility, regulations, migration and so on

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UK grain surplus down, prices up

UK wheat prices rose around £10/t in the last month and rapeseed prices are up £27.50/t. Lower plantings and yields means the UK grain crop is 2.7mt (11%) down in 2016. A lower export surplus and good overall quality is helping UK exports to be sold into higher value markets. World markets also rose with Chicago wheat up $6/t in dollar terms (or £10/t in pounds). In their latest estimate the USDA trimmed world grain output and stocks and raised demand for wheat and feed grains though output and stocks remain a record.

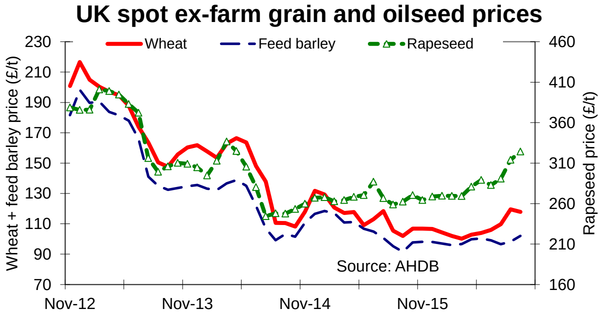
Wheat prices; £130/t in Edinburgh/Fife, £128/t in the Borders, £123-£125 in Aberdeenshire. Local pricing affected by maintenance shut downs at distilleries in central Scotland while Ensus bio-ethanol plant opening on Teeside offering another market for wheat in the Borders. Wider UK wheat prices have been supported by strong export demand with up to 1mt of a projected 1.19mt surplus expected to be shipped by Christmas. Good English wheat quality means that UK wheat is readily finding soft milling markets in N Africa and the EU.

Feed barley prices; £110/t central Scotland, a small barley crop, 316kt lower than last year means that supply could tighten considerably as the season progresses and Scottish exports may be minimal.

Oilseed rape prices; £344.50/t delivered in Central Scotland. Boats are expected to start loading in November but there will be fewer of them this year given the small crop so check what's going on.

- *World grain stocks revised lower but still a record*
- *UK grain prices gain from currency, lower export surplus and better quality.*
- *Global oilseeds prices rise on strong demand.*

UK spot ex-farm grain and oilseed prices



Malting barley area for 2017

A combination of lower sown area and poor yields have resulted in the lowest spring barley crop in 18 years. Production is down 255kt (17%) from last season and 447kt from its recent peak in 2013. By widening specifications it is reported that maltsters and distillers have been able to source sufficient Scottish barley this season despite the smaller crop.

The situation has been eased by lower whisky demand. Based on estimated spirit production distilling demand in 2016/17 is expected to be around 938kt of barley equivalent down around 8% since the recent peak of 1,024kt in 2013/14. Scotch malt whisky production traditionally operates on a seven year cycle between one peak and the next. If this pattern is repeated (though this is by no means certain) then 2017/18 could herald the start of a rise in output and hence demand for malting barley.

The question is whether the recent path of falling spring barley sowings can continue into another season, particularly if distilling demand starts to pick up. The risk to malting barley supply is being compounded by yet another good autumn with dry and warm conditions favouring winter cereal sowings and potentially leaving less area for spring crops. In addition the poor performance of some malting varieties in comparison to several promising new feed varieties raises the necessary malting premium to continue attracting farmers to the crop.

- *Spring barley faces a potential shortfall in 2017 if whisky output recovers and premiums don't rise.*

UK and Scotland cereal crops lower

	Wheat	Wint. Barley	Spr. Barley	Total Barley	Oats	Total Cereals	OSR
UK	*Crop (000's t)*						
2014	16,606	3,094	3,817	6,911	828	24,468	2,460
2015	16,444	3,324	3,952	7,276	779	24,746	2,322
2016	14,466	2,845	3,807	6,652	755	22,069	1,758
Chng.	*- 1,978*	*- 479*	*- 145*	*- 624*	*- 24*	*- 2,677*	*- 564*
Scot.	*Crop (000's t)*						
2014	989	411	1,665	2,075	153	3,221	148
2015	1,016	406	1,521	1,927	152	3,101	148
2015	953	345	1,266	1,611	206	2,774	94
Chng.	*-63*	*-61*	*-255*	*-316*	*54*	*-327*	*-54*

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Indicative grain prices week ending 21 October 2016 (Source: SAC/AHDB/trade)
'* Before oil bonus, # Ex-farm England spring max 1.85%N, ~ nominal

£ per tonne	**Basis**	**Oct 2016**	**Nov 2016**	**Feb/Mar 2017**	**Nov 2017~**
Wheat	Ex-farm Scotland	129.90	131.30	136.00	135.00
Feed barley	Ex-farm Scotland	106.70	110.40	118.00	115.00
Malting barley	Ex-farm Scotland	130.00	134.00#	142.00#	145.00
Oilseed rape*	Delivered Scotland	-	344.50	346.50	325.00

Beef

Excellent trade now easing

Scotch beef enjoyed 22 consecutive weeks of rising prices to reach a 32 month high (from Feb 2014) to the beginning of October. The Scottish market has since dropped c.8p/kg dwt although there was a continued rise south of the border to mid-month. Processors highlight that Scotland particularly needed to pause for breath, carrying a substantial premium that topped 30p/kg dwt (one week only!) for U-grade cattle over Southern England. That has now narrowed to nearer 12p/kg dwt.

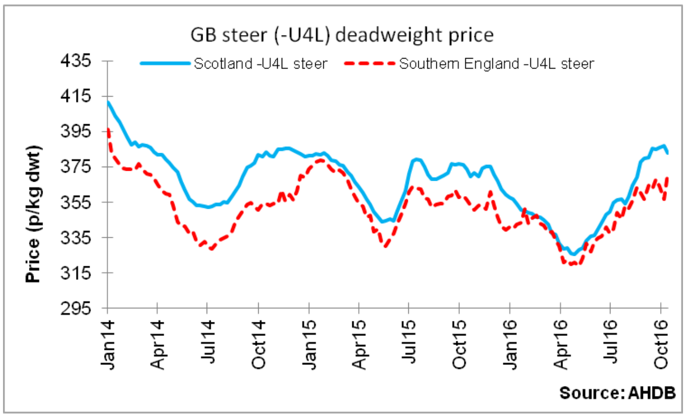
Scotch beef trade reached around 386p/kg dwt with some U-grades reaching 400p and Angus scheme cattle up to 420p by the end of September. That made a commercial R-grade carcase £1,500 @ 390kg and up £40/hd on the same week last year.

Working back dates

Christmas and New Year are two months away. The last purchase date available to target the 25 December is the start of December – to allow ageing, deboning, cutting, packaging, and transport to supermarkets via distribution centres. That is only 34 days away, at the time of going to print. Note some risk of waiting times applying over coming weeks, meaning calls to your procurement agent should be made soon.

There is a bit more variability in price across the market just now. Price is expected to weaken 2-3p to around 374-376p/kg dwt (Scotch) or 'stand-on' at best for week commencing 24 October as supply increases. Processors with storage space will front load supply in preparation for the Christmas market. Meanwhile factories with limited storage space drop the price before festive procurement really begins.

Avoiding a chase for cattle heading into November requires greater stocks in chill and more working capital but it is a necessary cost to ensure continuity and satisfy large contracts. Getting 'scores on the doors' early is a reoccurring theme of recent years. An average premium attributable to the Christmas market may only stand at 2-3p/kg dwt or £10/hd. Processors and retailers are getting better at managing supply.



Changing requirement for store cattle

As previously highlighted, finishers are reluctant to pay a high price per kilo for heavy forward store cattle. Consequently, heavy stores are back £80/hd on the year to date. Instead, there is greater demand for longer-keep cattle - turnover maybe lower but there is greater potential to control growth and gain a higher margin. Well-bred calves off the western isles have seen particularly buoyant trade.

These forward stores risk being finished in early spring before the market tends to fully recover from its festive hangover. Moreover, finishers have been stung in the last two years as the whole market dropped and did not recover until summertime.

Castration season?

After a very real warning about a diminishing market for finished young bulls, this time last year, fewer were kept entire. A reduced number helped by a rising market has meant the price differential with steers has been little different to October 2015 for U-grades and has actually narrowed further south. There is currently no suggestion of a hardening of this policy. All else equal, deliveries of young bulls (if well timed) this period next year might be okay (i.e. autumn born) but the risk of a discount remains for spring born bulls when there is also plentiful supply of 20-24mth spring born steers. Contact your processor to discuss.

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Prime cattle prices (deadweight) (Source: drawn from AHDB data)

Week Ending	Average prime cattle price (p/kg dwt)						-U4L Steers		
	E&W			Scotland			E&W		Scotland
	South Steers R4L	North Steers R4L	North Y. Bull -U3	Steers R4L	Heifer R4L	Y. Bull -U3	South	North	All
24-Sep	359.7	382.3	359.1	378.5	384.1	375.9	368.1	365.9	384.9
01-Oct	359.1	373.4	349.7	378.6	382.8	378.0	364.1	360.1	385.8
08-Oct	356.3	364.2	349.9	378.0	382.1	376.7	357.0	362.0	387.1
15-Oct	357.9	370.0	330.0	375.6	381.0	369.6	371.0	362.0	382.7

Market summary

- *For the week ending 14 October the AHDB's Weekly Average GB price for all ware potatoes was £154/t up by £0.50 (0.3%) over the previous week. The Weekly Average Free-buy price which excludes all forward contract material was £179.30/t up by £1.49 (0.8%) over the week. Free-buy prices are tending to firm which may be down to the uncertainty over this year's harvest with reports of yields being average at best*

Harvest makes good progess

The AHDB has estimated that lifting across GB is around 70% complete with around 88,000ha cleared at 15 October. This estimate is approximately 9,000ha ahead of the same week last year and 11,000ha less that the same harvest stage in 2014. In Scotland the recent dry spell has allowed growers to make good progress with lifting which is estimated to be 75%+ complete with some of the 250 acre size growers now finished.

In Scotland, lifting of ware crops is progressing well, with recent rain improving soil conditions although also interrupting progress in some cases. Among the later crops, skins are not as yet properly set so a further week or so may be needed. Yields are variable with some growers reporting up to a 15% to 20% reduction on last year, but overall are tending to be just below average. However, this comes against a backdrop of an increased planted area – the latest AHDB estimate being that planting across GB is up 4% on last year. Unlike in England, wastage remains light and manageable, mostly scab, greening or smalls. Seed crops continue to come off with fewer seed tops available for the ware market.

Packing prices firm

In the packing sector, there is much activity in the free-buy market which is being driven by purchased material for storage as well as for immediate use. Prices are stable or in some cases improving to attract loadings as most growers concentrate on filling stores. Some packers are now reporting above average waste but, in general, sufficient supplies of the right quality material are being sourced.

Typical prices include Maris Peer and Gemson salads at £250-£320/t. Grade 1 Maris Piper is trading within the £160-£190/t price range with general whites at £170-£190/t. General pack whites are around the £160-£170/t mark. A few lots of East Lothian King Edward are trading at £250/t.

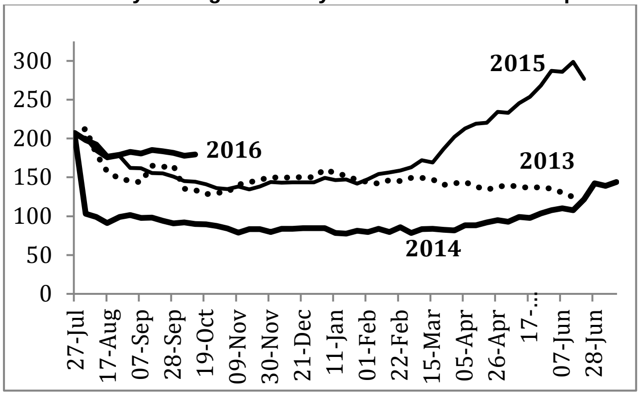
In the bag market**,** prices have firmed for available Maris Piper for chipping. Light ware supplies are matched with a steady demand at £160/t. Wilja is making £150-£160/t with a few lots of Kerrs Pink at £240/t.

GB Weekly Average Price 2016 and 2015 Crop (£/t)

Crop Year	14 Oct	07 Oct	30 Sep	23 Sep
All potatoes 2016	154.00	153.50	164.96	166.73
All potatoes 2015	139.18	141.20	144.75	150.62
Free-buy 2016	179.30	177.81	181.67	183.48
Free-buy 2015	144.24	145.08	150.89	155.02

Source: AHDB

GB Weekly Average Free-buy Price 2013 to 2016 Crop Years



Source: AHDB

Tesco's war on waste

Tesco has linked its fresh potato supplier Branston with prepared produce and ready meal firm Samworths to convert 'wonky' potatoes into mash. The retailer said the move comes as part of its promise that no edible food will be wasted at Tesco, from farm to fork.

Announcing the tie-up, Tesco head of food waste reduction Mark Little said diverting crops for mash builds on other waste initiatives such as the Perfectly Imperfect range, and the farm brands.

"We buy all of Branston's potato crop with most going into our potato ranges. The rest are peeled and sent to Samworths to be mashed and used in our own brand ready meals." "This increases the amount of crop used and saves edible produce being ploughed back into the field. It also secures a consistent supply of great mash for our customers."

Save the date

3 November 2016: AHDB's Seed Industry Event, Fairmont, St Andrews, Fife. Further info: www.potatoes.ahdb.org.uk/events

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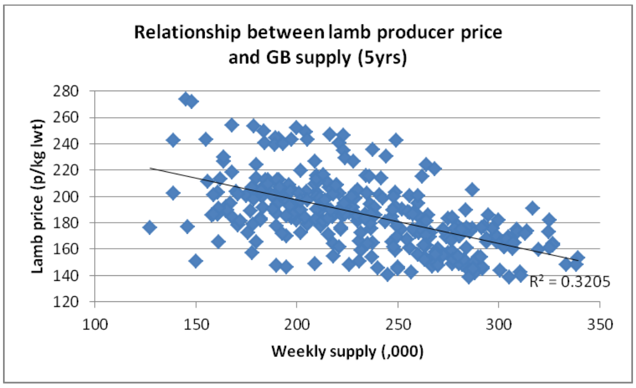
Price softens despite exchange rate

With lamb trade currently between 360-370p/kg dwt or £71/hd @ 19.5kg (w/c 24 October) it remains at least £6/hd better on the year. With price falling over recent weeks, that same lamb will now be around £2/hd down on the three-year average. This is the first time trade has fallen below the three-year average since July.

Accepting that a rapid increase in lamb availability, make October sales notoriously difficult, there is some concern at the level of price decline despite favourable trading conditions:

1. There has been a continued weakening of sterling against the euro.
2. Furthermore, taking AHDB lambkill numbers at face value, supply has been over 100,000 lower for September and October compared with the same months last year.

Supply is, however, 15% higher than the previous two months (July - August). That is the biggest 'price tipping' factor. Unremarkably, as supply increases, price drops, see chart below.

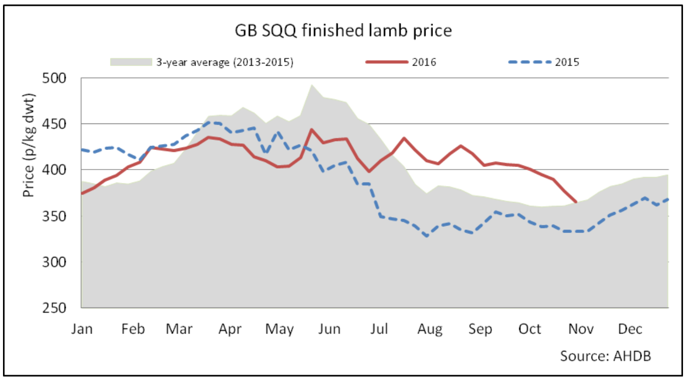


More interestingly, the exchange rate has an important but less direct relationship with producer price. Such relationships only reinforce the difficulty of seasonal supply, and reliance on demand within struggling mature markets at home and abroad, despite favourable trading conditions.

More hogget lamb available into 2017?

Provisional June census results indicate an increase in the overall 2016 lamb crop. Lower throughput to date and a larger crop suggests more lamb will become available this winter. A buoyant store lamb trade indicates producers are relying on low volumes of New Zealand lamb being imported on a pre-agreed sterling price and a less favourable exchange rate reducing all lamb imports.

This may protect the remainder of this crop year but in-specification lamb will be paramount to keeping the consumer onside for the medium-term. It is noted that a strong trade for heavy lambs just now could encourage more out of spec hoggs later.



Retail price inflation – who wins?

The UK imports around 40% of all food so significant weakening of sterling will see food price inflation – note the recent stalemate between Unilever and Tesco. Higher priced imported lamb will make GB lamb more competitive.

It is less clear, however, how that feeds through to the producer price:

1. Shrinking retail margins across other foodstuffs will be a catalyst for tough negotiations, amidst forecasts of good lamb supply, as retailers look to recoup margin from homegrown staples.
2. A fierce price war continues for customer footfall and this revolves around a commitment to low prices.
3. With wide scale food inflation, stagnant salaries and reduced job security/confidence (due to uncertain times) mean the consumer has less to spend on other food products like GB lamb.

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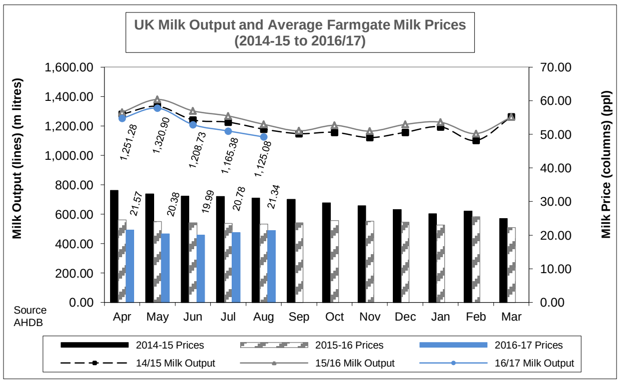
Week ending	GB deadweight (p/kg) 16.5 – 21.5kg			Scottish auction (p/kg)			Scottish Ewes (£/hd)	E&W Ewes (£/hd)
	R2	R3L	R3H	Stan	Med	Heavy	All	All
24-Sep	407.4	404.5	399.5	163.1	173.9	172.4	50.23	54.27
01-Oct	404.1	401.2	397.0	156.7	168.4	166.4	51.18	51.48
08-Oct	398.7	396.3	388.2	159.6	164.6	162.0	50.54	51.13
15-Oct	393.9	390.4	384.1	152.1	165.4	161.6	44.64	49.74

Deadweight prices may be provisional. Auction price reporting week is slightly different to the deadweight week. Source: AHDB.

Downturn in UK production continues

- *UK milk output is 381.58m litres down on last year*

The latest production figures from AHDB show that UK milk production is continuing to lag behind last year. Figures show that UK milk output for August 2016 was recorded at 1,125.08m litres (before butterfat adjustment). This is 85.91m litres lower than August 2015 output and means that UK cumulative production is 381.58m litres behind last year for the first five months of the production year.



The UK average milk price for August 2016 increased to 21.34ppl, up 0.56ppl on the previous month, but 2.00ppl lower than the average price for August 2015.

Surge in dairy commodity prices raises producer expectations

The table below indicates that there has been a significant lift to the price levels for dairy commodities during September 2016.

UK dairy commodity prices (£/ tonne)	Sep 2016	Aug 2016	Apr 2016
Butter	3,550	3,250	1,850
SMP	1,670	1,570	1,200
Bulk Cream	1,710	1,470	800
UK milk price equivalents (ppl)	**Sep 2016**	**Aug 2016**	**Apr 2016**
AMPE (2014)	28.47	26.01	15.48
MCVE (2014)	32.40	28.02	15.71

The price movements reflect the following changes in the market:

- A drop in milk output within the UK and across the EU, resulting in a tightening of supply and limited availability of stocks for trade.
- The latest Fonterra auction price on the GDT platform on 18th October 2016 was US $2,965 – up 1.4% from the previous auction.
- Towards the end of September, Fonterra announced a 10.5% increase to its 2016-17 forecast milk price, reflecting the decline in NZ milk production. This takes Fonterra's forecast milk price up to NZ$5.25 per kg milk solids.

Milk price round-up for November

Recent price announcements for Scottish producers include:

- Tesco – The TSDG price is set to reduce by 0.10ppl from 1st November 2016. This takes the farmgate price down to 28.61ppl.
- First Milk – FM has confirmed that it will pay a minimum 1.00ppl increase from 1st November 2016. This follows a 2.00ppl increase during October 2016. The impact of the projected increase is shown in the table below.
- Lactalis – 2.00ppl increase from 1st November 2016 (see table below). A further increase of 2.00ppl announced from 1st December 2016.
- Müller Wiseman – Between them, the Müller M&I Group and the Müller Direct Milk Group are to receive an average increase of 1.50ppl from 1st November 2016. Müller M&I Group will receive an increase of 1.38ppl (see table below), whilst Müller Direct Milk Group will receive an increase of 1.75ppl. The supplementary payment for September 2016 has been confirmed at 2.883ppl. The supplementary payment for November 2016 is expected to be around 2.00ppl.
- Graham's Dairies – 1.00ppl increase from 1st November 2016. This takes the farmgate price up to 21.50ppl.
- Arla Foods - 2.00 euro cents/kg (1.49p/litre) price increase from 1st November 2016. This takes the farmgate price for Arla members up to 23.14ppl for November 2016.

Annual Average milk price estimates for November 2016 (ppl)	
Milk Buyers – Scotland	**Standard Ltr***
Lactalis (No profile or seasonality) (3 month contract) [1]	23.00
First Milk Balancing- A price (90% of production). [1]	21.02
First Milk Manufacturing (Lake District) - 4.0% Butterfat & 3.3% Protein-A price (90% of production). [1]	21.88
Müller Wiseman- M&I - Müller Milk Group [1, 2]	20.94

[1] *Standard litre – annual av. milk price based on supplying 1m litres at 4.0% butterfat, 3.3% protein, bactoscan = 30, SCC = 200 unless stated otherwise.*

[2] *No monthly supplementary payment included in the price estimate.*

Organic milk approaching 40ppl!

Farmgate milk prices for organic milk continue to soar above conventional milk prices. Arla's organic milk price for October 2016 deliveries was 37.20ppl. Following the 2.00 euro cents/kg (1.49p/litre) price increase from 1st November 2016, this goes up to 38.69ppl. Obviously a good time to be an organic milk producer!

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Sector Focus: Inheritance Tax

Importance of succession

The uncertainties over Brexit are likely to encourage some older generation to retire and may offer opportunities for the young willing to tackle the new challenges it will bring. This article examines the current situation.

Nil Rate Bands

Inheritance Tax (IHT) applies on a deceased person's estate as soon as it exceeds £325,000; at a level of 40% of the excess over that figure. A husband can transfer his allowance to his wife and vice versa so the total allowance between couples is £650,000. Gifts between spouses do not attract IHT, therefore, the nil rate band on the first death is described as transferable. From 2017-2021 the nil-rate band will be increased in steps to give an individual £500,000 and a couple £1million tax free, to pass on. The down-side is that there will be tapered withdrawal of the additional nil-rate band for estates with a net value of more than £2million (before any reliefs are applied).

Agricultural Property Relief

Agricultural Property Relief (APR) and Business Property Relief (BPR) are very valuable tools in minimising the amount of IHT payable on death or on lifetime gifts to trusts.

Farmland typically attracts 100% APR, this includes land let under a Tenancy which started after 1995 or a Grazing Agreement. If a tenancy started before 1995 then 50% relief is available.

Complexity can arise when land has a value above that of purely agricultural use: a farm zoned for housing could be valued many times higher than farm land. The APR only covers the agricultural value of the land: IHT could be due on the difference, even if the land continues to be used for farming (BPR at 50% may be applicable).

Farmhouses and farm cottages can also receive 100% APR if the properties are an integral part of the farm, but they must be occupied for the purpose of farming. E.g. if an elderly farmer goes into a residential home, then the farmhouse is no longer occupied for agricultural purposes even if it had been occupied by him for most of his life. Farm cottages which are let out to third parties also fall outside the scope of APR.

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Business Property Relief

Where APR is not available in full, BPR may apply. Relevant business property can be relieved at 100% (businesses, interests in businesses and shares in unquoted companies) or 50% (land, buildings and plant owned by the person making the transfer and used by a company he/she controls or a partnership of which he/she is a member) depending upon all the circumstances involved.

Potentially Exempt Transfers (PET)

If the value of an estate (after reliefs have been applied) is likely to be above £650,000 and thus subject to IHT, there is an option known as a Potentially Exempt Transfer or a PET. This involves gifting assets to the future heirs of an estate, and, if the donor survives for 7 years, there is no tax to pay whatsoever.

If the individual making the gift dies during the 7 years and the gift was sufficient to exhaust the nil rate band, tax should be due according to the following:

- If death occurs within the first 3 years after the transfer there will be 100% of the tax due.
- If death occurs between years 3 and 4 then only 80% of the tax will be due.
- If death occurs between years 4 and 5 then only 60% of the tax will be due.
- If death occurs between years 5 and 6 then only 40% of the tax will be due.
- Finally if death occurs between years 6 and 7 only 20% of the tax would be due.

In the past a number of claims for Agricultural Relief may have gone through because the Revenue was too busy to check. However since 2010 the creation of a Compliance Unit has resulted in a greater number of challenges against claims for APR. Most ordinary working farms are able to pass from parent to child without Inheritance Tax being paid. However, it is too late to carry out tax planning after you have died! A little bit of time spent reviewing your affairs in a timely manner could make a significant difference to the following generation.

The information provided here does not provide the full detail for IHT planning. Please discuss your individual needs with a tax specialist.

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Management Matters: Forages and Feed this Winter

Forage for the winter

We hear a lot in the press about annual averages of silage quality for the year, how they are up or down in certain components year on year. These averages are interesting, but behind them is a huge variation in forage quality all over the country depending on time of cutting, weather, grass quality – the list goes on. What really matters is what the forage quality is like on your own farm and how that will affect your feeding plans for stock this winter.

Every year is different and this year, like last year, we are finding an increasing number of lower protein silages. It is essential for good management of stock that your forages are analysed and know what you are working with.

- *Analysing your forage gives you a starting point for rationing - without it, it is guess work.*
- *Either way underfeeding or overfeeding of expensive concentrates is costing you money either in poor growth rates or in too much feed that is not required.*
- *Keep an eye on how stock are doing before it is too late, use condition scoring as a management tool for cows and ewes as well as weighing.*
- *Low protein silages can be especially problematic in dry suckler cow rations that are mixed with straw and in youngstock rations - don't take the chance.*

Contact your local advisor for information on sampling forage. An hour or two planning at the start of the winter could save you money and a lot of hassle later on.

Feed Price Update

There is a lot of good news in the soya world at the moment; harvest in the US has been favourable with record yields, logistics are good, South American plantings going well, however the market place for soya remains around the £320-£330/t mark with the value of the pound against the dollar being so low. It is unlikely that currency will strengthen massively to alleviate this and some not so good news/increased fund activity could easily swing prices upwards in weeks to come.

- *Weather and availability can still catch us out again this winter, if you are a big user of straights it may be worth forward buying a percentage now to spread the risk*
- *Protein prices may rise through out the season. Analyse forages early and get winter rations worked out to make efficient use of bought in materials*

There is a feeling of increased tightness in distillery co-products with AD plants are creaming off the top and many distilleries are running at a slower speed. Pot ale syrup is sold out and draff in shorter supply this winter. Home produced sugar beet pulp is also in short supply and at a premium due to poor beet prices and a poor growing season. There are plenty in the EU, however, they are larger and harder pellets – not so suited to sheep.

Relative Feed Values

Feed	Price	Relative Value (£) using barley at £118/t and rapemeal at £203/t
Rapemeal	203	-
Hi Pro Soya	330	270
Sugar Beet Pulp	155 imported 177 home	111
WDGs	205	199
MDGs	198	192
BDGs	N/A	160
Maize gluten	175	151
Soya hulls	150	112
Molaferm 20	182	85
Pot ale syrup	N/A	106
Potatoes	25-30	27
Draff	20-27	33
Bread waste	N/A	101
Biscuit meal	143	151
Barley	118	-
Wheat	143	121
Beans	N/A	170
Peas	N/A	168

*Prices indicated are November prices for central Scotland, full loads delivered, at the time of writing (20th October2016) these are intended as a guide and may change. N/A = not available.

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Farm Management Handbook

Electronic version available in November - with the support of the Scottish Government's Farm Advisory Service an electronic version of the SAC Farm Management Handbook will be available free to access - www.fas.scot

General Indicators	
Base interest rate	0.25% (0.50% Mar '09)
ECB interest rate	0.00% (0.05% Mar '16)
UK (CPI) inflation rate	1.0% (target 2%)
UK GDP growth rate	0.7% (Q3 '16)
FTSE 100	6,946 (27 Oct '16)

Price indices for August 2016 (Defra 2010 = 100)			
Output Prices		**Input Prices**	
Wheat	100.7	Seeds (all)	97.2
Barley	101.2	Energy	93.6
Oats	109.6	Fertiliser	78.3
Potatoes (Main Crop)	134.1	Agro-chemicals (all)	127.0
Cattle and Calves	126.8	Feedstuffs	104.9
Pigs	95.4	Machinery R&M	112.3
Sheep and Lambs	106.9	Building R&M	110.1
Milk	86.5	Veterinary services	108.1

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