



Spring 2009

Food Business Outlook



Jolyon
Stonehouse,
Managing Partner

The economic downturn is a prompt for all food businesses to examine what they are doing, and how they are doing it. At Old Mill we look after many businesses from major food manufacturers through to value added local food companies. The question throughout is how is the recession going to affect them?

There is an underlying confidence in the belief that people still need to eat. However, there is also the largely media engendered scare that everyone is going to switch from quality food to saw dust derivatives from cut price supermarkets. This is probably a gross over exaggeration.

In the small print of many economic surveys you can see that other than the small proportion of the population who have unfortunately lost their jobs the vast majority of people have only seen a very marginal decrease in their level of disposable income. Some are choosing to pay back debt but the potential is there for them to spend money on good food.

This is a time when food businesses need to act clever. They need to examine their businesses to check they are focused, working to a business plan, understanding threats and capitalising on opportunities available to them. This is an area where Old Mill as accountants can really help.

From a marketing perspective this is a time when it is crucial to be showing not how cheap your products are but the value for money that they represent.

To help identify threats to your business in a recession and identify areas for you to focus on, Old Mill have produced a **Business Threats Analysis Matrix**. If you would like a copy please either fill in the reply slip or email alan.stone@oldmillgroup.co.uk.

Taste of the West Trade Show and Regional Food and Drink Conference

The week commencing 30 March is a busy time for the food team at old Mill with three days occupied at events.

Taste of the West Trade Show

Monday 30 and Tuesday 31 March at the Westpoint Exhibition centre near Exeter. This is the show where producers present themselves to potential buyers from Farm Shops, to Caterers, to restaurants and to supermarket buyers. A large number of stands are scheduled to attend.

Old Mill will again be located next to The Taste of the West stand and will be happy to talk to any visitors about how our services can help them develop their business – and in particular ensuring that they are minimising profits lost through taxation.

Food and Drink. South West Regional Conference

Thursday 2 April 2009, Duchy College, Stoke Climsland, Cornwall. Organised by the Chartered Institute of Marketing, this important conference will be covering many aspects of the food market including Market Insight, Finance, Communication, Innovation and Route to Market (Old Mill will be amongst the speakers within the finance session). For more details and booking, phone the CIM on **01628 427340**. The cost for the day is £39.10.



Cider – interesting marketing options

One area of the local food and drink market which has seen considerable development over the past year or so is cider.

On the back of a cider revolution started by the 'Magners, cider over ice' phenomenon there has been a reinvigorating of local cider producers and several new businesses established.

Local cider fits in well with the local food, local provenance, profile for food businesses. Cider is of course particularly identified with Somerset and the rest of the West Country. However farmhouse cider had generally been in a decline for a generation or so. Many farmers had given up producing and orchards had been ripped out. The latest phase of orchard destruction had been as recently as four years ago when there was a prolonged confusion over whether the land would qualify for single farm payment which coinciding with a fall in demand from certain national cider manufacturers whose own orchards had come on stream. Fortunately there is now renewed demand for cider apples and there has even been an increase in their price – although the produce of some of the smaller orchards is still being left to rot on the ground.

The quandary that some of the smaller producers are facing is that the new interest in cider is for a different style of product to that which many of them have been used to producing. The straight dry 'scrumpy' market is still facing problems. Sales of draught cider direct from the farm gate show little sign of significant increase, and pubs are still reluctant to sell it – especially because of shelf life problems for the natural product. Beer festivals and country shows provide another high profile but limited market for draught cider.

Much of the new market for cider from smaller producers is of a more discerning nature. They want a 100% juice, no additive product which is more likely to be compared to wine than traditional cider. This type of product is much more likely to be bottled and probably pasteurised to give it a longer shelf life. There are a number of companies who are marketing bottled ciders alongside apple juice.

There are probably more potential routes to market for bottled products. Farm shops, delicatessens, restaurants and even supermarkets all like to source quality local products. We have already seen small companies develop innovative brands and marketing campaigns. If the right product is there it would seem that there is still room for growth in this market.

However, cider companies need to pay the same detail to attention that is required by all the rural food and drink businesses that Old Mill work with. They need to operate to a clear business plan, ensure they have finance in place, have identified their sources of supply and their potential markets. On the positive side, the evidence of the last three months would suggest that for the present, sales of cider would seem recession proof.



Alan Stone,
Marketing
Manager



Richard Haines,
Rural Services
Manager

The threat of a tax inspection

A tax inspection – even if you have done nothing untoward, is an ever present threat to businesses. The disruption, cost and time, taken, can be considerably damaging.

Old Mill always recommend that clients take up the option of indemnity insurance. Currently there would

appear to be an increased threat of disruption where a food business is part of a diversified farming operation.

After years of being encouraged to diversify, HMRC are now applying a sting in the tail for farmers. They are looking for cases where they think businesses have been artificially separated for tax purposes. VAT irregularities come at the top of the list, but other taxes are also being queried. If you are at all concerned about the threat of tax inspections please contact us.



Mike Butler,
Head of Rural
Business

End of year planning

The end of the financial year for tax purposes is close upon us, but there is still time to look at some key planning points.

One of the biggest changes in the last year was the introduction of the Annual Investment Allowance (AIA) for companies, sole traders and some partnerships. This was a tax change which, surprisingly, was actually beneficial for businesses who invest less than £133k per annum on new plant and equipment.

Under the new regulations, 100% of the qualifying capital investment can be claimed, up to a limit of £50,000 per year. Amounts over and above this qualify for relief at the new (and reduced) 20% rate.

This opens up a number of planning possibilities. If you are likely to exceed the £50,000 limit in the year, it may be beneficial to delay some expenditure until the next tax year. Or conversely, if you are planning a big spend in the following year, it may be prudent to see if any amounts could be brought forward to utilise as much of the current year's allowance as possible.

Another matter to take into consideration is the option to make enhanced pension scheme contributions to reduce taxable profits – these need to be paid before the year end to obtain the tax relief. Accurate forecasting pre-year end is vital. It enables you to understand the amount of taxable profits you may have and determine the most tax effective pension contribution.

The advice in these situations is that if you feel there is a chance you may be affected, please talk to your accountant or financial adviser. We are here to help you.

New directions for local catering company



Paul Treby,
Partner

Mrs B's Caring Catering in Frome, run by Ruth Brooks, has been an active catering company in the Frome area for the past 12 years. However during the last year they have taken exciting steps to develop the business and to take it in a new direction.

They have acquired a new unit at a commerce park which is being developed on the edge of town. This space can be used to put new ideas into practice, with innovation seen as essential for development.

Ruth has built her business and her reputation with her excellent standards of catering and service. This is why so many customers return and bookings are kept constant. They cater for weddings, funerals, christenings, business and social events, including the catering at Frome Rugby Club. They have regularly provided catering at events for Old Mill, where a constructive relationship with them as accountants has been enjoyed for many years. They employ 10 full time staff, and over 25 part time staff, who are called in for events. With flexible working, many of her staff have been working for Ruth for years and are happy to come back when help is needed.

Part of the success is due to Ruth's business ethics where, a professional bespoke service is combined with competitive pricing. Ruth makes a point of using local



produce from half a dozen regular suppliers, their fish and meat is delivered daily and all food is made from fresh on site. The custom built commercial kitchen in the new unit provides an environmentally friendly workspace; this is an important ethos within their business.

The new unit includes two event rooms which Ruth aims to utilise for developing in house events. She also has plans to offer cooking courses, looking at particular niches such as lessons for men or for new brides. She hopes to get the local business community to use the rooms for business functions, training courses and conferences. Old Mill has been pleased to support her both as an accountant and as a customer.

The new premises are a brave move which has not been best served by the current economic downturn. Catering is a highly competitive market and Ruth has noticed how much more careful people are with their money. Some functions are being put on hold due to budget cuts. However, Ruth is confident that her reputation and client base will stand them in good stead. Ruth is determined to build the business and with her enthusiasm and ideas she seems to have the recipe for success.

To get in touch with Ruth call **01373 452593** or email mrsbs@freeuk.com.

Tax Inspectors Rights

We have recently come across the odd case of clients saying they have been approached by Tax Inspectors asking for information over the telephone.

We feel that in these cases it is unlikely that it was inspectors from HMRC and are concerned as to who it could be. Please be wary of telephone calls of this nature.

However the threat of a tax inspection is an ever present reality and the considerable problems and work these can entail can be magnified if they are not handled properly. As accountants we know the best way to communicate with tax inspections to ensure that your affairs are presented in the right way. If a tax inspector finds something presented in a less than favourable light, retrospectively correcting their impression can be hard and expensive work.

It is useful to know what the rights of the HMRC Tax Inspectors are. Currently they have to inform you in writing or by telephone to advise you that they wish to inspect records. Usually only VAT Inspectors currently have the right to demand an immediate inspection without consent.

However, there are going to be changes to the system from 1 April 2009. These purport to be a rationalisation of the previous different arrangements for Inland Revenue and Customs and Excise. In general there would appear to be a limited increase in powers of Inspectors. The information provided so far on how this is going to work is rather vague. We will update you with more information when it becomes clear how this is going to work. However, the principle of prior notification would appear to be maintained, or possibly strengthened, in the case of VAT.

Our general advice is that you should contact your accountant immediately the tax office makes contact with you. It is usually beneficial to ensure any meeting takes place at your accountant's office.

Reducing payments on account



Andrew Vickery,
Rural Services
Manager

If your business is one of the many where profits fluctuate considerably from one year to another, this can cause considerable problems with tax payments which can cause havoc with your cash flow.

It always seems to work that you pay tax in a year when you have low income and less tax in a year when profits are high. This can also be particularly important where Family Tax credits form a part of your income.

However, payments on account following a good year often mean that tax payments are increased, only to be repaid when next year's accounts are prepared. If you expect a reduction in profits, (meaning that your payments on account are too high) then you can apply to have your payments reduced. However, interest will be charged if it turns out that they have been reduced below the tax that eventually falls due for payment.

Payments on account that turn out to be too high will obviously be repaid to you at some stage, but we would rather these funds were in your bank account than the Inspector of Taxes!

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