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22 December 2017

Caledonian Trust PLC

(The "Company" or the "Group")

Audited Results for the year ended 30 June 2017

Caledonian Trust PLC, the Edinburgh-based property investment holding and development company, announces its audited results for the year ended 30 June 2017.

Enquiries:
Caledonian Trust plc

Douglas Lowe, Chairman and Chief Executive Officer	Tel: 0131 220 0416
Mike Baynham, Finance Director	Tel: 0131 220 0416

Allenby Capital Limited
(Nominated Adviser and Broker)

Nick Athanas	Tel: 0203 328 5656
Alex Brearley	

CHAIRMAN'S STATEMENT

Introduction

The Group made a pre-tax profit of £1,040,000 in the year to 30 June 2017 compared with a profit of £105,000 last year. The profit per share was 8.83p and the NAV per share was 161.71p compared with a profit of 0.89p and NAV per share of 152.88p last year.

Income from rent and service charges increased to £410,000 from £351,000 in 2016. The return of a retention from a property sale in 2012 resulted in a gain on investment property realisation of £259,000 and the value of other investment properties increased by a net amount of £1.175 million during the year. The disposal of two small plots of land resulted in a profit on sale of development properties of £37,000 (2016: £47,000). Administrative expenses were £611,000 (2016: £635,000) and interest payable was £14,000 (2016: £22,000). The fall in the interest charge reflects the reduction in base rate on 4 August 2016 and the average base rate for the year was 0.27% compared to 0.5% in the previous year.

The Company has changed its auditors to Johnston Carmichael LLP. The Board wishes to thank KPMG for its many years of audit services.

Review of Activities

The Group's property investment business continues virtually unchanged. We continue to hold two high yielding retail parades, and our North Castle Street office, where the surplus space is let out, and some central Edinburgh garage investments. In September 2017 we recovered £266,000 a part of the purchase price retained on the sale of Baylis Road, London SE1 in 2012 against potential exceptional costs arising because of building adjacent to the London Underground Northern line. Previously, no recognition of any recovery had been made.

The Group's management resources are almost wholly engaged in property development, including development necessary to secure consents, and on the provision of infrastructure for development plots. Until recently our developments have been delayed by poor market conditions almost certainly resulting from the relative poor performance of the Scottish economy, particularly affected by the shrinkage of the oil industry and reinforced by political uncertainty.

In the year to September 2015 Scottish house prices fell 0.5% and Edinburgh prices fell 3.1%. In the year to September 2016 Scottish house prices rose 0.6% and Edinburgh prices rose 5.7%, a greatly improving trend which has continued and in the year to September 2017 Scottish prices rose 3.1% and Edinburgh a remarkable 9.0%. The market is discussed in the statement later but other notable features are the large falls of 3.5% in Aberdeen and of 2.0% in Aberdeenshire and the small rises in Angus 0.3%, Highland 0.8%, Perth & Kinross 2.1% and in many areas around Glasgow. Flats or masionettes rose 4.2% but semi-detached properties only 2.1% while new builds rose 5.7%, compared to 3.1% for "existing resold property". The improving market conditions probably reflect improving economic conditions, particularly in Edinburgh, where in 2015 according to the ONS Regional analysis, growth in gross value added (GVA) was 5.8%, the highest of any UK city.

Edinburgh, despite the loss of banking jobs and in spite of political uncertainties, is the UK "hot house" for growth although Scotland as a whole only achieved 1.8%. I believe that these trends will likely be shown to be repeated in the still unpublished 2016 statistics and will continue in 2017 and in 2018. Given these propitious circumstances, we have concentrated our development focus on Edinburgh where our largest property, St Margaret's House, a 92,000ft^2 1970s multi-storey building is located on the A1 about one mile east of the Parliament and Princes Street, and adjacent to Meadowbank Stadium. Pending redevelopment, it has been let since November 2010 at a nominal rent to a charity, Edinburgh Palette, who have reconfigured and sub-let all the space to over 200 "artists" and "artisans" and "galleries". Tenant turnover is low and there is a "waiting list" attracted to this high-quality space by the subsidised rent, the excellent facilities management and the empathetic culture. This subsidy has been partially passed to the occupants but has also allowed Edinburgh Palette to effect repairs and improvements, to restore reserves and to establish an internationally recognised brand.

In view of Edinburgh Palette's much improved circumstances we agreed a modest rent increase, phased over a year to March 2017, to a level which is still significantly less than £2 per ft^2 of occupied space. For sub-lets of 100ft^2 (one "window" in Edinburgh Palette terms), this represents less than £5/week of rent: in artists' terms less than a glass of wine. We are negotiating another increase, allowing time for Edinburgh Palette to adjust their serviced studio prices to a more realistic level and for the many charities to obtain appropriate funding. Inevitably, this will result in some turnover in the occupancy, but demand for space is reported to be high, and the quality of the space at St Margaret's and its convenient location would command much higher prices, if offered to other charities. Edinburgh Palette recognise that in order to secure and develop their charitable purposes the charity must be managed more commercially. Accordingly, they have converted open space into more studios and sub-divided some of their larger galleries into smaller studios commanding higher rents per square foot. There is considerable scope for further such management changes as well as less subsidised sub-lets. The current level of subsidy is not necessary for most of the charity's purposes, and, indeed, a transition, carefully modulated to ensure possible deleterious effects are mitigated, will allow the charity to develop into a stronger organisation more able to support its purposes.

The car parking is also under-let. Until recently one hundred and twenty of the parking spaces at St Margaret's were let to the Registers of Scotland, our immediate neighbours, at £1.20 each per week day. Six spaces have been allocated for disabled parking and six others have been let privately at a higher rent. Parking is an increasingly valuable resource in Edinburgh and I am confident that, notwithstanding the history of below market pricing, an increase to £2.00 per space per week day that has been agreed in principle will in due course be documented. The sum of the market rents at St Margaret's is over £500,000 and the measures being taken will allow a slow but progressive move to a more realistic level.

Improved rents are required to compensate for the high cost of holding the building and the long and very expensive process of gaining Planning Permission in Principle (PPP) in September 2011 for a 231,000ft^2 mixed-use development of residential and/or student accommodation, an hotel, offices and other commercial space, together with parking for 225 cars. We applied for a renewal of the PPP in May 2014 for which we had to update all the many technical reports and undertake several new ones. The consent was renewed in June 2015, subject to a Section 75 Agreement signed in September 2016.

The redevelopment prospects for St Margaret's have improved considerably, particularly over the last two years. Site values for flats for sale, for flats for the Private Rented Sector and for student accommodation have continued to rise rapidly as an increasing demand remains unsatisfied. The City of Edinburgh Council ("CEC") perceives there is an acute shortage of a wide range of accommodation, particularly near the city centre. Because of a shortage of sites in the city centre and a desire by the University to diversify their holdings from south of Princes Street, areas north and east of Princes Street have become more valuable. This change in the market has been reinforced by CEC's decision in February 2017 to redevelop the adjacent Meadowbank Stadium. Unless a contractor/developer is appointed for the whole site, CEC currently proposes to develop the north section of the site, wrapping round a new sports centre, together with a second section, the most easterly triangle, just over the railway from St Margaret's, into 374 houses of various tenures, both sections entering off Marionville Road. The new sports complex, entering off London Road as at present, will be redeveloped by CEC on a more compact scale, an investment of about £42m, and the fourth section, a two-hectare site east of the stadium and west of St Margaret's, also entering off London Road, would be sold next year for "commercial" development. Such a development, adjacent to St Margaret's, and the siting of the main sports complex on the street, rather than the present "dated" spectator stadium, will greatly improve the streetscape, and extend it on an uninterrupted basis as far as St Margaret's, continuing the line of residential development virtually unbroken up to St Margaret's, so integrating it into the City. This redevelopment, or even the prospect of it, improves the value of St Margaret's. Such large projects, however desirable, are often subject to changes, sometimes long delays, and we do not intend to make any modification to the timescale of the redevelopment of St Margaret's on account of it. St Margaret's stands on its own.

We have been evaluating development options for St Margaret's for several years. To assist us we have commissioned two professional firms of surveyors to prepare comprehensive analyses of the options available, whose reports are due shortly. While these analyses will concentrate on comprehensive redevelopment, we are also considering recycling the existing building, as has been done successfully elsewhere, and building on the most valuable West Point of the site and, quite separately, the possibility of achieving full market rents either with the existing tenants or by alternative serviced or charity uses in the unlikely event of the redevelopment prospects seeming less desirable. We regularly receive unsolicited approaches for a variety of purposes.

Development at Brunstane has become increasingly attractive but the realisation of its great potential has been delayed. Prior to the sale of four houses, we owned five houses, open ground to the south of these houses, a large listed Georgian steading and two adjacent acres of land, all part of Brunstane Home Farm, which was in the Green Belt in east Edinburgh, but is just off the A1, and lies immediately adjacent to Brunstane railway station with services on the recently opened Borders Railway between Tweedbank and Edinburgh (eight minutes) and on to South Gyle and Fife. We refurbished the four listed Georgian, stone built, two-bedroom houses together with some of the infrastructure necessary for the subsequent larger development five years ago. The end-terraced house sold then for nearly £250,000, approximately £300/ft^2, a high price for the area, and the other, mid-terraced houses followed at slightly lower prices. The last house, abutting the steading, sold in 2016, a sale being delayed by the immediately adjacent building works. A mid-terraced house was resold earlier this year for over £350/ft^2 after attracting eight bids.

On the open ground south of these houses we secured consent in 2014 to construct two new semi-detached houses which, together with a mature wood to the west, completes a traditional farm courtyard. These two new houses, originally 1,245ft^2 each, are of modern construction but with the elevations faced with natural stone. In 2016 we gained consent to extend the easterly gable and add a sun room to the west elevation, increasing the total area to nearly 3,000ft^2. Work on the reconfigured development started in August 2016 and was expected to be completed in the Spring of 2017. A few weeks before completion the builder, a medium sized contractor/developer, went into liquidation. A replacement was engaged as soon as practically possible and a completion delay of 15 to 20 weeks was expected. However, it transpired that the funds paid to the original contractor for the utilities had been misappropriated and the long process of securing the utilities had to be repeated, a process over which we had no control and which took several months, further delaying completion until recently, so missing the autumn market. The finished product is excellent, and the houses are currently being marketed at over £300 / ft^2 at offers over £435,000 and £445,000 respectively with one of the houses under offer at above the asking price.

We have consent to convert the listed stone-built Georgian steading, to refurbish and extend a house attached to it to form ten individually designed houses comprising 14,648ft^2, with a development value of over £4.5 million. The houses have been extensively redesigned, principally to provide contemporary style large dining/living spaces, more en-suite bathrooms and better fenestration, together with lower construction costs. Work on the stonework for the next phase of five of these ten houses, the "Horse Mill" phase, which comprises the five stone-arched cart sheds, the single-storey cottage, the main barn and a hexagonal Horse Mill, a notable feature, is complete. The masonry work requires the use of traditional lime mortar, a material which is slow to work and very weather dependent, and one reason why, paradoxically, such extensive repairs cost far more than rebuilding with new stone. The detectable repairs and renewals required, some highly "tooled", were quoted at over £250,000 and the undetected stone deterioration and unforeseen remedial work would have increased this to over £400,000. To reduce cost, we have employed contract staff directly and effected all the necessary repairs and renewals, including those omitted in the original estimates, more economically. The quality of the work, especially evident in the Horsemill, is exceptional and, while the delay has proved frustrating, the "overhead" site costs have been minimal, due to the use of our own existing facilities and equipment, and helpfully the potential sales values have increased over that period.

The completion of the stonework allows five new-build timber frame houses to be inserted in the reconstructed outer shell. In order to reduce delay we went to tender for a comprehensive contract for the then current stage of the works to completion. Many contractors were unwilling to tender and the resulting tenders were well in excess of budget for many reasons: the extent of the unfinished stonework was uncertain; the extent and specification of the remaining demolition works were uncertain; the ground-works design was unfinished and uncertain; the construction method necessary and the restoration materials specified were expensive; the design included infrastructure for subsequent phases; and the overhead cost was inflated because of the contract length. It seemed all the contractors had an aversion to such a complex restoration project. These problems are currently being remedied: the stonework, demolitions and clearances are nearing completion; the design is being refined and the construction work simplified; materials have been changed, the saving in roofing alone being over £20,000; and any unnecessary infrastructure reallocated to its appropriate phase. To reduce uncertainty the contract may be split between the complex ground-works and the now less complex building works, all in modern materials. If tender pricing is within budget the ground-works should start in the Spring.

The further investment now in the Horsemill phase has a quite bizarre benefit. Because of the establishment of a misguided principle, or possibly, to save management cost in credit verification, all funders now require the site cost, defined as purchase price plus costs, to be a high proportion of the finished value in accordance with their "Loan to Cost" criterion. As the site value is the historic cost, there is no allowance for valuation change, even after twelve years as in the case of Brunstane. The carrying valuation of Brunstane, as in the vast majority of our sites, is so low that this criterion of the mainstream lenders is not met. As a result finance costs would be over 10%, rising significantly if there were any overrun. The investment now being undertaken will increase the site cost which will allow development funding at about three percentage points over base.

The masonry repairs of the Horsemill phase include restoring its east elevation, a single storey barn wall which is part of the Stackyard, the next five house phase. Apart from this east barn, all the Stackyard construction will be "new build", giving a similar high quality product, but at a much lower construction cost and at a marginal servicing cost. I expect the development value of the Horsemill phase and the new Stackyard phase to be over £4.5m.

A detached stone building sits east of the main steading with consent for conversion and extension to form a detached farmhouse extending to 3,226ft^2. Around the farmhouse and in open ground bounded on the east by a copse, we hold a further two-acre site, which has just been abstracted from the Green Belt in the Edinburgh Local Development Plan adopted in November 2016. Proposals for the development of the farmhouse site and the remainder of the two acre site have been accepted in principle to provide 19 new-build houses over 25,149ft^2. East of our two-acre site the Brunstane master plan has been approved for an extensive residential development for which ground investigations have just been completed, and EDI are already marketing part of their site.

At Wallyford, Musselburgh, we have implemented a consent for six detached houses and four semi-detached houses over 12,469ft^2. The site lies within 400m of the East Coast mainline station, is near the A1/A720 City Bypass junction and is contiguous with a recently-completed development of 250 houses. Taylor Wimpey are completing the construction of over 400 houses nearby, but on the other side of the mainline railway, which are selling rapidly at prices of up to £237/ft^2 for smaller terraced houses and £213/ft^2 for larger detached houses. Persimmon started developing 49 homes in Wallyford in the Spring of 2016 which sold out within a year at £250/ft^2 for two-bedroom houses and £200/ft^2 for a four-bedroom house. On the southern boundary of Wallyford a very much larger development of 1050 houses has commenced. The Master Plan for this development includes a secondary school, a supermarket and many civic amenities and is subject to a proposal to expand the housing allocation to 1,450 by incorporating land immediately east. The environment at Wallyford, formerly a mining village, but well located and on the fertile East Lothian coastal strip, is rapidly becoming another leafy commuting Edinburgh suburb.

Given these greatly improved Wallyford house market circumstances we had intended to continue the development of our ten houses in 2017, but this has been delayed. In order to meet the changing market conditions the layout of the ten houses has been altered to provide two blocks of semi-detached houses in place of a terrace of four houses. An earlier eight house consent endures but permission for the changed layout has been awaited since August 2017. Given the improved market conditions, a slightly higher specification is proposed including a low enclosing site wall with railings which will enhance the setting and form a clear division from nearby housing. The delay will prove beneficial as it should allow the construction of the site as a whole rather than piecemeal, potentially saving over £10,000/month on overhead site costs, say £50,000 overall, and, with the additional input of equity which we now propose, allow funding at a moderate 3% over base.

Work on Belford Road progresses, but more slowly than previously envisaged. The site lies between Belford Road and Bells Brae to the north, the original route to the Water of Leith crossing, and faces onto Belford Road which is a quiet cul-de-sac less than 500m from Charlotte Square and the west end of Princes Street. By starting construction we have taken up an earlier office consent for 22,500ft^2 and fourteen cars. We hold a separate later residential consent for twenty flats over 21,000ft^2 with indoor parking for twenty cars on which sufficient work started in 2014 to secure that consent also. Over the last year we have undertaken further site work which allows construction costs to be more accurately assessed and the risk of construction cost overruns reduced, facilitating lower tender prices and a reduction in construction "abnormals".

In continuing the clearance of this site we have created an effective vehicle and machinery access; removed the soil and the collapsed masonry on the now exposed southern retaining wall; identified that the rock levels intrude into the site as little as expected; confirmed that this rock is solid and load bearing but friable and that there is no ground water present. Additionally, we have completed the mandatory archaeological study.

The existing access, which will be further widened within our site, is considered by a piling contractor to be more than sufficient for the rig necessary; the south retaining wall reduces or eliminates the need for piling, provided support is given at low levels by the structure of the development; the rock levels require little excavation – our standard JCB with its existing breaker is more than adequate, given its friable nature; and there is no ground water requiring pumping. Further work on clearing has been delayed for several months while obtaining Scottish Water's approval for a six inch sewer diversion which has only recently been granted.

The fuller understanding of the site conditions allows us to make small adjustments to the consented proposal, to make the building easier to construct and to modernise aspects of the design, particularly in the finishes and the fenestration, all variations of the existing consent. Given that the development value is likely to exceed £11 million next year and, given that finance is available at "normal" rates, we aim to commence development as soon as possible.

The Company has three large development sites in the Edinburgh and Glasgow catchments of which two are at Cockburnspath, on the A1 just east of Dunbar. We have implemented the planning consent on both the 48 house plot northerly Dunglass site and on the 28 house plot, including four affordable, southerly Hazeldean site. The Dunglass site is fifteen acres of which four acres is woodland, but within the eleven acres lies an area capable of holding up to thirty houses if the ground conditions, which initially appeared to preclude development, could be remediated.

These two sites lie just east of the East Lothian/Scottish Borders boundary. In the year to September 2016 East Lothian prices rose 4.3% and by a further 5.3% by September 2017. The high rate of sales in the new build sites throughout East Lothian corroborates the evidence that the market is buoyant. Six miles west of Cockburnspath, at Dunbar, Persimmon are selling small four bedroom houses of around 1,000ft^2 for £230 per foot. We will continue to monitor the market in order to start development when appropriate.

The third large development site is only seven miles from central Glasgow at Gartshore, Kirkintilloch (on the Union Canal), East Dunbartonshire, and comprises the nucleus of the large estate owned until recently by the Whitelaw family. It includes 120 acres of farmland, 80 acres of policies and tree-lined parks, a designed landscape with a magnificent Georgian pigeonnier, an ornate 15,000ft2 Victorian stable block, three cottages and other buildings and a huge walled garden. Gartshore is near Glasgow, two miles from the M73/M80 junction, seven miles from the M8 (via the M73) and three miles from two separate Glasgow/Edinburgh mainline stations and from Greenfaulds, a Glasgow commuter station. Gartshore's central location, its historic setting and its inherent amenity identify it as a natural site for development. To make the best use of these attributes, proposals have been prepared for a village of several hundred cottages and houses together with local amenities, all within the existing landscape setting. This development would complement our separate proposals for a high-quality business park, including a hotel and a destination leisure centre, all situated in mature parkland. Discussions with East Dunbartonshire Council continue from whom we seek support for a joint promotion of the site. One of the stables has been refurbished as an exhibition and visitor centre in order to provide an on-site nucleus for Gartshore's promotion and will open when some external repairs to the stable block and external landscaping have been completed.

The company owns fourteen separate rural development opportunities, nine in Perthshire, three in Fife and two in Argyll and Bute, all set in areas of high amenity where they are more subject to objection to which local authority members, now elected by proportional representation, are increasingly sensitive and such small developments, outwith major housing allocations, may not merit high priority. Thus, gaining planning consent for such developments has become ever more tortuous, a restriction which should enhance their value. Notwithstanding these difficulties, we have promoted many sites successfully through this planning process. The rural housing market has not been experiencing the rapid growth taking place in Edinburgh over the last two years with some regions such as Perth and Kinross, Argyll and Bute and Highland declining in real terms. Accordingly, no immediate investment is proposed in the rural portfolio, except to maintain existing consents or to endure them.

In Perthshire, at Tomperran, a 30 acre smallholding in Comrie on the River Earn, we hold a consent for twelve detached houses totalling over 19,206ft^2 which has been endured by the demolition of the farm buildings. West of this site, nearer Comrie, we hold a consent for a further thirteen houses on our adjoining two acre area, previously zoned for industrial use, which awaits the signing of the S75 Agreement. We expect to gain consent to change the current terrace of four houses into three detached and two semi-detached houses. In total the twenty-five new houses covering these two areas will occupy over 33,912ft^2. The original farmhouse, currently let, will remain intact within the development. A small bungalow over 877ft^2 (3 bedrooms) sold recently in Comrie for £195,500 or £223/ft^2.

At Chance Inn farm steading we hold a consent for ten new houses over 21,831ft^2 following acceptance of our proposals for the mandatory environmental improvements. Chance Inn, part of the Loch Leven catchment area, is subject to very strict regulations governing the phosphate flows into the loch. New developments are required to effect a reduction in the total phosphate emissions to the loch such that, for every 1.00 grams of phosphate that a new development is deemed to discharge, 1.25grams of phosphate has to be eliminated. New developments with suitable treatment discharge very low levels of phosphate but, patently, do not effect an overall reduction. In order to allow our developments at Chance Inn to proceed we have created extensive arrangements to reduce the existing emissions from four neighbouring houses at a cost of over £100,000, following negotiations lasting over five years. This work will be complete when the final connection is made at a further cost of up to £25,000. We intend to do that work in the next year at the same time as we start the demolition of an existing building in order to endure the consent for the 10 houses over 21,831ft^2. When we sold Chance Inn farmhouse we retained land in the former garden on which we gained consent for two new houses of 2,038ft^2 and 2,080ft^2. One of the two Chance Inn farmhouse plots was sold in October 2016 for over £100,000 together with a small paddock for £34,000. We hold sufficient land next to the farm steading to allow the sale of such paddocks to purchasers of the new houses.

Also in Perthshire, nearby at Carnbo, on the A91 Kinross to Stirling road, the Local Plan now includes within the village settlement the paddock which we retained when we sold the former Carnbo farmhouse. Based on this new Plan consent was issued on 29 July 2015 for the development of four houses over 7,900ft^2 in the paddock. The planning application was first registered by the planning authority on 26 June 2008, seven years earlier! Early in 2018 we hope to undertake the archaeological works which are an essential pre-condition of the planning consent and then undertake building works so to as endure the consent.

Work on our other Perthshire sites is restricted to improving marketing and to maintaining or enduring consents. At Strathtay we endured all consents gained in 2011 for two large detached houses totalling over 6,040ft^2 and for a mansion house and two ancillary dwellings over 10,811ft^2 in a secluded garden and paddock near the River Tay. We propose to move services to permit the formation of entrances onto the public road in order to allow marketing of the two large house plots. At Myreside Farm, in the Carse of Gowrie between Perth and Dundee, after five planning attempts and appeals since our first application in 2007 and, following guidance from the planning department, we finally gained approval three years ago for five new-build houses over 8,531ft^2, adjacent to the existing listed farmhouse which is let on a short-assured lease. The redevelopment has been frustrated by the high cost entailed in using reclaimed stone. However, we are renewing the existing consent which we will seek to adjust given the impracticality of the present requirements, as almost all the stone, used only for farm buildings and never of high quality, has delaminated further. At Ardonachie, just off the A9 at Bankfoot, the consent for ten houses over 16,493ft^2 is being extended. The small site at Camghouran on Loch Tummel has consent for three units on 2,742ft^2 for which the consent is endured. When rural market conditions improve this site will be marketed.

The opening of the Queensferry Crossing and the completion of the associated roadworks will improve the marketability of all our development sites north of the Forth estuary. Further north the A9 is being dualled over a distance of c. seven miles from Luncarty (four miles north of Perth) to Birnam ("wood to Dunsinane hill" of Macbeth fame!), giving an uninterrupted dual carriageway to our site at Ardonachie where we have planning permission for ten units of over 16,493ft^2. The extension of the dual carriageway will also result in our sites at Balnaguard (15,994ft^2) and Strathtay (6,060ft^2 and 10,811ft^2) being only about ten miles from the dual carriageway to Perth.

Work on our three sites near St Andrews, Fife has been largely suspended pending an improvement in markets. The expansion of the University of St Andrews east of Guardbridge marks a significant move away from the narrow confines of St Andrews which should in future be reflected in the local housing market. In the interim we are renewing our consent for nine units over 19,329ft^2 at Larennie, by Peat Inn only 6.9 miles from St Andrews.

Ardpatrick is our largest rural development site, a peninsula of great natural beauty with six miles of sea frontage on West Loch Tarbert, but less than two hours' drive from Glasgow and the Central Belt. The long-term prospects for residential property are excellent, but their realisation continues to require investment, skill and patience to rectify the cumulative effect of severe prolonged neglect. Fortunately, the original design and construction of most of the period property was of a very high standard and is intact or recoverable. Repairs to some of Ardpatrick's buildings, farm sheds and landscape caused by the exceptional storms in recent years continue to be delayed by even more urgent work. However, significant repairs have been effected to roads, culverts, ditches, drainage, field accesses, dykes, and fences and the very wet summers have both validated the repairs achieved and highlighted and hindered those being made. Frustratingly, unlike most repairs, the majority of these achieved are not obvious and the benefits not readily appreciated, but comparison of the present conditions of the landscape with those in five to ten year old photographs reveals the extent of the recovery. An important consequence of this recovery is that a much higher percentage of the property falls into a higher more valuable grade of agricultural land, so qualifying for higher EU support, and the stock carrying capacity of the land should be greatly increased.

Ardpatrick development possibilities fall into two groups. Prior to the 2009 North Kintyre Landscape Study relatively few sites were deemed suitable for development. Prior to that study we gained consent to change the use of "Keepers", a bothy situated amongst the Achadh-Chaorann group of cottages, and to extend that building to form a three-bedroom house complete with stone outhouses conditional on providing a new access and drive. On completion this property was available for offers over £175,000. Other consents originally obtained or granted in 2009 have been renewed including the sub-division of Ardpatrick House, the conversion of the "Gardener's Bothy" into a 1,300ft^2 single storey house, the Garage complex into two flats, and the extension of the Laundry Cottage. Additionally, a consent was gained to build a new 1,600ft^2 single storey house within a corner of the walled garden. The consents have heavy unnecessary infrastructure requirements which, together with the high cost of conversion in poor market conditions limit economic development. In addition they all impose some impairment cost on nearby property. An exception is the consent to develop Oak Lodge, a two-storey 1,670ft^2 new build on the Shore Road, where consent has been renewed and the Oak Lodge plot is available at offers over

£125,000 and continues to attract viewers. Work will be done in the Spring 2018 to improve further its approach and landscaping.

We have gained several consents in areas designated in the Landscape Capacity Study. In 2011 we secured consent for two one-and-a half storey houses each of 2,200ft^2 at the north end of the estate on the B8024 Kilberry Road and a road access has recently been formed to endure these two consents. Nearby on the east side of the UC33 Ardpatrick Road we hold an outline consent for two houses on the Dunmore schoolhouse field, bordering the Cuildrynoch Burn which we are applying to convert to a full consent. On the east side of the UC33 we will renew an outline consent for a detached house in a woodland setting.

Since the 2009 study the number of consents had risen markedly and at least twenty plots are available from Ardpatrick to the environs of nearby Tarbert. Economic realisation of new sites and conversions are unlikely in these circumstances, especially with the infrastructural impositions at Ardpatrick.

The poor market conditions are exacerbated by the cost of upgrading the inadequate infrastructure, partially due to the required enhancement of the public services. It is not difficult to envisage that second homes, holiday homes and relocation/retirement homes would be amongst the last to recover following a depression, a recovery now slowed by the tax impositions on second homes and on buy-to-lets. Despite this background it is encouraging to note that one or more new houses are built, and others renovated, in the Tarbert to Ardpatrick corridor each year, greatly improving the area and establishing it as a centre properly renowned for its landscapes, seascapes and wildlife. In any recovery Ardpatrick's pre-eminent position will continue to command a premium, especially with its extensive coastline. Until then further development will be limited and the properties put on a care and maintenance basis, possibly with a view to establishing short-term lettings where conditions allow.

Economic Prospects

The UK's economic prospects will be greatly influenced by the conditions, the timing and the consequences of the UK's withdrawal from the EU. The influence of these variables and their inter-reaction, while possibly profound, is extremely complex. Given such complexities, most forecasters appear to assume, as stated by the Bank of England, that "the MPC's projections are conditional on the average of a range of possible outcomes for the UK's eventual trading relationship with the EU". While the terms of the UK's withdrawal from the EU are a major determinant of the UK's economic prospects, they could either be benign or malign.

The benign prospect derives from the possibility of greatly increasing trade between the UK and all other non EU countries, extending the benefit the UK derives currently from the EU single market, the largest of the world trading blocs, but still only a small fraction of the world market. The EU market in goods is largely unrestricted, except notably for some agricultural goods and some specific manufactures such as cars, but is still deeply restricted in services. In theory current trade access to the EU could continue – with some technical restrictions – but with improved access to the much larger non EU economies, so increasing UK trade and economic growth.

Such protectionist tendencies, if expressed in the current negotiations, will result in a non-optimal economic outcome both for the UK and for the EU, although the malign effect per head on the much larger EU economy will be considerably lower. The EU has had and continues to have the option at any time to reduce its trading barriers with non EU countries but it has made only limited such trading arrangements over a very long period of time. Thus it has chosen to restrict trade unnecessarily in favour of protectionist policies. Such policies are also endemic within the EU as EU members continue to place severe restrictions on services which, although in theory are part of the Single Market, in practice, at least to a great extent, they are not.

The likelihood of such a non-optimal outcome derives from the fundamental difference between the UK and the EU in their perception of the purpose of the integration of the constituent countries within the current EU. These differences may have become attenuated over the years but remain evident. Fundamentally the understanding of the social "contract" that is implicit in the construction of the EU differs between continental Europe and the UK. The difference has not been given appropriate prominence since the inception of the organisations of which the EU is the successor, but this reality has never been extinguished and is at the heart of the present differences between the EU and the UK.

This conceptual difference between the two parties is long established. The prospect of a "common market", discussed in Messina in 1955, was dismissed by the then Chancellor, "Rab" Butler as "some archaeological diggings … in an old Sicilian town!". Churchill is widely regarded as promoting such European integration after WWII. In 1946 he said "The first step in the recreation of the European family (sic) must be a partnership between

France and Germany, adding, "Great Britain, the British Commonwealth of Nations, mighty America and I trust Soviet Russia - for then indeed all would be well – must be the friends and sponsors of the new Europe and must champion its right to live and shine" and so he clearly envisaged Britain remaining outside such a European association, a sentiment which, in his meeting with Konrad Adenauer in 1953, he amplified as comprising three circles, UK, US and Europe, interwoven with each other yet independent, with UK remaining on the periphery.

During WWII Jean Monnet, a French diplomat on the National Liberation Committee of the de Gaulle "government" in exile, accredited by Keynes as having shortened the war by a year because of his influence on President F D Roosevelt, said on 5 April 1943 "There will be no peace in Europe, if the states are reconstituted on the basis of national sovereignty … The countries of Europe are too small to guarantee their peoples the necessary prosperity and social development. The European states must constitute themselves into a federation."

The first steps towards this goal were taken on 9 May 1950 when Robert Schuman, a French Minister, announced the intention to form what became the European Coal and Steel Community. The Schuman declaration prepared by Monnet said "Europe will not be made all at once, or according to a single plan. It will be built through concrete achievements which first create a de facto solidarity. The coming together of the nations of Europe requires the elimination of the age-old opposition of France and Germany."

The Schuman plan, while a tactic very cleverly designed to appear only to resolve a dispute between France and Germany over privileged French access to German coal, advanced the strategic actions of integration, as the declaration, prepared by Monnet, but delivered by Schuman illustrates: "Through the consolidation of basic production and the institution of a new High Authority, whose decisions will bind France, Germany and any other countries that join, this proposal represents the first concrete step towards a European federation, imperative for the preservation of peace". France gave up some contentious war reparation payouts by forming a permanent European body, incorporating a control over German assets and advancing its stated ambitions for a more integrated Europe, while Germany gained recognition as an equal in an European institution. This coup, control of German economic assets and their dispersion into a wider organisation, echoed a much earlier similar grand stratagem. In 1919, at the Versailles Peace Conference, Monnet, then an assistant in the Ministry of Commerce, proposed but had rejected "a new economic order", based on European cooperation. Then, in 1945, his reparation plan, "The Monnet Plan" succeeded in his words – "in taking control of the Ruhr and Saar coal producing areas and redirecting the production away from German industry and into French, thus permanently weakening Germany and raising the French economy above its pre-war levels". As part of "Europeanism" these assets were moved into the "High Authority" of ESCA, presided over by Monnet, whose decisions bound – i.e. they were supra-national - the sovereign nations in or joining the Authority. Germany gained the abolition of the further dismemberment of its industry and the limit on its industrial production. M. Monnet's skills were deployed widely. In 1946 he negotiated the Blum-Byrnes agreement giving US films access to French cinemas for up to 9 out of every 13 weeks in exchange for expunging a WWI $2.8bn debt and providing a new low interest loan of $650m. The manifestation of his influence bizarrely extended to his private life. He arranged for his employee Silvia Giannini, the married mother of their daughter Anna, to meet him in Moscow where, with the assistance of the American and French ambassador in Moscow and the Soviet Ambassador to China, she obtained a divorce, divorce being unlawful in France, and subsequently married Monnet. Quelle chance!

In 1955 Monnet founded the Action Committee for the United States of Europe which provided the initiatives leading to the EEC established by Treaty of Rome in 1957, whose six signatories declared that they were "determined to lay the foundations of an ever-closer union among the people of Europe".

Subsequent events have continued to build on this foundation, a great building like the Cathedral of Santa Maria del Fiore took 150 years to complete, and the EU construction continues, erecting a deeper distinction between the perceptions of the EU founders and the UK. Philip Stephens, writing in the FT puts it "for all its decades of membership, Britain has never really joined the EU. … it has never properly grasped the psychology of European integration. For France, Germany, Italy and the rest, the union was a political project with emotional roots deeper than the economic rationale. For Brits, it was a commercial transaction – a club they had signed up to by dint of straitened economic circumstance rather than political choice." A mindset, the FT comments, that heralds a disorderly exit.

The "ever closer union" concept continued to permeate policy and shape strategy. Following changes in 1961 in the EEC currency rates which severely distorted support prices in the Common Agricultural Policy and threatened the political balance in the EEC the French Commissioner, R Marjolin, argued for a fixing of rates, claiming in 1962, that currency disturbances undermined the Common Market. In 1964 he told the EEC central bank governors to prepare for "monetary unification" and in 1965 he declared it an "inevitable obligation". The concept of political centralisation was expressed by de Gaulle in 1968, as described by the German Chancellor Kiesinger, "General de Gaulle once told me that his country had become terribly run down in the last 150 years, 'damaged' was the word he used. He saw his task as bringing about a turnaround, as far as he could. For this, he needed a period of calm, and he would let no one disturb this… As France went through a process of renewal, the General would like to see other European states grouped around it forming a type of confederation under French leadership. But he could realise this aim only if he kept Britain out."

The 1960s were marked by several exchange rate crises, including the UK 1967 devaluation of 14.3% against the $ under Harold Wilson … "the pound in your pocket! …" For economic reasons the £ had weakened, but this weakness was intensified by de Gaulle's project for world monetary reform, to be achieved by strengthening the role of gold which he said has "no nationality … and … which is eternally and universally accepted" and eliminate the reserve currency status of sterling and the dollar. £ and $ trade deficits were financed by foreign holders of such currency liabilities, prompting the French philosopher Raymond Aron's comment … "they paid their foreign debts with their own currency, when it was devalued, holders had to take the consequences". Fortified by de

Gaulle's grandeur and his belief France had played a strong role in world affairs only when its currency had been in order, France attacked the $35 exchange rate of gold by aggressively selling dollars for gold and bullion and between 1958 and 1966 France acquired about 40 tonnes of gold, per year. The French attack on the established monetary system coincided with increased concern over the dollar, weakened by the USA's increasingly deep involvement in Vietnam and by rising USA inflation. The French anti-dollar stance was supported by other smaller EEC nations, but initially not by Germany who for domestic, political and defence reasons – it was the height of the Cold War – sided with USA. The attack on sterling, already considerably weakened by its high inflationary environment, making UK exports increasingly less competitive, contributed to the UK 14.3% devaluation of which the Deutsche Bundesbank's President, Otmar Emminger, said the devaluation was caused by "the inability of the British economy to compete". Sterling's devaluation was highly destabilising, resulting in further gold purchases and dollar and sterling sales, as the UK external balances were slow to react to the devaluation. Consequently, the "Gold Pool", set up in 1961 and operated by Central Banks in the USA and seven European countries to stabilise the $35 gold price, but weakened by the French withdrawal from the Pool in 1967, collapsed in March 1968. The delayed benign effect of the sterling devaluation, coupled with international support for sterling, restored confidence in the £, which together with the effective devaluation of the $, following the collapse of the Gold Pool, exposed the overvaluation of the Franc especially compared to the DM.

This presaged the end of de Gaulle's dream of a "Franc fort", leaving only a devaluation of the Franc "faible" and a DM revaluation – a telling undisguisable symbol of the DM's relative economic strength – as a practical solution. Faced with so obvious a sign of French weakness, de Gaulle blocked the proposed currency realignment, imposing strict exchange controls. Immediately after this the European Commission presented proposals for a common currency, a proposal advocated by Raymond Barre, the French Commissioner, successor to Robert Marjolin who had earlier promulgated such an idea. These proposals were blocked by Karl Blessing for the Deutsche Bundesbank and others, nominally because of loss of sovereignty.

For France, for Germany and for the EU this defeat of French economic policy marked a turning point. Shortly before he resigned in early 1969 de Gaulle told Chancellor Kiesinger:- "France has a certain hesitancy and caution regarding Germany's economic strength, as it does not wish to be inundated by German industry. Germany has been a large industrialised country for a long time. As a result, with its entrepreneurs, its population and its infrastructure it is best equipped for production, trade and especially export. That is the nature of Germany, that is the German reality. France has been an agricultural country for much longer, with far fewer large cities and large corporations there is nothing to compare with the enormous complex of the Ruhr or the former Silesia … In industry and trade Germany is in the lead."

The extent to which industry and trade in Germany was "in the lead" became increasingly apparent. Three devaluations of the Franc occurred in the next seven years and one revaluation of the D-Mark, a series of France devaluations which from the 1960 inauguration of the 'New' Franc until its consolidation into the Euro in 1999 lost 7/8ths of its value. The economic weakness of France, keenly sensed by de Gaulle was fully exposed as his foreign minister Michel Debré wrote: "In November 1968 the strength of the Mark promoted Germany for the first time to speak with a very loud voice. This strength ensured it of the economic supremacy that made it the master of Europe for a very long time." Under de Gaulle France engaged in a ten-year trial of strength with the great international financial powers. Playing for the highest stakes, it lost.

Following these French reversals, President Pompidou sought to widen and deepen the EEC by including the UK, Ireland, Denmark and Norway and produced detailed plans for Economic and Monetary Union. Chancellor Brandt understood the underlying reason for enlargement was to overcome the fear that "the Economic Strength of the Federal Republic could upset the balance within the Community".

The acceptance of the European Monetary Union (EMU), for different reasons, by different countries initiated a policy struggle that lasted a quarter of century between the French desire for currency fixing and reserve pooling and German desire for flexible currency with monetary union happening only when European economies had converged. The EMU proposals exposed inherent contradictions between France and Germany, but they also ignited different contradictions within the UK, contradictions which have festered until exposed by the 2016 referendum and the implications of its implementation. A previously secret contemporary Bank of England paper, released in 2000 after 30 years, says "the plan for EMU has revolutionary long-term implications, both economic and political. It could imply the creation of a European federal state, with a single currency. All the basic instruments of national economic management (fiscal, monetary, incomes and regional policies) would ultimately be handed over to the central federal authorities".

The forces uniting Europe were those threatening to destroy it. Externally lay the uniting force, overseen and fostered by the USA, but beyond the Iron Curtain, the Berlin Wall, the "Kidnapped West" was the Soviet Union. Exposed and defenceless on its Eastern border was the German nation without military power and stripped of all moral authority by the carnage and atrocities of War. Internally, the ghost of the past economic and military power of Germany, one that had crushed France thrice in a hundred years, haunted a France fearing a resurgence, not necessarily a military one, but a political and economic one, leading to a re-establishment of German supremacy within Western Europe. At the meeting of the European leaders in Strasburg in 1989 where the basis of the 1997 Maastricht Treaty was agreed, President Mitterrand said to the UK delegation “that he was fearful that he and the Prime Minister would find themselves in the situation of their predecessors in the 1930s who had failed to react in the face of constant pressing forward by the Germans” and to the West German Foreign Minister Hans-Dietrich Genscher that “if Germany did not commit itself to the EMU we will return to the World of the 1930s”. While such extreme and unlikely sentiments now appear even more out of place, for a generation that had directly and personally experienced the horrors of war, as for instance Mitterrand had as a POW in Germany and, after escape, as a “double agent”, they were standing threats. Their differences drove them together.

The UK, unlike the continental European countries, was unconquered and manifestly proudly so, notwithstanding the overriding debt to its Allies, particularly the USA, with which it continued to identify, sharing many common interests in addition to opposition to Soviet expansionism. Separately, the UK had residual imperial interests to which it clung. But, self-evidently, these were diminishing ties, while pan-europeanism, actively fostered to pre-empt nationalism, flourished. As early as 1960, ten years before the French inspired Werner plan for European integration, the UK Prime Minister Harold MacMillan mused: “Shall we be caught between a hostile (or at least less and less friendly) America and a boastful but powerful ‘Empire of Charlemagne’ – now under French, but later bound to come under German control?” A question that still may be unanswered.

Since WWII a central argument for Western European integration was the Soviet threat, immediately and ominously visible in the Red Army presence in a divided Berlin and in East Germany. Indeed, Soviet leaders from Joseph Stalin to Leonid Brezhnev were indirectly leading proponents of European integration. The common Soviet threat, the division of Germany and the USA support for a stronger integrated Europe, not divided against itself, fostered European supra nationalism. The much-heralded deadline for the EEC’s single market in 1992 had wide influence on Germany, on the Soviet Union and on the Eastern Bloc countries, an influence coupled with the growing and obvious difference in prosperity between the command and the free market economies exposed by the EEC. Travel, vivid TV images and the greater freedoms espoused by the reforming USSR leader Mikhail Gorbachev undermined the collective acceptance of the status quo. The “velvet revolutions”, starting first in Hungary with the relaxations of border controls and culminating in the “fall” of the Berlin Wall, allowed first a trickle and then a flood of Eastern bloc refugees into the West.

The more accommodating stance of the USSR since Gorbachev took office in 1985 influenced many West Germans, inclining a minority to question the role of NATO, of expensive foreign troops on German soil and of the political bias towards the West. Left wing intellectuals talked of “nationalism and neutralism” and Mitterrand warned “Unless we make progress in the construction of Europe, we will not escape bargaining over Germany between East and West”. Worried by the prospect of German defection Mitterrand proposed an extension of the 1963 Elysée Treaty, a token gesture. Mitterand’s advisors advocated more tangible initiatives, especially as the Delors policy of integration by small steps had run its course, always being blocked by the Bundesbank and the D-Mark. A meeting resulting from this initiative, nominally a discussion on the joint decision making on the deployment of French nuclear weapons, was hijacked by Mitterrand’s advisor, Jacques Attali, who said “So that we can have a balance, let us now talk about the German atom bomb”. The German officials were astonished, replying ‘You know we don’t have the atomic bomb – what do you mean?’ Attali said: ‘I mean the D-Mark’. Such was the importance in which the French held the Bundesbank’s dominance in European monetary policy.”

Germany’s economic resurgence, based on cultural values of thrift, precision and obedience, had so often eclipsed Gallic “gloire”, hauteur and droit which had gilded French ideals since Louis’ Versailles, embraced the deep, very deep, political ideal, the “Fatherland” that with the prospects of the reunification with East Germany would entail a very significant cost for Germany. Internationally reunion required strong political support to ensure the enlarged Federal Republic was recognised in NATO and other International treaties. The political cost was the agreement to Monetary Union against the advice of the independent Bundesbank. The German minutes of the Kohl’s meeting with US Secretary of State John Baker immediately after the key Strasburg meeting record Kohl “took this decision against the German interests… . For example the president of the Bundesbank was against the present development. But the step was politically important, since Germany needed friends”, adding “as one does, when one is trying to unite Germany without blood and iron”. At the time one wit quipped “the whole of Deutschland for Kohl, half the deutsche Mark for Mitterrand”. Superb French diplomacy secured a further tether on Germany binding with France tying them into the EU, away from the East and hitching a ride on the pre-eminent economic power in Western Europe.

The achievement of French diplomacy, the pan European cause predominantly fostered by them represented “une grande réussite”. The efforts of Monn et, Schuman, Delors etc over many years appeared to have come to fruition and France, having established political leadership over the rest of the members, had fired a harpoon as a mooring line to the German economy to secure it for them. Professor Ash, writing in Foreign Affairs, says “the pact was to gain some control over Germany’s currency, not for Germany to gain control over France’s budget”. But the harpoon deployed, rather than reeling in the Germany economy, caused the elegant French schooner to be tethered to a German quayside where the tide was ebbing from Kohl’s vision of a European Germany towards a German Europe.

The transition to a German Europe, an unannounced policy, has been facilitated by events outside Europe and within Europe it has been unopposed. Paul Volcker, former Chairman, US Federal Reserve Board, 2007 describes it: "the French made a very honourable effort to cling to the D-Mark. They didn't like to play second fiddle to the Germans, yet they didn't have the power, the authority or the currency to do otherwise. They learned over a period of years a rather ironic lesson: that in order to stand up to the Germans, you had to be subservient to them – by following their lead in key questions of monetary affairs". The strong French diplomatic positions so carefully and successfully nurtured since the Schuman Plan founded on the torments and guilt of the war ebbs away being in the memory of fewer and fewer. The formative years of the young of today have been in a Europe of peace, freedom and ever greater prosperity. The struggle for Europe is one in which it has been proved vital not to fight yesterday's wars. Just as the French Maginot line which served as a bulwark against a formal frontal attack was simply bypassed to the North by the Blitzkrieg, so the French diplomatic strategy, certainly vis-a-vis Germany, while having succeeded in constructing an elaborate defence, became bypassed. In real politic terms France is now the co-driver to Germany's driver, but commands the continuing position as navigator, a position confirmed by M Barnier as European Chief Negotiator.

The EU's concern over the UK departure and the terms of its departure has an earlier manifestation. Greenland, part of Denmark, voted to leave the EU in 1982 and left in 1985, following negotiations which Lars Vertebirk described as "surprisingly unpleasant … they were not willing to accept that you should or could leave …"

The unification of the EU is unfinished business whose underlying basis has changed with world circumstances, proceeding by what has been called the "Monnet method" of unification, after Jean Monnet, a founding father who proposed moving forward, step by step, with technocratic measures of economic integration, hoping there would catalyse political unification. He promulgated that "Crises are a great unifier!" and they have been, but such destabilisation by crises also have great inherent risks. I believe that the current destabilisers are the failure of the Euro, the political winds of change, populism and low economic growth, ISIS and immigration, and the departure of the UK which is both a symptom and a cause of the crisis. The political necessity is one of damage limitation, a necessity far outweighing any economic damage which, however great, is difficult to attribute to a particular cause and whose effects are almost certainly a long way away. To secure the political integrity of the whole EU differences have to be bypassed a requirement that empowers centralised bureaucracies for whom control of decision making procedures is important – a process lampooned in the 1980 UK sitcom "Yes, Minister". Ironically this was ennunciated most clearly not by a bureaucrat but by the Monarch, the sun King, Louis XIV (Louis – Dieudonné!)" L'Etat c'est moi." Similarly M. Barnier, former Vice-President of the European Commission, emphasises continued integrity of the existing protocols.

"Power tends to corrupt and absolute power corrupts absolutely" and may also impair judgement. To avoid the UK referendum David Cameron sought limited reforms of the EU, notably an opt out of the need to forge "ever closer union", but the nominal concessions granted were insufficient to avoid the referendum: a further gesture would probably have deflected the UK's choice. The EU has a long history of late night compromises - the clock "stopped", for instance, and of "fudging" obligations and even downright disavowal of Treaty obligations as in Germany's (indeed!), and France's violation of the Stability and Growth Pact of the Maastricht Treaty without penalty in 2003-4. Surely within the rules, or whatever the rules, a sufficient accommodation could have been found for the UK. Was it bad judgement? Was it just a mistake? Or it was motivated by a bureaucratic defence of the status quo as in "Yes, Minister?". Such traits are evident in all such bureaucratic institutions, although at a less imperious level than occurred in the EU in 1992 when the Danish referendum rejected the Maastricht Treaty. Trichet, the French Treasury Minister, subsequently Governor of the ECB, declared "Denmark should be punished for its foolishness". Punishment of the UK may be implicit in the UK negotiations: if defectors are punished, a Roman style decimation, "pour encourager les autres", then the central authority is reinforced.

Fear for the integrity of the European concept is inherent in the removal of the external threats - the necessity is gone - and by its outstanding early success. After conception post 1945 it went from war to peace, from deprivation to prosperity and from fear to hope. At the time Cameron sought modest reform part of the EU had inverted from prosperity to high unemployment, from a centripetal to a centrifugal force and from hope to fear, a widespread stirring of populism so evident across Western society and then clearly manifested in the USA and the UK. Such fear was most manifest in Greece where the anti-EU factions were only narrowly defeated, depicted by the cartoonist Patrick Chappelte by a tramp at a ballot box under the Acropolis, exclaiming "Good news! Fear Triumphed over Despair". With success and changed circumstances the European cause has lost many roles and has dissident elements threatening its most important goal. Perhaps the UK withdrawal removes an obstacle to that goal of "ever closer union", an end, by definition, never achievable!!

Empires wax and wane. Two thousand years ago just south of the Caspian Sea the Great Empires of Rome and of the Han Dynasty nearly met, together dominant from the Atlantic to the China Sea, for nearly five hundred years. Others, India, Persian, Greek and Phoenician had come before and others Byzantine, Mongol, the Islamic Abbasid Caliphate and the Frankish empire, ultimately under Charlemagne, followed before the Western maritime empires of the Netherlands, France, Britain, Spain and Portugal. For the maritime powers empire followed trade – as in India, but central political domination followed. Such external political control is likely to have contributed to their ultimate failure.

One empire was different. The empire of Charlemagne occupied an area strikingly similar to the EU's precursor, the ECSC, i.e. Western Europe without Spain and the UK. Charlemagne had the added distinction of being crowned Emperor (or Caesar, hence Kaiser) in Rome by the Pope in 800AD. The tripartite division of the empire under Salic Law on Charlemagne's death formed the fault line, the central Kingdom (Lothmagia) Lorraine, between the Western Kingdom of Charles the Bold and the Eastern Germanic Kingdom under Ludvik which has persisted until the 20th Century. Otto extended the Germanic Kingdom, regaining the West and extending his boundary east to Hungary and south to Italy. By 1500 this empire composed an area similar to Charlemagne's except for France, but containing a whole mix of political entities, a Bassett's "All Sorts"! The emperor was an elected office, chosen latterly by 10 electors (George I was Elector of Hanover!), the leading secular and ecclesiastical princes. But within that hierarchy there were 180 secular and 136 ecclesiastical cities and 83 imperial cities, some of them republics, which all considered themselves free, or autonomous, with religious self-determination. Frederick II attempted to reverse such freedoms, prompting the famous defenestration in Prague in 1618, a prelude to the Thirty Years War, a proxy for religious intolerance in which all the European powers joined, and cost the lives of about 1/3 of its population until the peace conference of Westphalia in 1648.

Five years later the 1653 Reichstag settled the governance of the Empire until its formal demise, "a chaotic mess of rotted imperial forms and unfinished territories" as described by the Prussian von Treitschke in 1806. But not so in the peace negotiations in Regensburg, the Brussels of the time, when Ferdinand III, Hapsburg Emperor of the Holy Roman Empire, descended with 3,000 attendants including an opera cast, 60 musicians and three dwarves. A year later in similar style he left for Vienna in a flotilla of 164 ships! The chief debate was between a centralised union as advocated by the Emperor's administration or, alternatively, a decentralised federation, favoured by the princes led by the "upstart" Elector of Brandenburg. The Emperor's proposals included tax raising powers authorised by the Reichstag for redistribution by the central body – a transfer union – as exists only partially but prospectively in the EU. The defeat of the Emperor's centralist proposals dispersed power to the constituent "states" and allowed considerable subsidiarity to evolve, resulting in a political structure that has some similarities to the EU.

The Reichstag sat in perpetual session consisting of three legislative chambers – electors; other princes; and free imperial cities, which considered proposals put to them by the elector of Mainz, a position similar to the Council of Ministers, decision making was never codified: should members from over 300 territories get one vote, or should votes be weighted by territory, or should decisions be taken by majority, qualified majority or unanimity? In these matters the empire was as the EU: characteristically "it-all-depends!" This, like the EU, gave a balance between protection for small states and action as a federation. For religious matters there were separate Protestant and Catholic councils, tasked to reach agreement, an attractive vision of peaceful settlement following the Thirty Years War.

The empire, and the EU, adopt the juridical principle embodying the requirement to resolve disputes by law rather than by force. The judicial system gave territories recourse to two imperial courts in Speyer and in Vienna, analogous to the ECJ in Luxembourg, which were open to all citizens, including peasants. The Reichstag allowed wide public access both for conflict resolution and for proposed legislation. As the EU legislated on the curvature of cucumbers – and I had an enforcement order served on me for not so observing – so the Reichstag declined to ban indigo dyes (to protect the woad industry) but agreed to ban ribbon-making machinery to protect employment …! Such detail provided a rich "diet" for bureaucracy – so often complained of in the EU as "etwas auf die lange Bank schieben", a phrase originating in the "everlasting". Reichstag files of "decisions pending" being left on a long bench – one being still visible in the Regensburg's former city hall. In the Empire, like the EU, the doctrine of subsidiarity applied with simple cases determined at village level. For more complex cases jurisdiction fell to the "Kreise", ten circles or blocks of states' administration units that crucially regulated its monetary system and the tariffs between the Kreise. The currencies in the Empire were diverse and were minted independently by the separate princes and states within the Kreis, so allowing opportunities to debase the coinage, a widespread practice. Each Kreis monitored those separate currencies and constantly converted them to fixed independent units within the Kreise jurisdiction. Such arrangements adumbrated the EU Exchange Rate Mechanism, the precursor to the Euro.

Religious tolerance, social pluralism, peace and prosperity brought the Empire a rich and varied culture. Individual rights were safeguarded, diversity and culture flourished attracting highly qualified Jewish, Mennonite and Huguenot immigrants, reinforcing the social milieu that attracted them. Such prosperity did not weaken the empire, as is often alleged of the Roman Empire: but supported a strong military that repelled eight successive Ottoman attacks over 300 years. The Empire did pass, eventually, as all empires do, crushed by Napoleon in 1806, having grown weaker due to the political imbalances that had developed over the centuries between the constituent members. The structure of the Empire was determined in the Reichstag in 1653 when the strong elector of Prussia thwarted the then Emperor's attempt at centralisation, including a tax system that would have transferred funds from richer areas to poorer areas. Over the long successful period of the Empire two members, Prussia and Austria, outgrew all others and fell outside the "loose" control of the Empire, whose authority was weakened. It was those remains of Empire which fell to Napoleon in 1806, who dissolved it.

For the EU the history and development of the Empire contains an ominous, if very unlikely, precedent, but one to be guarded against – an insurance not against arson but a chance fire. The pivotal point in the development of the EU has not been the rapid growth in members, mostly smaller states or those sheltering from historic eastern threats, but the change in the power status within the EU, when a seemingly impenetrable wall was breached. Physically, the wall collapsed in Berlin in November 1989, but, politically, the wall between the existing Germanic states was eliminated on 3 October 1990 when East Germany (GDR) was amalgamated into West Germany (FRG), as an "enlarged continuation of the Federal Republic of Germany", so adding an area geographically similar to that of Brandenburg-Prussia as it existed during the Empire. Post the 2000 amalgamation Germany suffered a long period of high unemployment and low economic growth causing budget deficits that breached the fiscal rules of the EU's stability and Growth Pact. Cavalierly, Germany abandoned any attempt to adhere to the Pact and in November joined with France to suspend the sanctions mechanism of the Pact, overriding the resistance of many smaller states which claimed the EMU's largest members should be exemplars.

A union of the two great powers varied the terms of the binding disciplinary pact. In very different circumstances following the financial crisis, it could be argued less leeway was afforded the smaller nations of Ireland, Portugal and Greece. Recent evidence has shown the pre-eminent position Germany now holds in determining most monetary and much political and social policy in the EU, a production by the same company of the same play on a different stage, that, at a different time contributed to the overshadowing and weakening of the Empire. Even without such an unlikely and distant precedent it is incumbent on the EU nations that wish to secure the solidarity of the EU that its policies are highly controlled, emphasising the centre, allow little latitude, make entry difficult, or reasonably so, but make an exit even more difficult. Big nations must be bound into the norms of the club, supranationally. These carefully cultured norms were threatened by the decision of the UK to leave the EU and any weakness might threaten it further, a threat especially to France, given France's increasing dependency and Germany's increasing independency. Unsurprising, therefore, that a very senior French official leads the negotiations and is uncompromisingly robust.

The analogy is often made between the EU and a Club – you join the club, sometimes with difficulty, as the UK experienced with de Gaulle's "black ball", but then you are free to resign, to leave. The EU is more like a long-term Hire Purchase agreement: you sign up to it, you pay instalments and you get the great benefit of it but you cannot trade it for anything else and you cannot change or easily abandon the agreement: the contract is highly asymmetric. You can decide irrevocably to break the agreement but you only have two years to reach any settlement, for which the EU has little incentive. It is alleged that during the Japanese reconstruct after WWII the Japanese hosts, having solicitously enquired about their visiting American guests' return travelling arrangements, would invoke all manner of cultural guises to delay serious negotiations until it was almost, but not quite, too late! Time pressure gained negotiating advantage. Similarly once the UK invoked Article 50 its position becomes ever more weakened, an advantage which is and will continue to be fully exploited by the EU. The pro-EU FT columnist Philip Stephens says "it makes perfect sense for Michel Barnier" … "to allow the pressure of time to build up before agreeing to move on from discussions about past financial obligations on the rights of EU citizens to talking in detail about the shape of the future relationship".

The EU have used their asymmetric time clock advantage to great effect. The UK has made concessions on the financial "settlement" that are far removed from those that were originally promulgated. Indeed when we invited the EU to "whistle for it" they got it! This asymmetry will have a great influence in the trade negotiations due to start early in 2018.

The long-term benefits of free trade are widely recognised but are not normally implemented, a disparity particularly apparent in some sectors, notably agriculture where highly protectionist policies applied: politics outweighs economics. The EU endorses free trade within the EU, but practises highly protectionist policies within the EU in very many service areas, and outwith the EU it is highly protectionist, despite a long-term economic advantage. Indeed, historically the EU and the predecessor organisations were more protectionist than the UK, a nation with a long-established international trading history. Thus, the political necessity for the EU to reach a "free trade" deal with the UK is largely absent. Unfortunately for the UK the practical economic requirements of the EU to reach such a deal with the UK are also limited, as the economic benefits of free trade are largely indefinable, take place over a long period, may involve transition costs and disbenefits and often disadvantage specific sections of the economy. In agriculture, where 50% of income derives from subsidy, free trade could provide a long-term economic boost but a larger political and social cost.

Politics is much more important than economics in the EU27 because of the asymmetry of size. The EU comprises 27 nations with an economy about 10 times the size of the UK's. If protectionism is equally damaging then each EU individual's welfare is reduced by only 1/10 of the UK's! If all economies grow at 2.25% and the economic contractions caused by any trade disturbance was 2.5% then the UK would sink into recession but the EU growth would drop from 2.25% to 2.00% - a small change, statistically insignificant. The economics, the politics, the culture, and the over-riding ambitions of "ever closer union" will not lead the trade talks, any more than the financial settlement talks did, to a position that the promoters or voters for "leave" expected or even now do expect!

An extreme position is unlikely. Of course there will be agreement on mutually important areas such as aircraft movements, security, travel arrangements, diplomacy, health, and the "nuts and bolts" of co-operating non antagonistic neighbours. Equally there will be no enhanced trading position, almost a return to a status quo ante by securing a "Norway" option, i.e. membership of EEA (conditional on being admitted first to EFTA) but with special trading rights. It is most unlikely that either the UK will reapply to re-join the EU, or get unfettered EU market access from outside the single market. An enhanced WTO deal seems the most likely outcome, but any such arrangement could not be negotiated and implemented in the available timescale, which is unlikely to be extended, but could be implemented following a transition period for practical and logistical adjustments to meet the already agreed policy. All possible outcomes will have a deleterious effect on the UK economy in the short term due to investment delay and in the long-term, depending on the trading terms agreed with the EU27 and the consequent balance between trade destruction and trade creation caused by leaving the EU.

The extent of the damage to the growth of the UK economy could vary significantly, and is subject to wide and inter-related variables, and reliable forecasts are unavailable. The forecasts made before and in the immediate post-referendum outcome were very unfavourable and the initial reaction to the referendum vote appeared to justify the projections of the established economic forecasters. The £ fell from over \$1.50 before the vote to a 31 year low of under \$1.30 in early July; the Governor of the Bank declared risks "were starting to crystallise"; Standard Life and other property funds froze their redemptions; the FT's headline "Brexit sell-off signals house price fall" reported that investors were pricing in a 5% fall in home values, that shares in the UK's four largest housebuilders had fallen between 28% and 37%, and that trading in Barratt Developments, Crest Nicholson, Taylor Wimpey and Berkeley had been suspended briefly after each company had dropped precipitously enough to trigger the FTSE "circuit breaker": Merrill Lynch expected a 10% house price drop over the coming year; estate agents' shares fell – Savills 26%, Countrywide 32% and Foxtons' 37%; and shares in the UK's three principal banks, fell by over 25%. Martin Wolf, the FT's Chief Economics Commentator stated, "So far, the experts, dismissed by Michael Gove, Justice Secretary, have been proved right … it would be astonishing if there were to be no recession".

While such exaggerated fears proved entirely misplaced, the medium term effect, say over five years, is independent of this short-term recovery and is likely to be significant. In October 2016 Ernst & Young forecast that a Brexit reversion to WTO rules would result in a 4% reduction in GDP by 2030, compared to continued membership of the single market. In November 2017 they revised their 2016 forecast of 0.8% growth of the economy in 2017 up to 1.5% and revised other forecasts, including for 2016, by about 0.2% points so that by 2020 the upward revision totalled 1.3 percentage points. Even if revisions in subsequent years to 2030 were as little as 0.1 percentage points, then the forecast damage to the UK economy by 2030 is less than 2% spread over many years.

Influences of forecast damage to the UK economy from leaving the EU can be deduced from the OBR figures, provided these are adjusted for the change in the rate of productivity increase that the OBR have recently introduced into their forecasts. In November 2015 OBR forecast growth of 2.2% in 2017 and 2.1% in subsequent years. In November 2017 they forecast growth of 1.5% in 2017, 1.4% in 2018, 1.3% in 2019 and 2020 and 1.3% in 2021. However, much of the decrease of growth now predicted is due to an assessed change in the rate of productivity growth resulting in a 0.45% lower growth per annum than in the OBR November 2015 forecast. Adding back this 0.45% results in the growth rate being about 0.25% points lower in each of the next five years, a trend which, if continued, would result in the UK economy suffering a fall of about 2.5% over 10 years as a result of leaving the UK – "Brexit" on terms assumed by the OBR but unspecified!

The estimated loss of GDP from leaving the EU is very damaging, but much greater losses have occurred. In the Great Recession of 2008 real GDP dropped by 5% over two years, in contrast to a lesser potential loss of 2.0% over several years. A much greater thief of actual GDP growth, compared to potential GDP, has been the significant reduction in productivity. In the eight years before the 2008 recession productivity rose 19% or about 2.35% per annum following a 20% rise in the previous eight years, but since 2008 productivity has risen less than 0.2% per annum. The ONS estimates that output per hour is currently 21% below an extrapolation of the pre-crisis trend. By the beginning of 2023 the OBR, assuming an improvement in productivity to about 1% per annum, estimates that output per hour in 2023 will be 27% below its pre-crisis trend. "Productivity" is much less tangible than images of queued ports and extensive bonded warehouses and factory closures and so may seem less important than the loss of trading opportunities, but as Paul Krugman, the Nobel Laureate, says "productivity isn't everything, but in the long run it is almost everything". More output per unit of input underlies all economic advance.

A sustained fall in productivity has not historically followed a recession, but productivity has normally surpassed the previous peak. Within eight years after the 1961 and 1950 recessions productivity was over 19% above the preceding peak, and following the 1973 and 1979 recessions it was over 12% above the pre-recession peak.

Prior to its recent change the OBR forecast a return to previous growth in productivity, in line with accepted economic thinking, exemplified by two common explanations. The first, advocated by Lord King, former Bank of England Governor, was that as there was no reason to believe the productive potential of the economy had changed, growth in output per unit labour would return to the pre-recession (1997-2007) level. Similarly, but more colourfully, Adam Posen, an MPC member, has argued that the level of potential productivity could not have fallen "because no-one woke up one morning to find their left arm had fallen off" and that one should not "reason backwards from a period of growth shortfall ….. that growth potential has fallen". Wisely, the OBR say "it seems sensible to place more weight on recent trends" and there are many examples of countries experiencing varying growth in productivity, including the US, as the UK may now be. In economics nothing is immutable, and productivity changes do not depend on the number of arms, but how they are used!

In assessing productivity growth an overriding concern is mensuration. Are the right things being measured and how does one measure convenience and access, especially in a service economy – the ease and convenience of computers in phones, emails, and the advent of advanced delivery systems? In pre-politically correct days such difficulties were colourfully illustrated – about the man that reduced national income by marrying the housekeeper, so eliminating what is termed “accountable employment”! The advantages of computer technology in all applications are undoubted, but like all innovations brings disadvantages, offsetting and underreported, as, for example, an academic study that Finnish public sector workers waste, on average, four hours per week troubleshooting computer problems – an estimated productivity loss of 10%. Similarly in the introduction of IT systems, apocryphal and anecdotal reports abound of disruption, of high capital requirements, of time investment, of aborted systems and the transition of productivity gains from the technology originator, say utility providers, to the productivity losses by the users, the consumers. There are widespread horrifying failures in IT in banking, central and local government, defence and the NHS, spectacularly abandoning a programme in which £10bn had already been spent! A poignant current illustration is the continued failure of the Scottish Agricultural support computer systems.

These failures are of “big systems”. The cumulative costs at the other end of the spectrum – the users of these systems – is more easily, and amusingly, illustrated. Lucy Kellaway, the FT columnist, one familiar with IT, describes returning to work after a vacation and embarking on the menial duty of claiming her expenses, £92.29 “I started the job at 3.30 pm and by 5.00 pm was close to tears. At times I had to interrupt other people for help, disturbing them by shouts of “I hate [expletive] this [expletive] expenses system” …. “I could not get it to work in Chrome; it kept telling me to disable my pop-up blocker but, as I do not know what that is, I could not oblige. Then every time I tried to fill in its baffling boxes, it replied “invalid value …..” and so on. She continues “You have to print out the report, photocopy all receipts then work out how to scan them all together and email them ….” As well as such trials and tribulations, distractions at work from computers and smart phones via emails and social media and “browsing” damage productivity. The US Chamber of Commerce Foundation finds that people typically spend one hour of their workday on social media – rising to 1.8 hours for millennials and that traffic to shopping sites surges between 2 pm and 6 pm on weekdays.

Is it just a coincidence that productivity growth in advanced economics averaged 1.0% from 1970 to 2007 and global annual smartphone shipments were small, say 0.1bn, but productivity growth post 2007 was negative while global smartphone shipments ballooned to 1.5bn? If there is not a correlation, is there a common underlying cause producing both phenomena? The global financial crisis – it’s over! Low interest rates, low inflation? Or is it just coincidence? Dan Nixon of the Bank of England has reviewed evidence that shows smartphone users touch their device between twice a minute to once every seven minutes.

“Economic prospects” will resume after you have returned from checking your notification.

Interruptions are not new: a knock on the door, the twice daily post and the telephone ringing have provided these for many years, but the constant news feed on the web, the social network “hum” and the barrage of emails represent a quantum change.

Working while receiving emails and telephone calls reduces the IQ by about ten points relative to an uninterrupted period, a reduction in cognitive ability equivalent to losing a night’s sleep and twice as debilitating as using marijuana. One study showed that it takes half an hour to regain the previous understanding of the task in hand and, much more sinisterly, those interrupted by these external stimuli become “addicted” to the interruption and are much more likely to self-interrupt during a task in hand. The more you do it, the more you do it!

“All things are poison … and nothing is without poison … “only the dose makes the poison”, so said Paracelsus, and so suggests a paper by Aral of MIT in relation to smartphone and associated technologies. He points out that the introduction of these technologies contributed vastly to the productivity surge in the late 1990s and early 2000s as they were used to enhance output. However, once a critical network mass had been reached, the benefits were increasingly masked by the universal availability: important time saving calls have been swallowed in a morass of distracting chit-chat: as Paracelsus said: “the dose is the poison”.

John Kay the FT columnist argues that in any treatment the “dose” as in medical treatment not only has to be appropriate but for optimal effect it has to be delivered as part of the overall treatment: for “flu” take the pills but keep warm, drink lots of liquids and go to bed …! He concludes that to gain full advantage of modern computer and IT technology not only do the machines and their capabilities have to be available, i.e. the hardware and the software, but the necessary changes in behaviour and routine have to be engaged by their users. Kay observes from his university teaching that, while the simple clerical administration and communication within the university has changed, the delivery of the university teaching programmes, all capable of modification, is hardly changed: the new toys affect the mechanics of the system but not the established routines. Essentially, treatment that comes with a machine or in a pill or an injection is easily adopted, but innovation that manages a process better is not: ready acceptance of the gimmick, the silver bullet or the better machine contrasts with innate reluctance to change behaviour or the process.

Unsurprisingly the Bank advances more tangible hypotheses for the poor growth of productivity. In "Hypothesis I", "cyclicity", the Bank states productivity "often deteriorates in the initial stages of a recession" as output falls faster than employment and, during the last recession, this tendency was more marked, resulting in a greater productivity fall. Such productivity falls may occur for many reasons. Management are slow to react; some operations require minimum staffing levels; management expect an imminent recovery in demand; the costs of firing and rehiring are too great; and staff get redirected to sales/business development which do not quality as "output". However, the Bank concedes Hypothesis I is not well supported by the change in productivity during the recent growth in the economy and, moreover, the Bank surveys show "little evidence of spare capacity". The fall in productivity owes little to cyclical changes.

Hypothesis II examines non-cyclical factors, including capital and resource allocation. Capital is less available and borrowing costs are higher during a recession and investment is reduced in labour-saving devices, in product innovation and development and in their introduction and in intangibles such as patents and brands, all factors reducing or pre-empting growth in labour productivity. Further, working capital may be restricted leading to less efficient working practices. Resources normally transfer from lower return to higher return enterprises. The rate of transfer accelerates normally in recessions as liquidations rise, but in the most recent recession they were relatively lower, whereas the number of loss-making firms was relatively higher. In essence, more firms struggled on due to forbearance, the banks' reluctance to admit to the extent of their own financial distress and to low interest rates. The Bank estimates that, of the 15 percentage points shortfall at the time of the study only 3 – 4 percentage points might be ascribed to "capital" and 3-5 percentage points to resource allocation and survival.

The OBR accepts that low productivity will persist: "and as various explanations pointing to a temporary slowdown become less compelling – it seems sensible to place more weight on recent trends as a guide to the next few years. But huge uncertainty remains around the diagnosis for recent weakness and the prognosis for the future. On average, we have revised trend productivity growth down by 0.7 percentage points a year. It now rises from 0.9 per cent this year to 1.2 per cent in 2022. This reduces potential output in 2021-22 by 3.0 per cent. The ONS estimates that output per hour is currently 21 per cent below an extrapolation of its pre-crisis trend. By the beginning of 2023 we expect this to have risen to 27 per cent." The effect of the loss of productivity growth far exceeds all estimates of economic damage from any prospective, but yet of uncertain extent, loss of economic growth resulting from leaving the EU.

UK Economic prospects will benefit from the current buoyant state of the EU, USA and World economies all of which are expected to experience higher growth than the UK. The Bank expects world growth to be around 3.0% in 2018 and Eurozone (EZ) growth to be 2.1%. The Economist Poll of forecasters also expects EZ growth of 2.1%, USA growth of 2.4% and continuing strong growth of over 6.0% in China and India. In spite of the strong growth of the UK's trading partners. UK growth is expected to be below long-term averages, due as stated above partly by the consequences of leaving the EU and the uncertainty of these consequences, but more importantly, partly by the slow rate of growth of productivity.

The OBR, due to a reassessment of productivity, have recently downgraded its forecast of growth over the next five years to only 1.4% per annum, with growth reduced in 2017 to 1.5% from its earlier forecast in March 2017 of 2.0% and smaller reductions in subsequent years to a low of 1.3% in 2019 and 2020. In general, other forecasters are more optimistic than the OBR and even the Bank's forecasts are over 1.6% for the next four years while the Ernst and Young Item Club forecast is just under 2.0%. These higher forecasts may not take full account of the continuation of the low growth in productivity forecast very recently by the OBR.

The essence of all the forecasts is very favourable: no recession is forecast; no cataclysm associated with leaving the EU is expected; and the main constraint on higher growth is the low rate of increase in productivity. For this malaise there is no one cause and no one solution, but unfortunately many of the causes may lie in deep cultural tenets, not subject to economic motivation or management.

The Scottish economy has performed significantly less well than the UK's, due probably to two main factors: the recession in the North Sea oil and gas industry; and the political differences in Scotland compared to the rest of the UK. In 2016 Scottish growth was only 0.4% and is broadly expected to rise to about 1.2% this year. The Ernst and Young Item Club forecast is for Scottish growth to be below the UK growth by about 0.5 percentage points for the next few years. The spot oil price has recovered from the sub $40 price in early 2016, due largely to OPEC and Russian supply restriction, to over $60, a price that with the cost reductions effected allows most of the North Sea to "lift" oil profitably, but it will not support further large-scale exploration and development. Moreover, as the 5 year futures Brent price remains in a $51 to $62 range, there seems little prospect of a North Sea revival. A managed decline, provided supply is limited by the newly formed cartel and the US shale industry does not expand further, seems the most likely outcome.

Political damage to the Scottish economy appears to be abating. Certainly anecdotal evidence cites increased interest in investment since a second referendum became progressively less likely and as the power of the SNP appears to have peaked some time before the UK elections in which they lost so many seats. Regrettably, in contrast to the UK and probably in a response to falling support, the Scottish Government policies have been increasingly socialist, policies which may deliver short term social benefits but long term will result in lower living standards. But a week is a long time in politics and the horizon is never beyond the next vote.

Scotland is far from uniform, as the economic crisis in the north east exemplifies. However, as London and South East is to the UK so is Edinburgh to Scotland. The ONS Regional GVA figures show that in 2015 (the latest available), whereas the UK had a growth in GVA of 2.1%, and Scotland had a lower growth of 1.8%, the lowest "NUTS" region growth in the UK, except for Northern Ireland (1.4%), and the City of Edinburgh had a GVA growth of 4.5%, higher than London's 1.5% per head. Edinburgh's total growth in GVA was 5.8%, the highest in the UK.

The economic dynamics in Edinburgh are palpable, particularly in tourism and related services, TMT and education. It is axiomatic that high growth economies do not spread growth evenly over geographic areas, activities or technologies and that, to ensure growth overall, growth "hot spots" should be encouraged and resources moved to support such growth. Per contra any attempt to dilute, spread or even out such growth will result in diminished performance. Scotland's growth opportunity lies in supporting the dynamics of its most actively growing economies and regions not in one of attempting to redistribute growth and support secularly declining areas and industries.

Property Prospects

In the previous investment cycle the CBRE All Property Yield Index peaked at 7.4% in November 2001, then fell steadily to a trough of 4.8% in May 2007, before rising in this cycle to a peak of 7.8% in February 2009, a yield surpassed only twice since 1970, on brief occasions when the Bank Rate was over 10%. Since then yields fell to 6.1% in 2011, rose to 6.3% in 2012 and fell steadily to 5.4% in 2015 and have just fallen in August 2017 to 5.3%.

Yield changes within components of the All Property Index have been small. Yields rose 0.75 percentage points to 8.50% in Secondary Shopping Centres but fell 1.25 percentage points to 7.0% in Secondary Industrial Estates and by about 0.5 percentage points in Prime Distribution Units and Prime Industrial Estates to about 4.5%. The lowest yield 4.0% occurred in Prime Shops, City Offices and, most interestingly, in Central London University RPI Student leases. London City and Major Provincial City office yields fell 0.25 percentage points to 4.0% and 5.0% respectively. Student leases are notable in that even regional properties are at 5.50% or lower.

The peak All Property yield of 7.8% in February 2009 was 4.6 percentage points higher than the 10-year Gilt, then the widest "yield gap" since the series began in 1972 and 1.4 percentage points wider than the previous record yield gap in February 1999. The 2012 yield of 6.3% marked a record yield gap of 4.8 percentage points, due largely to the then exceptionally low 1.5% Gilt yield. The yield gap fell to a low of 3.3% in 2014 but has risen a little each year and is now 4.1%, a rise due largely to the current 10-year Gilt yield of 1.30%.

The All Property Rent Index, which apart from the brief fall in 2003, had risen consistently since 1994, fell 0.1% in the quarter to August 2008 and then fell by 12.3% in the year to August 2009. Since 2009 there have been small increases of only 0.9%, 0.1% and 0.6% in the years to August 2012, but since then rental growth has improved slightly by 2.6%, 2.9%, 5.0% and 4.6% in the four years to 2016 and by 2.6% this year to a level 4% above the previous peak attained in 2008, just before the Great Recession.

Rent rises in the individual sectors were 2.4% Shops, 9.1% Industrials, 0.4% Offices, 1.0% Shopping Centres and -0.3% Retail Warehouses, these two last sectors having the lowest growth in 2016 and in 2015. Retail Warehouse rents have declined by 0.1% per annum in the five years before this year's larger fall. Since the depression began nine years ago, the All Property Rent Index has risen by 4%; Shops by 5%; Offices by 8% and Industrials by 18%, but Retail Warehouses have fallen by 16%. Since the market peak of 1990/91 the CBRE rent indices, as adjusted by RPI for inflation, have all fallen: All Property 29%; Offices 34%; Shops 19%; and Industrials 28%.

Property returns as measured by IPD were 10.5% in the year to October 2017, a much better return than the 2.9% in 2016 when capital values dropped following the "Leave" vote in the referendum, with capital values falling by 2.0% in July 2016 due, primarily, to large falls in London offices. The last property boom ended in 2007 and by December 2008, a month when the index fell a record 5.3%, the index had fallen 26.6%. In the nine years since then the total return has been 115.3% or nearly 9% per annum. Since just before the boom ended the return has been 58.0% or only just over 4% per annum.

Last year forecasts for the full 2016 year and for 2017 and beyond had a notable inflexion point, depending which side of the June Referendum date they were made. In August 2015, the IPF Survey Report forecast overall returns of 9.2% in 2016, modified to 7.1% in May 2016 but downgraded in August 2016 to -0.4%, due primarily to a fall in capital values of 5.3%. The forecast then for 2017 was downgraded to 0.6%, but has been raised progressively to 8.2% in November 2017. Forecasts for 2018 to 2021 have all fallen slightly between February 2017 and November 2017, a fall which may be due in part to the outcome of the snap 8 June 2017 election. The November forecasts show a 4% return in 2018, with increases each year up to 5.9% in 2021. Capital returns increase the total return to 8.2% in 2017 but are slightly negative in 2018 and 2019 but turn positive in 2020 and 2021 to give an average return from 2017 to 2021 of 5.4% of which 5.0% in income. Stability is forecast.

Colliers provide the most comprehensive surveyors' forecast, giving detailed consideration to each sector. The near-term forecast for 2017 is an All Property return of 7.7% and of 4.1% for 2018 similar to IPF, but Colliers has a higher forecast of 5.9% for 2018 – 2021. This higher forecast derives from a forecast of higher Retail returns of 5.7% per annum, compared to 4.6%, higher Office returns of 5.3% compared to 3.9% and higher Industrial returns of 7.4% compared to 6.0%. Colliers forecast about 2% per annum capital growth in Offices and Industrials, and virtually none for Retail (0.3%), but IPF forecasts almost no capital growth in the four years to 2021. Colliers forecasts long-term rental growth of about 1.0% in the Retail and Office Sectors and 2.5% for Industrials, but IPF forecasts All Property rental growth of less than 1.0%. The difference in the two forecasts results primarily from differing forecasts of capital growth.

Colliers continue to forecast a difference between the South East and the rest of the UK, particularly for "Standard" Retails where Central London rents are expected to grow by almost 15% in the next five years as opposed to about 1% elsewhere. For Offices, while they expect Central London rents to fall by up to 1% in 2018, growth will be almost 1.0% pa in 2018 – 2021 and other offices in London and the South East will grow by about 1.5% following recent quarterly increases of 4.4% and 5.1% in the South East and the South respectively. Rents in the "Rest of the UK" will increase only slightly except where specific local conditions apply - for instance rents increased in Yorkshire by 3.7% in the last quarter, but are unchanged in the "Big Six" provincial markets where Edinburgh and Glasgow rents are unchanged at £31 and £30 respectively, although Scottish rents overall declined, presumably due to fall in the Aberdeen market. Industrial rents in London and the South East are expected to rise by 4.5% and 3.5% (UK average 2.5%) respectively this year and continue to outperform other areas in 2018 – 2021.

Forecasters are notoriously unable to detect pivotal points such as the unexpected Referendum vote which was largely responsible for the marked reduction in the IPF forecast property returns between March 2016 and August 2016, a downgrade which has since been slowly upgraded. Current forecasts are for a recovery in 2017, a fall in returns in 2018 and for a small continuing improvement thereafter – a trend analysis following the reaction to the Referendum. However, economic growth is forecast by the OBR at 1.4% in 2018 and steady thereafter, no recession is premised, and the response of the economy to leaving the EU appears much less disruptive than previously feared. The effect on the economy of leaving the EU will be small, as I argued above, but the perception is of much greater change and this perception will influence current analysis and decisions. Cautious investors will "wait and see" and act at present as though the outcome would be more unfavourable – behaviour that principally alters the timing of investments. The low recent rate of productivity growth, previously thought to be temporary, is now considered endemic, at least by the OBR, and will reduce economic growth and demand for property and be more influential than the changed trading patterns as yet to be established on leaving the EU. Notwithstanding this risk, I consider the forecasters over compensate for the effects of leaving the EU and therefore, in general, I think that returns over the 2017 – 2021 period will be above those currently forecast.

This time last year forecasts for house prices in 2017 were muted. HMT's "Average of Forecasts" was for a rise of 2.2%, and the OBR forecast 4.0%, forecasts in line with current 2017 estimates of 2.8%, by the HMT survey and 4.4% by the OBR. Increases in house prices in the twelve months to the end of October 2017 are reported as: 4.5% Halifax; 2.5% Nationwide; 0.8% UKHPI (September); and 0.8% Acadata, or 2.8% excluding London and the South East. The UKHPI and Acadata indices include cash purchases excluded from the Mortgage providers' figures. The downturn has been more severe in London than most regions, and as a higher percentage of houses are bought with cash in London, rises reported in the UKHPI and Acadata indices are reduced compared to those indices excluding cash buyers.

Early in 2017 Acadata reported prices (England and Wales) were rising 5% - 6% with monthly increases of over 0.5% per month for over 6 months, but since April 2017 monthly changes have been negative. There is a large disparity between the regions reported by Acadata. For the three months centred on September the average house price in Greater London fell 2.4% but rose 4.6% in the North West, the first occasion in which the North West has led the rise in house prices for a very long time. The "rippling" out of house prices has not affected the North East where prices are only 0.8% above last year, although Wales after a long period of low growth now shows a 2.6% rise.

The market in Scotland, like North West of England and South West of England, other areas distal to London and the South East has experienced a rapid growth of 5.6%, in spite of the lower economic growth in Scotland than in the UK. Within Scotland there are bigger differences than within the UK as prices have increased by an astonishing 17.4% in Stirling, although primarily because of new build expensive houses in Bridge of Allan, by 11% in the Scottish Borders and by 8.8%, 6.3% and 5.2% in the main Scottish cities Edinburgh, Glasgow and Aberdeen, where in Aberdeen the previous steep falls in house prices have reversed.

In Edinburgh price increases of about 9.0% are reported by both Acadata and UKHPI, figures consistent with anecdotal reports of very high prices being achieved for city centre high specification flats, with prices at or over £500/ft^2. The ESPC report New Town flats rising an astounding 26.9% and have less central areas such as Abbeyhill/Meadowbank rising 13.9%.

The OBR expect house prices to rise by 4.4% in 2018 and 13.3% over the next four years. HMT expect prices to rise 2.0% in 2018 and then by about 8.4% over the following three years. Forecasts of nil or 1% for 2018 are given by JLL, Knight Frank and Savills and RICS is "positive" over the next 12 months except for London and the South East.

Savills provide house price forecasts, carefully distinguishing them as second-hand, for up to five years for both Mainstream and Prime markets. The forecasts are conservative "we've seen the UK's credit rating downgrade, the pound weakened and the economy subdued. Inflation has cut people's earning … we expect to return to growth in 2019 – 2020 as employment growth, wage growth and GDP recover". The Mainstream UK market is forecast to have 1% growth in 2017 and to grow by only 14% over five years. Scottish prices will rise by only 1.5% next year but increase 17% over five years, almost equal to the 17½% increase of the three leading English regions North West, North East and Yorkshire and Humberside. London is expected to grow only by 7%. According to Savills almost all Prime markets will perform poorly in 2018. However, Central London prices are expected to grow 20% over five years, but suburban and outer London only by about 11%. Scotland's Prime market is expected to perform in line with other regions with prices rising only 14% over five years, 3 percentage points less than the Mainstream market.

The Halifax index peaked at the £199,600 recorded in August 2007. The equivalent inflation-adjusted price in October 2017 would have been 32.5% higher, or £264,496 but the current October 2017 Halifax index price is £223,271 – some way off! If house prices rise at about 3.9% and inflation is 2.0%, then ten more years will elapse before the August 2007 peak is regained in real terms. House prices are difficult to forecast and historically errors have been large, especially around the timing of reversals or shocks. I repeat what I have said previously. "… the key determinant of the long-term housing market will be a shortage in supply, resulting in higher prices".

Future Progress

The Group aims to accelerate the rate at which it takes advantage of a housing market in which prices are increasing rapidly in Edinburgh and its environs. We will curtail investment in projects that require long-term planning work. We will emphasise the completion and realisation of previously postponed development opportunities which can be built most profitably. We will seek to develop our major sites with the necessary consents and, for the largest projects, continue our analysis of innovative financial methods and joint ventures as appropriate.

Our developments require a stable and liquid housing market, but we do not depend on any increase in prices for the successful development of most of our sites, as almost all of these sites were purchased unconditionally, for prices not far above their existing use value and before the 2007 house price peak. A major component of the Group's site development value lies in securing planning permission, and in its extent, and it is relatively independent of changes in house values. For development or trading properties, unlike investment properties, no change is made to the Group's balance sheet even when improved development values have been obtained. Naturally, however, the balance sheet will reflect such enhanced value when the properties are developed or sold.

The policy of the Group will continue to be considered and conservative, but responsive to market conditions. The closing mid-market share price on 21 December 2017 was 157.5p, a small discount to the NAV of 161.7p as at 30 June 2017. As was the case last year the Board does not recommend a final dividend, but intends to restore dividends when profitability and consideration for other opportunities and obligations permit.

Conclusion

The UK recovered from the Great Recession of 2008 and the longest depression since 1873-96 but growth since then, although restored briefly to nearly the normal trend level, has been poor, while unusually, there has been no rebound or "catch up" of above average growth after the recession. Recently growth in the UK has been hampered by fear of the consequence of leaving the EU and by the poor growth in productivity. These trends are likely to persist, although the most deleterious effects of leaving the UK will fade over a few years. Unfortunately, the low growth of productivity is either part of a very long cycle or a secular trend.

The continuing restrictive fiscal policies have contributed to a delay in returning to the pre-recession growth level and the long depression and credit controls have damaged the economy's productivity and it long-term supply capability. The opportunity to expand demand and to invest in capital projects at low interest cost has been neglected, also contributing to the virtual stagnation of productivity growth. Fortunately, while fiscal stimulus has been limited monetary stimulus is being continued even when inflation targets are breached. Moreover, at long last, the view is gaining credence that the inflation level is "the inflation level" but it is not the "holy grail" of economic management nor even a necessary pre-condition for a successful growing economy, but one of many target indicators. The long delay in the recovery of many economies in the EZ is a clear example of the consequences of such misplaced emphasis.

The management of the economy, the inflation target, the fiscal balance, the previous and varied "golden rules" are derived from forecasts based on economic modelling. Such forecasting has proved fallible, at times contributing to, if not causing, severe economic damage. Past examples include the Great Depression, the policies before the New Deal, the recent Great Recession, the EMU, including particularly the extensive UK lobbying to join the EZ, the now waning fixation with the inflation target, and most recently and, quite vividly, the forecast drastic short-term consequences of leaving the EU. The accuracy of past economic management of economic forecasting does not give confidence in the likely accuracy of forecasts of the consequences of leaving the EU.

Forecasts for the final relationship between the UK and the EZ and for the economic consequences require to be considered in the knowledge of the uncertainties of such forecasts. My forecast is that the economic penalty for withdrawing from the EU will be measurable but manageable. Far greater damage to economic growth is being caused by the opportunity cost of lower productivity growth, a level around 1% per year on a continuing basis. Productivity growth would be improved by cultural and social change, by changes in political governance, by improved economic and capital analysis and by more rigorous management. Political choices in monopoly control social policies, transport policy, green policy and most fashionably "correct" areas are often inimical to economic growth but may represent democratically acceptable choices. The political choice to leave the EU is but one of many that may not be economically optimal – perhaps economists should accept that at the margin sometimes other priorities are preferred. But there is an economic cost.

I D Lowe
Chairman
22 December 2017

Consolidated income statement for the year ended 30 June 2017

	Note	**2017** **£000**	2016 £000
Revenue			
Revenue from development property sales		**145**	438
Gross rental income from investment properties		**410**	351
Total Revenue	5	**555**	789
Cost of development property sales		**(108)**	(391)
Property charges		**(232)**	(241)
Cost of Sales		**(340)**	(632)
Gross Profit		**215**	157
Administrative expenses		**(611)**	(635)
Other income		**15**	15
Net operating loss before investment property disposals and valuation movements	5	**(381)**	(463)
Gain on sale of investment properties		**259**	99
Valuation gains on investment properties	10	**1,200**	675
Valuation losses on investment properties	10	**(25)**	(185)
Net gains on investment properties		**1,434**	589

Operating profit		**1,053**	126
Financial income	7	**1**	1
Financial expenses	7	**(14)**	(22)
Net financing costs		**(13)**	(21)
Profit before taxation		**1,040**	105
Income tax	8	**-**	-
Profit and total comprehensive income for the financial year attributable to equity holders of the parent Company		**1,040**	105
Profit per share			
Basic and diluted profit per share (pence)	9	**8.83p**	0.89p

The notes on pages 39 – 59 form an integral part of these financial statements.

Consolidated balance sheet as at 30 June 2017

	Note	**2017 £000**	2016 £000
Non-current assets			
Investment property	10	**12,080**	10,905
Plant and equipment	11	**10**	15
Investments	12	**1**	1
Total non-current assets		**12,091**	10,921
Current assets			
Trading properties	13	**11,633**	11,166
Trade and other receivables	14	**396**	153
Cash and cash equivalents	15	**55**	103
Total current assets		**12,084**	11,422
Total assets		**24,175**	22,343
Current liabilities			
Trade and other payables	16	**(835)**	(698)
Interest bearing loans and borrowings	17	**(360)**	-
Total current liabilities		**(1,195)**	(698)
Non-current liabilities			
Interest bearing loans and borrowings	17	**(3,925)**	(3,630)
Total liabilities		**(5,120)**	(4,328)
Net assets		**19,055**	18,015

Equity			
Issued share capital	21	**2,357**	2,357
Capital redemption reserve	22	**175**	175
Share premium account	22	**2,745**	2,745
Retained earnings		**13,778**	12,738
Total equity attributable to equity holders of the parent Company		**19,055**	18,015
NET ASSET VALUE PER SHARE		**161.71p**	152.88p

The financial statements were approved by the board of directors on 22 December 2017 and signed on its behalf by:

ID Lowe
Director
The notes on pages 39 - 59 form an integral part of these financial statements.

Consolidated statement of changes in equity as at 30 June 2017

	Share capital	**Capital redemption reserve**	**Share premium account**	**Retained earnings**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
At 1 July 2015	2,357	175	2,745	12,633	17,910
Profit and total comprehensive income for the year	-	-	-	105	105
At 30 June 2016	2,357	175	2,745	12,738	18,015
Profit and total comprehensive income for the year	**-**	**-**	**-**	**1,040**	**1,040**
At 30 June 2017	**2,357**	**175**	**2,745**	**13,778**	**19,055**
	======	======	======	======	======

Consolidated cash flow statement for the year ended 30 June 2017

	2017	2016

	£000	£000
Cash flows from operating activities		
Profit for the year	**1,040**	105
Adjustments for :		
Gain on sale of investment property	**(259)**	(99)
Net gains on revaluation of investment properties	**(1,175)**	(490)
Depreciation	**7**	11
Net finance expense	**13**	22
Operating cash flows before movements in working capital	**(374)**	(451)
(Increase)/Decrease in trading properties	**(468)**	252
(Increase) in trade and other receivables	**(243)**	(57)
Increase in trade and other payables	**124**	30
Cash absorbed by the operations	**(961)**	(226)
Interest received	**1**	1
Net cash outflow from operating activities	**(960)**	(225)
Investing activities		
Proceeds from sale of investment property	**266**	199
Acquisition of property, plant and equipment	**(9)**	(2)
Cash flows generated from investing activities	**257**	197
Increase in borrowings	**655**	-
Cash flows generated from financing activities	**655**	-
Net decrease in cash and cash equivalents	**(48)**	(28)
Cash and cash equivalents at beginning of year	**103**	131
Cash and cash equivalents at end of year	**55**	103

Notes to the consolidated financial statements as at 30 June 2017

1 Reporting entity

Caledonian Trust PLC is a public company incorporated and domiciled in the United Kingdom. The consolidated financial statements of the Company for the year ended 30 June 2017 comprise the Company and its subsidiaries as listed in note 8 in the parent Company's financial statements (together referred to as "the Group"). The Group's principal activities are the holding of property for both investment and development purposes. The registered office is St Ann's Wharf, 112 Quayside, Newcastle upon Tyne, NE99 1SB and the principal place of business is 61a North Castle Street, Edinburgh EH2 3LJ.

2 Statement of Compliance

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards and its interpretation as adopted by the EU ("Adopted IFRSs"). The Company has elected to prepare its parent Company financial statements in accordance with IFRS; these are presented on pages 60 to 78.

3 Basis of preparation

The financial statements are prepared on the historical cost basis except for available for sale financial assets and investment properties which are measured at their fair value.

The preparation of the financial statements in conformity with Adopted IFRSs requires the directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These financial statements have been presented in pounds sterling which is the functional currency of all companies within the Group. All financial information has been rounded to the nearest thousand pounds.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement on pages 2 to 22. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in Note 18 to the consolidated financial statements.

In addition, note 18 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group and parent Company finance their day to day working capital requirements through related party loans (see note 24). The related party lender has indicated its willingness to continue to provide financial support and not to demand repayment of its loan during 2018.

3 Basis of preparation (continued)

The Directors have prepared projected cash flow information for the period ending twelve months from the date of their approval of these financial statements. These forecasts assume the Group will make property sales in the normal course of business to provide sufficient cash inflows to allow the Group to continue to trade.

Should these sales not complete as planned, the directors are confident that they would be able to sell sufficient other properties within a short timescale to generate the income necessary to meet the Group's liabilities as they fall due.

For these reasons they continue to adopt the going concern basis in preparing the financial statements.

Areas of estimation uncertainty and critical judgements

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements is contained in the following notes:

Estimates

- *Valuation of investment properties (note 10)*
  The fair value has been calculated by the directors taking account of third party valuations provided by external independent valuers as at 30 June 2016 and adjusted for market movements in the period to 30 June 2017. The independent valuations were based upon assumptions including future rental income, anticipated void cost and the appropriate discount rate or yield. The directors and independent valuers also take into consideration market evidence for comparable properties in respect of both transaction prices and rental agreements.

- *Valuation of trading properties (note 13)*
  Trading properties are carried at the lower of cost and net realisable value. The net realisable value of such properties is based on the amount the Group is likely to achieve in a sale to a third party. This is then dependent on availability of planning consent and demand for sites which is influenced by the housing and property markets.

Judgements

- *Deferred Tax (note 20)*
  The Group's deferred tax asset relates to tax losses being carried forward and to differences between the carrying value of investment properties and their original tax base. A decision has been taken not to recognise the asset on the basis of the uncertainty that surrounds the availability of future taxable profits.

4 Accounting policies

The accounting policies below have been applied consistently to all periods presented in these consolidated financial statements.

Basis of consolidation
The financial statements incorporate the financial statements of the parent Company and all its subsidiaries. Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to determine the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date it ceases.

Turnover
Turnover is the amount derived from ordinary activities, stated after any discounts, other sales taxes and net of VAT.

Revenue
Rental income from properties leased out under operating leases is recognised in the income statement on a straight line basis over the term of the lease. Costs of obtaining a lease and lease incentives granted are recognised as an integral part of total rental income and spread over the period from commencement of the lease to the earliest termination date on a straight line basis.

Revenue from the sale of trading properties is recognised in the income statement on the date at which the significant risks and rewards of ownership are transferred to the buyer with proceeds and costs shown on a gross basis.

Other income
Other income comprises income from agricultural land and other miscellaneous income.

Finance income and expenses

Finance income and expenses comprise interest payable on bank loans and other borrowings. All borrowing costs are recognised in the income statement using the effective interest rate method. Interest income represents income on bank deposits using the effective interest rate method.

Taxation
Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case the charge / credit is recognised in equity. Current tax is the expected tax payable on taxable income for the current year, using tax rates enacted or substantively enacted at the reporting date, adjusted for prior years under and over provisions.

Deferred tax is provided using the balance sheet liability method in respect of all temporary differences between the values at which assets and liabilities are recorded in the financial statements and their cost base for taxation purposes. Deferred tax includes current tax losses which can be offset against future capital gains. As the carrying value of the Group's investment properties is expected to be recovered through eventual sale rather than rentals, the tax base is calculated as the cost of the asset plus indexation. Indexation is taken into account to reduce any liability but does not create a deferred tax asset. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

4 Accounting policies (continued)

Investment properties
Investment properties are properties owned by the Group which are held either for long term rental growth or for capital appreciation or both. Properties transferred from trading properties to investment properties are revalued to fair value at the date on which the properties are transferred. When the Group begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property, which is measured based on the fair value model, and is not reclassified as property, plant and equipment during the redevelopment.

The cost of investment property includes the initial purchase price plus associated professional fees and historically also includes borrowing costs directly attributable to the acquisition. Subsequent expenditure on investment properties is only capitalised to the extent that future economic benefits will be realised.

Investment property is measured at fair value at each balance sheet date. External independent professional valuations are prepared at least once every three years. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arms-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Any gain or loss arising from a change in fair value is recognised in the income statement.

Purchases and sales of investment properties
Purchases and sales of investment properties are recognised in the financial statements at completion which is the date at which the significant risks and rewards of ownership are transferred to the buyer.

Plant and other equipment
Plant and other equipment are stated at cost, less accumulated depreciation and any provision for impairment. Depreciation is provided on all plant and other equipment at varying rates calculated to write off cost to the expected current residual value by equal annual instalments over their estimated useful economic lives. The principal rates employed are:

Plant and other equipment	-	20.0 per cent
Fixtures and fittings	-	33.3 per cent
Motor vehicles	-	33.3 per cent

Trading properties
Trading properties held for short term sale or with a view to subsequent disposal in the near future are stated at the lower of cost or net realisable value. Cost is calculated by reference to invoice price plus directly attributable professional fees. Net realisable value is based on estimated selling price less estimated cost of disposal.

4 Accounting policies (continued)

Financial assets

Trade and other receivables
Trade and other receivables are initially recognised at fair value and then stated at amortised cost.

Financial instruments

Available for sale financial assets
The Group's investments in equity securities are classified as available for sale financial assets. They are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they are measured at fair value and changes therein, other than Impairment losses, are recognised directly in equity. The fair value of available for sale investments is their quoted bid price at the balance sheet date. When an investment is disposed of, the cumulative gain or loss in equity is recognised in the income statement. Dividend income is recognised when the company has the right to receive dividends either when the share becomes ex dividend or the dividend has received shareholder approval.

Cash and cash equivalents

Cash includes cash in hand, deposits held at call (or with a maturity of less than 3 months) with banks, and bank overdrafts. Bank overdrafts that are repayable on demand and which form an integral part of the Group's cash management are shown within current liabilities on the balance sheet and included with cash and cash equivalents for the purpose of the statement of cash flows.

Financial liabilities

Trade payables

Trade payables are non-interest-bearing and are initially measured at fair value and thereafter at amortised cost.

Interest bearing loans and borrowings

Interest-bearing loans and bank overdrafts are initially carried at fair value less allowable transactions costs and then at amortised cost.

Standards and interpretations in issue but not yet effective

The following Adopted IFRSs have been issued but have not been applied by the Group in these financial statements:

IFRS 9 Financial Instruments (effective 1 January 2018)
IFRS 15 Revenue from Contracts with customers (effective 1 January 2018)
IFRS 16 Leases (effective 1 January 2019)

The Group has yet to assess the full impact of these new standards. Initial indications are that they will not significantly impact the financial statements of the Group.

4 Accounting policies (continued)

Operating segments

The Group determines and presents operating segments based on the information that is internally provided to the Board of Directors ("The Board"), which is the Group's chief operating decision maker. The directors review information in relation to the Group's entire property portfolio, regardless of its type or location, and as such are of the opinion that there is only one reportable segment which is represented by the consolidated position presented in the primary statements.

5 Operating profit

	2017	2016
	£000	£000
Revenue comprises:-		
Rental income	**410**	351
Sale of properties	**145**	438
Interest	**1**	1
Other income	**15**	15
	571	805

All revenue is derived from the United Kingdom

	2017	2016
	£000	£000
The operating profit is stated after charging:-		
Depreciation	**7**	11
Amounts received by auditors and their associates in respect of:		
- Audit of these financial statements (Group and Company)	**13**	12
- Audit of financial statements of subsidiaries pursuant to legislation	**7**	6

6 Employees and employee benefits

	2017	2016
	£000	£000
Employee remuneration		
Wages and salaries	**338**	373
Social security costs	**35**	39
Other pension costs	**27**	30
	400	442
	======	=======

Other pension costs represent contributions to defined contribution plans.

The average number of employees during the year was as follows:

	No.	No.
Management	**2**	2
Administration	**4**	3
Other	**2**	3
	8	8
	======	=======

	2017	2016
Remuneration of directors	**£000**	£000

Directors' emoluments	**197**	228
Company contributions to money purchase pension schemes	**25**	25
	======	======

Director	Salary and Fees £000	Benefits £000	Pension Contributions £000	**2017 Total £000**	2016 Total £000
ID Lowe	63	4	-	**67**	92
MJ Baynham	119	3	25	**147**	153
RJ Pearson	8	-	-	**8**	8
	190	**7**	**25**	**222**	253

Key management personnel are the directors, as listed above.

	2017	2016
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	**2**	2
	======	======

7 Finance income and finance expenses

	2017 £000	2016 £000
Finance income		
Interest receivable:		
- on bank balances	**1**	1
	===	===
Finance expenses		
Interest payable:		
- Other loan interest	**14**	22
	====	====

8 Income tax

There was no tax charge/(credit) in the current or preceding year.

	2017 £000	2016 £000
Profit before tax	**1,040**	105
	=====	=====
Current tax at 19.75% *(2016 : 20%)*	**205**	21
Effects of:		
Expenses not deductible for tax purposes	**15**	9
Indexation on chargeable gains	**(51)**	(20)
Losses carried forward	**63**	88
Revaluation of property not taxable	**(232)**	(98)
Total tax charge	**-**	-
	=====	=====

A reduction in the UK corporation tax rate from 20% to 19% was effective from 1 April 2017 and a further reduction to 18% (effective from 1 April 2020) was substantively enacted on 26 October 2015. This will reduce the company's future current tax charge accordingly. An additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly.

In the case of deferred tax in relation to investment property revaluation surpluses, the base cost used is historical book cost and includes allowances or deductions which may be available to reduce the actual tax liability which would crystallise in the event of a disposal of the asset (see note 20).

9 Profit per share

Basic profit per share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period as follows:

	2017	2016
	£000	£000
Profit for financial period	**1,040**	105
	======	======
	No.	No.
Weighted average no. of shares: for basic earnings per share and for diluted earnings per share	**11,783,577**	11,783,577
	========	========
Basic profit per share	**8.83 p**	0.89 p
Diluted profit per share	**8.83 p**	0.89 p

The diluted figure per share is the same as the basic figure per share as there are no dilutive shares.

10 Investment properties

	2017	2016
	£000	£000
Valuation		
At 30 June 2016	**10,905**	10,515
Sold in year	**-**	(100)
Revaluation in year	**1,175**	490
Valuation at 30 June 2017	**12,080**	10,905
	========	========

The carrying value of investment property is the fair value at the balance sheet date at directors' valuation and based on valuations by Montagu Evans, Chartered Surveyors, and for one property, by Rettie & Co, a firm of property specialists, as at 30 June 2016. The external valuers are not connected with the Company.

The 2016 fair values were prepared in accordance with the RICS Valuation – Professional Standards (January 2014, revised April 2015) published by the Royal Institution of Chartered Surveyors (RICS). The valuations are arrived at by reference to market evidence of transaction prices and completed lettings for similar properties. The properties were valued individually and not as part of a portfolio and no allowance was made for expenses of realisation or for any tax which might arise. They assumed a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion. The valuations reflected usual deductions in respect of purchaser's costs, SDLT and LBTT as applicable at the valuation date. Local comparable data was also adjusted to reflect the individual circumstances and unique characteristics of the valuation subjects and the 2017 directors' valuations reflect changes in lettings and progress on the potential for redevelopment of certain properties.

The 'review of activities' within the Chairman's statement provides the current status of the Group's property together with an analysis of the 'property prospects' for 2018 and beyond.

The historical cost of investment properties held at 30 June 2017 is £9,521,406 (2016: £9,620,837). The cumulative amount of interest capitalised and included within historical cost in respect of the Group's investment properties is £451,000 (2016: £476,000).

11 Plant and equipment

	Motor Vehicles £000	Fixtures and fittings £000	Other equipment £000	Total £000
Cost				
At 30 June 2015	18	14	65	97
Additions in year	-	-	2	2
At 30 June 2016	18	14	67	99
Depreciation				
At 30 June 2015	13	13	47	73
Charge for year	3	1	7	11
At 30 June 2016	16	14	54	84
Net book value				
At 30 June 2016	2	-	13	15

	Motor Vehicles £000	Fixtures and fittings £000	Other equipment £000	Total £000
Cost				
At 30 June 2016	18	14	67	99
Additions in year	-	2	-	2
At 30 June 2017	18	16	67	101
Depreciation				
At 30 June 2016	16	14	54	84
Charge for year	2	1	4	7
At 30 June 2017	18	15	58	91
Net book value				
At 30 June 2017	**-**	**1**	**9**	**10**

12 Investments

	2017	2016
	£000	£000
Available for sale financial assets	**1**	1
	======	======

13 Trading properties

	2017	2016
	£000	£000
At start of year	**11,166**	11,418
Additions	**575**	139
Sold in year	**(108)**	(391)
At end of year	**11,633**	11,166
	========	========

14 Trade and other receivables

	2017	2016
	£000	£000
Amounts falling due within one year		
Other debtors	**370**	67
Prepayments and accrued income	**26**	86
	396	153
	======	======

The Group's exposure to credit risks and impairment losses relating to trade receivables is given in note 18.

15 Cash and cash equivalents

	2017	2016
	£000	£000
Cash	**55**	103
	======	======

Cash and cash equivalents comprise cash at bank and in hand. Cash deposits are held with UK banks. The carrying amount of cash equivalents approximates to their fair values. The company's exposure to credit risk on cash and cash equivalents is regularly monitored (note 18).

16 Trade and other payables

	2017	2016
	£000	£000
Trade creditors	**33**	34
Other creditors including taxation	**15**	24
Accruals and deferred income	**787**	640
Accruals and other creditors	**835**	698
	======	======

The Group's exposure to currency and liquidity risk relating to trade payables is disclosed in note 18.

17 Other interest bearing loans and borrowings

The Group's interest bearing loans and borrowings are measured at amortised cost. More information about the Group's exposure to interest rate risk and liquidity risk is given in note 18.

Current liabilities

	2017	2016
	£000	£000
Unsecured development loan	**360**	-
	=======	========
Non-current liabilities		
Unsecured loans	**3,925**	3,630
	=======	=======

17 Other interest bearing loans and borrowings (continued)

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	**2017** Fair value £000	**2017** Carrying amount £000	2016 Fair value £000	2016 Carrying amount £000
Unsecured loan	GBP	Base +3%	**3,825**	**3,825**	3,530	3,530
Unsecured development loan	GBP	Base	**360**	**360**	-	-
Unsecured loan	GBP	Base + 3%	**100**	**100**	100	100
			4,285	**4,285**	3,630	3,630

The unsecured loan of £3,825,000 is repayable in 12 months and one day after the giving of notice by the lender. Interest is charged at 3% over Bank of Scotland base rate but the lender varied its right to the margin over base rate until further notice.

The short term unsecured development loan of £360,000 is repayable after the disposal of two properties, expected to be by 30 June 2018. Interest is charged at Bank of Scotland base rate.

The unsecured loan of £100,000 is not repayable before 1 July 2018. Interest is charged at a margin of 3% over Bank of Scotland base rate.

The weighted average interest rate of the floating rate borrowings was 3.3% *(2016: 3.5%)*. As set out above, a lender varied its right to the margin of interest above base rate until further notice and so the rate of interest charged in the year is 0.27% (*2016: 0.5%*).

18 Financial instruments

Fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	2017	2016

	Fair value	Carrying amount	Fair value	Carrying amount
	£000	**£000**	£000	£000
Trade and other receivables	**370**	**370**	145	145
Cash and cash equivalents	**55**	**55**	103	103
	425	**425**	248	248
Loans from related parties	**4,285**	**4,285**	3,630	3,630
Trade and other payables	**835**	**835**	698	698
	5,120	**5,120**	4,328	4,328

Estimation of fair values

The following methods and assumptions were used to estimate the fair values shown above:

Available for sale financial assets – as such assets are listed, the fair value is determined at the market price.

Trade and other receivables/payables – the fair value of receivables and payables with a remaining life of less than one year is deemed to be the same as the book value.

Cash and cash equivalents – the fair value is deemed to be the same as the carrying amount due to the short maturity of these instruments.

Other loans – the fair value is calculated by discounting the expected future cashflows at prevailing interest rates.

Overview of risks from its use of financial instruments

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and oversees compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

18 Financial instruments (continued)

The Board's policy is to maintain a strong capital base so as to cover all liabilities and to maintain the business and to sustain its development.

The Board of Directors also monitors the level of dividends to ordinary shareholders.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The Group's principal financial instruments comprise cash and short term deposits. The main purpose of these financial instruments is to finance the Group's operations.

As the Group operates wholly within the United Kingdom, there is currently no exposure to currency risk.

The main risks arising from the Group's financial instruments are interest rate risks and liquidity risks. The board reviews and agrees policies for managing each of these risks, which are summarised below:

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers, cash held at banks and its available for sale financial assets.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each tenant. The majority of rental payments are received in advance which reduces the Group's exposure to credit risk on trade receivables.

Other receivables

Other receivables consist of amounts due from tenants and purchasers of investment property along with a balance due from a company in which the Group holds a minority investment.

Available for sale financial assets

The Group does not actively trade in available for sale financial assets.

Bank facilities

At the year end the Company had no bank loan facilities available *(2016: Nil).*

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying value	
	2017	2016
	£000	£000
Available for sale investments	**1**	1
Other receivables	**370**	67
Cash and cash equivalents	**55**	103
	426	171
	=======	=======

18 Financial instruments (continued)

Credit risk (continued)

The Group made an allowance for impairment on trade receivables of £33,000 (2016: Nil) based on specific experience with three tenants. As at 30 June 2017, trade receivables of £30,000 were past due but not impaired. These are long standing tenants of the Group and the indications are that they will meet their payment obligations for trade receivables which are recognised in the balance sheet that are past due and unprovided. The ageing analysis of these trade receivables is as follows:

	2017	2016
Number of days past due date	**£000**	£000
Less than 30 days	**1**	9
Between 30 and 60 days	**5**	1
Between 60 and 90 days	**-**	3
Over 90 days	**24**	36
	30	49
	=======	=======

Credit risk for trade receivables at the reporting date was all in relation to property tenants in United Kingdom. The Group's exposure is spread across a number of customers and sums past due relate to 6 tenants (2016: 8 tenants). One tenant accounts for 67% (2016: 67%) of the trade receivables past due by more than 90 days.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking damage to the Group's reputation. Whilst the directors cannot envisage all possible circumstances, the directors believe that, taking account of reasonably foreseeable adverse movements in rental income, interest or property values, the Group has sufficient resources available to enable it to do so.

The Group's exposure to liquidity risk is given below

30 June 2017 £'000	**Carrying amount**	**Contractual cash flows**	**6 months or less**	**6-12 months**	**2-5 years**
Unsecured loan	3,825	3,858	28	5	3,825
Unsecured development loan	360	361	1	360	-
Unsecured loan	100	111	9	-	102
Trade and other payables	835	835	835	-	-

30 June 2016 £'000	**Carrying amount**	**Contractual cash flows**	**6 months or less**	**6-12 months**	**2-5 years**
Unsecured loan	3,530	3,548	9	9	3,530
Unsecured loan	100	107	2	2	103
Trade and other payables	698	698	698	-	-

Market risk

Market risk is the risk that changes in market prices, such as interest rates, will affect the company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest rate risk

The Group borrowings are at floating rates of interest based on LIBOR or Base Rate.

The interest rate profile of the Group's borrowings as at the year end was as follows:

	2017 £000	2016 £000
Unsecured loan	**3,825**	3,530

Unsecured loan	**360**	-
Unsecured loan	**100**	100
	=======	=======

A 1% movement in interest rates would be expected to change the Group's annual net interest charge by £48,850 *(2016: £36,300)*.

19 Operating leases

Leases as lessors

The Group leases out its investment properties under operating leases. The future minimum receipts under non-cancellable operating leases are as follows:

	2017	2016
	£000	£000
Less than one year	**201**	221
Between one and five years	**181**	418
Greater than five years	**167**	216
	549	855
	=====	=====

The amounts recognised in income and costs for operating leases are shown on the face of the income statement. Leases are generally repairing leases.

20 Deferred tax

At 30 June 2017, the Group has a potential deferred tax asset of £929,000 (*2016:* £971,000) of which £27,000 (*2016: £74,000*) relates to differences between the carrying value of investment properties and the tax base. In addition the Group has tax losses which would result in a deferred tax asset of £902,000 (*2016: £897,000*). This has not been recognised due to the uncertainty over the availability of future taxable profits.

Movement in unrecognised deferred tax asset

	Balance 1 July 15 at 18%	Additions/ reductions	Balance 30 June 16 at 18%	Additions/ reductions	**Balance 30 Jun 17 at 17%**
	£000	£000	£000	£000	**£000**
Investment properties	153	(79)	74	(47)	**27**
Tax losses	818	79	897	5	**902**
Total	971	-	971	(42)	**929**

21 Issued share capital

	30 June 2017		30 June 2016	
	No	**£000**	No.	£000
Authorised share capital				
Ordinary shares of 20p each	**20,000,000**	**4,000**	20,000,000	4,000
	========	=======	========	=======

Issued and fully paid				
Ordinary shares of 20p each	**11,783,577**	**2,357**	11,783,577	2,357
	========	=======	========	=======

Holders of ordinary shares are entitled to dividends declared from time to time, to one vote per ordinary share and a share of any distribution of the Company's assets.

22 Capital and reserves

The capital redemption reserve arose in prior years on redemption of share capital. The reserve is not distributable.

The share premium account is used to record the issue of share capital above par value. This reserve is not distributable.

23 Ultimate controlling party

The ultimate controlling party is Mr ID Lowe.

24 Related parties

Transactions with key management personnel

Transactions with key management personnel consist of compensation for services provided to the Company. Details are given in note 6.

Lowe Dalkeith Farm, a business wholly owned by ID Lowe, used land at one of the Group's investment properties as grazings for its farming operation. No rent was charged as the cost of maintaining the land without livestock would exceed the grazing rent.

Other related party transactions

The parent Company has a related party relationship with its subsidiaries.

The Group and Company has an unsecured loan due to Leafrealm Limited, a company of which ID Lowe is the controlling shareholder. The balance due to this party at 30 June 2017 was £3,825,000 (*2016: £3,530,000*) with interest payable at 3% over Bank of Scotland base rate per annum. Leafrealm Limited varied its right to the margin of interest over base rate until further notice. Interest charged in the year amounted to £9,967 *(2016: £17,698).*

The Group and Company also has an unsecured development loan due to Leafrealm Limited, a company of which ID Lowe is the controlling shareholder. The balance due to this party at 30 June 2017 was £360,000 (*2016: £Nil*) with interest payable at base rate. Interest charged in the year amounted to £414 *(2016: £Nil).*

24 Related parties (continued)

The Group and Company has an unsecured loan from Mrs V Baynham, the wife of a director. This is on normal commercial terms. The balance due to this party at 30 June 2017 was £99,999 (*2016: £99,999*) with interest payable at 3% over Bank of Scotland base rate per annum. Interest charged in the year amounted to £3,274 *(2016: £4,382).* The loan is not due to be repaid before 1 July 2018.

Contracting work on certain of the Group's development and investment property sites has been undertaken by Leafrealm Land Limited, a company under the control of ID Lowe. The value of the work done by Leafrealm Land Limited charged in the accounts for the year to 30 June 2017 amounts to £61,897 (*2016: £44,627*) at rates which do not exceed normal commercial rates. The balance payable to Leafrealm Land Limited in respect of invoices for this work at 30 June 2017 was £106,524 (*2016: £Nil*).

For a full listing of investments and subsidiary undertakings please see Note 8 of the parent Company financial statements.

-ENDS-