Joint Ventures for Landowners and New Farmers

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Case Study

Clachan Farm

Argyll

"The contract farming arrangement works well for both the farmer and the contractor"

Contract Farming - Mutual benefit for Farmer and Contractor

A short biog...

Colin MacFadyen grew up on the family hill farm in Argyll where he gained plenty of practical experience working with his father and brothers. As active members of the local farming community there was always plenty to do on the farm and with helping neighbours.

After leaving school Colin worked as a digger contractor primarily on forest roads and site work while continuing to help on the farm at weekends.

In 2010 he and his wife Jo spent some time working in New Zealand. "We got to experience paddock grazing systems, weed management and the like, on a dairy farm. It was very different from Argyll and very interesting."

After returning home it was back to self-employed digger work again until seeing this contract farming opportunity advertised.

"I didn't know much about how contract farming worked" says Colin, "but once I knew more I realised this was a great opportunity".

The farm is owned by Rory Young. He has another farm elsewhere in Scotland and did not want to try running this unit from afar.

"I can't be in two places at once," he says, "and so needed someone I can rely on to look after farm operations here". He decided that the size of the farm did not justify employing a full-time manager and that he'd rather encourage someone to innovate and take a greater responsibility in the farm while also having time for their own off-site interests.

"The contract farming arrangement works well for both of us".

The European Agricultural Fund for Rural Development
Europe investing in rural areas

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The Farm System

Clachan Farm is located on the Argyll coast, rising to 190metres elevation. The farm extends to 433 hectares with approximately one-third being permanent pasture and the rest being rough grazing.

The farm currently has 35 pedigree Luing cows, breeding its own replacements with heifers calving at 2 years old. Young bulls are purchased and kept for 2 years before they are sold as good working bulls.

The sheep enterprise consists of 530 blackface ewes, these scan at 154%.

The Application Process

The opportunity to contract farm Clachan was advertised, and interest was expressed both locally and wider afield, from some very strong candidates.

Although initially reluctant to try a younger farmer, Rory thought that with his farming background and strong family support, Colin was an ideal candidate. "I decided to take a bit of a risk and give a young farmer the chance. He has local knowledge and experience and his willing to look at things and try new ways."

The application process involved a business plan and estimated farm gross margin. Colin decided that if he got the contract then it would have to offer him a reasonable income and security for him and his young family.

"The application required me to say what contractor fee I'd charge and what percentage of the profit share I wanted," said Colin, "I could have said I wanted a smaller share to try and boost my chances of getting the contract, however it's got to work for me and so I said what I needed".

Rory agreed "I wanted someone I could trust to take care of the farm and come up with ideas of their own to increase business, and so was willing to give them a good share of profits, which after all, they are helping to create."

Policy and Planning

Farm policy was set by Rory who is technically the farmer, in consultation with his farm advisor, before the contract agreement started. This included such things as livestock numbers, breeding policy, feed and health planning, etc. and was intended as a set of clearly stated guidelines while the new working relationship between farmer (Rory) and contractor (Colin) was established.

The initial contract was for two years but with the expectation that it would be renewed, if both parties were happy with the arrangement. It is now on an annual rolling renewal.

The hardest part with a contract agreement involving animals is the livestock valuation and replacement policy and then to reimburse appropriately for livestock changes. For example, if the plan is to increase flock size through retention of extra home-bred hoggs, then that's income forgone (they should have been sold) and so profit is reduced which affects profit share.

Alternatively the contractor could sell extra stock to boost profit but rundown the size of the herd and reduce the farmer's capital. At Clachan there was a clear statement of expectations, an agreed valuation at the start, and everyone understood the policies.

"Although there were strict policies at the start I did not want to micro-manage" said Rory, the farmer, "You need to be prepared to be flexible and maybe tweak policies."

"Yes" agreed Colin "At the start there wasn't an improvements plan but with the reinvestment we needed an understanding of where the money was to be spent."

Regular Meetings

The farmer (Rory) and contractor (Colin) are in regular contact, mostly by email, and there are on-farm meetings 4 to 6 times a year. These are fairly informal but are minuted so there is a record of what was agreed, priorities set and longer term goals.

"Now that the working relationship is well established" said Colin "we might each have our own ideas but we meet and discuss the best options." Breeding policy for example is one area that Colin has been able to influence as they move to ewes with shorter wool to reduce fly-strike.

Reinvestment

At Clachan, the farmer and landowner, Rory, takes a small retention payment, leaving funds in the farm account that can be reinvestment in the farm.

"With the uncertainty over Brexit and future support I decided to invest in farm roads, fencing and other long-term assets which will maintain capital worth in the future," said Rory.

From Colin's perspective the improvements, particularly in stock handling facilities, means that more jobs are feasible for just one person to do. Colin is also using his profit share to upgrade the machinery that he brings as part of the contract.

Contract Farming—a summary!

A contract farming agreement is the terms of understanding between two parties. That is, a landowner/occupier (known as the "farmer") who has engaged the services of another (known as the "contractor") to undertake farming operations over a fixed period (typically 3 to 5 years) on pre-arranged terms. It may be more simply understood as farming with contractors.

The farmer normally provides the land, buildings, fixed equipment (if required or agreed), a dedicated bank account, pay the required bills, finance to administer the agreement, and any farm knowledge. For this, they will receive what is commonly termed a basic retention/fee. This is agreed with the contractor in advance of the start of the agreement.

The contractor provides the labour, machinery (including its incurred costs) and management expertise. The contractor could be a new entrant, a neighbouring farmer, large farming company or traditional contractor. For this, they receive a basic contractors fee (usually quarterly or half yearly).

A separate livestock hire agreement is produced, either party can supply breeding livestock (if applicable). Both parties agree farming policy and the share of any divisible surplus in advance and meet regularly to make management decisions and monitor progress.

The mechanics of a contract farming agreement:

1) agree a land "retention" and "contractors fee"

2) There are three bank accounts

No. 1 Farmers Account
No. 2 Contract Farming Agreement Account
No. 3 Contractors Account

1) The farmer establishes a No.2 A/c to be distinct from any other of their activities

2) Dwelling accommodation or industrial buildings are excluded from the agreement but may be available by separate negotiation with a residential or commercial lease

Initial Issues

"The first year had difficult cash-flow" said Colin. The farm accounts run on a calendar year (Jan – Dec) and the contract started with a float and an overdraft facility.

"It was a long time to the sales in September, and then the support payments were delayed". The accounts could not be finalised until all the support payments were paid and then the profit share could eventually be calculated.

Progress

"Rory seems happy to leave me to get on with what needs doing, "says Colin "we're aiming for the same things and we discuss any changes if needed".

Meanwhile Rory is pleased with Colin's commitment to the place. "The contract farming arrangement is working well for both of us".

FOR MORE DETAILS SEE THE GUIDANCE NOTE:
https://www.fas.scot/new-entrants/guidance-notes/

Top Tips

- Make sure the contract terms are understood before it starts. The contract must state what items are paid from the farm account and what items are the responsibility of either the farmer or the contractor.
- Have a clear livestock policy that includes an agreed valuation, livestock replacement plan and states how changes in livestock numbers will be reimbursed.
- Maintain regular communication and be prepared to be flexible.

New Entrants to Farming
"get with the" Programme

There is a network of new entrants across the country at various stages of developing their businesses. You can join in:

- www.facebook.com/NewEntrants
- www.fas.scot/new-entrants/
- Regional workshops

For more info contact Kirsten Williams, Consultant, SAC Consulting, Clifton Road, Turriff, 01888 563333, Kirsten.Williams@sac.co.uk

There are useful free resources on the website too:

- Case studies—learning from the experiences of other new entrants.
- Guidance notes—benefit from advice tailored to assist new entrants to farming.
- Also see www.gov.scot/Topics/farmingrural/Agriculture/NewEntrantsToFarming