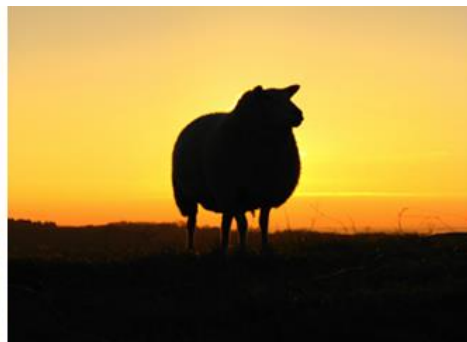




**FARM  
ADVISORY  
SERVICE**





**FARM  
ADVISORY  
SERVICE**

# **Joint Venture Farming**

## **An opportunity**

**Sandy Ramsay (SAC)**

# Content:

Overview of Joint Venture Farming

Overview of Share Farming

Contract Farming – The Mechanics

Contract Farming – The Documentation

Contract Farming – The Finances

Interactive – and a Quiz



# Joint Venture Farming – Overview



JVF provides alternatives to Leases & Tenancies

- Agriculture Holdings (Scotland) Acts  
(1923, 1949, 1983, 1991, 2003)
- Agriculture Holdings (Ammend't) (Scotland) Act  
2012
- Land Reform (Scotland) Act 2016
- Secure Agricultural Tenancy (+ Ltd Partnership)
- LDT and SLDT
- Grazing or mowing lease

# Joint Venture Farming – Overview



Contract Farming Agreements  
Share Farming Agreements

Partnership Agreements

Contract Rearing  
Labour &/or Machinery Sharing



# Joint Venture Farming – Overview

ADAS Study (2007)

3% – 5 % of farmers in England

1% – 2% share farming (85% arable)

3% – 4% contract farming

4% used JVF as an entry to farming

25% used JVF to facilitate retirement

# Joint Venture Farming – Overview

“If just a quarter of the country’s farmers aged over 65 entered in to a share farming agreement it would allow more than 3,000 new entrants to start working the land.” CLA (2014)

Year	Under 55	55 to 64	65 and over	occupiers	population
2015	10,932	6,777	7,965	31%	22%

Scottish Government June Census Data

# Joint Venture Farming – Overview

## Joint Venture:

“Joint” – More than one party

Risk and Reward

Sharing in Risk and Liability

## Share Farming Agreements

## Contract Farming Agreements



# Joint Venture Farming – Overview



## Share Farming

- A Share farming agreement is between two business equals – not master & servant. It is a close relationship that requires mutual trust and respect; knowing each other helps a good deal.

Centre of Management in Agriculture (1986)

# Joint Venture Farming – Overview

## Share Farming

- Very similar to, but less popular than Contract Farming
- Two businesses farming one unit
- IACS (how many ?)
- Shared Livestock Ownership
- Landowner = Share Owner (Share Occupier)
- Contractor = Share Operator (Share Farmer)

# Joint Venture Farming – Overview

## Share Farming

- No need for a new bank account (No 2 A/C)
- Splitting Account (receipts only)
- Each party responsible for own costs
- Calculation of share % based on :
  - budgets
  - Value of inputs

# Joint Venture Farming – Overview

Share Farming	Share Owner	Share Operator
I. Land, Buildings, Labour, Machinery, Livestock Ownership (+ some fixed costs)	61%	39%
II. Variable Costs and some Fixed Costs	Ditto	Ditto
III. Receipts	Ditto	Ditto

# Joint Venture Farming – Overview

## Share Farming

- New Zealand
- Joint Ownership of stock
- Share Farmer steadily increases ownership %
- Eventually the Share Farmer can end up owning the majority share in the stock
- Sell up and buy own farm and become a Share Owner

# Contract Farming – Mechanics

Contract farming agreements provide most of the benefits of in-hand farming without the continued investment in farm labour and machinery.



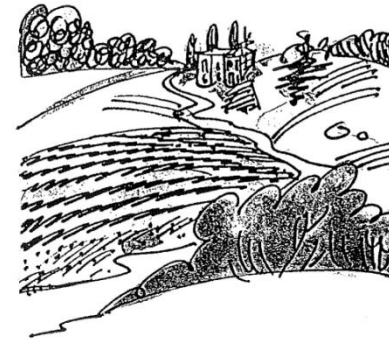
Savills Website – advice to estate clients.



# Contract Farming – Mechanics

The Contractor provides:-

- labour
- machinery and all machinery costs  
– (e.g., fuel, repairs, sub contract)
- breeding livestock (if applicable)
- management expertise

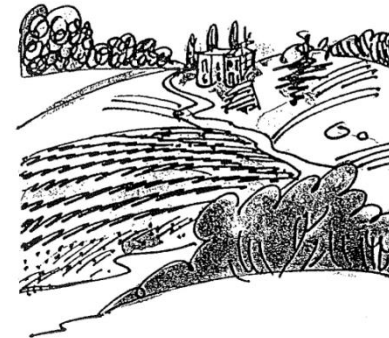


# Contract Farming – Mechanics

The Farmer provides:-

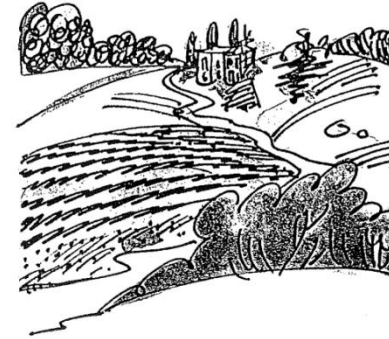
- the land
- buildings
- fixed equipment (e.g. grain store, parlour)
- entitlement

and continues to carry on his  
farming business.



# Contract Farming – Mechanics

- Landowner = Farmer
- Farmer = Contractor
- Farmers Business & IACS & Subsidy
- Separate IACS status
- Benefits to both Parties
- Trust



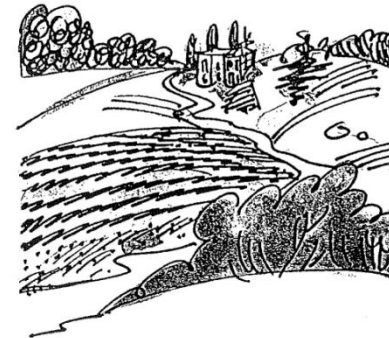
# Contract Farming – Mechanics

- Avoids creation of Tenancy
- Can be operated by Tenants
- Earned Income
- Short Term basis



# Contract Farming – Mechanics Landowner

- Can sell Machinery
- Can sell Livestock
- Can release Labour
- Can release his/her own time
- Retains Entitlements
- Retains IACS
- Retains Trading Business

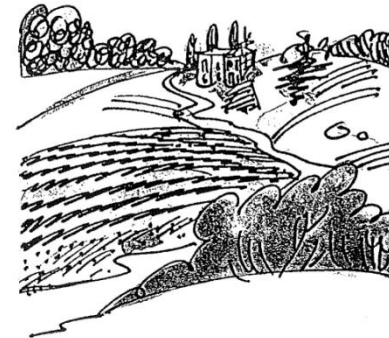




# Contract Farming – Mechanics

## Contractor

- New Entrant
- Expands area of operation
- Acquires land without purchase
- Spreads fixed costs over wider area
- Separate IACS status
- “Acquires” use of Entitlement
- Increases viability ?

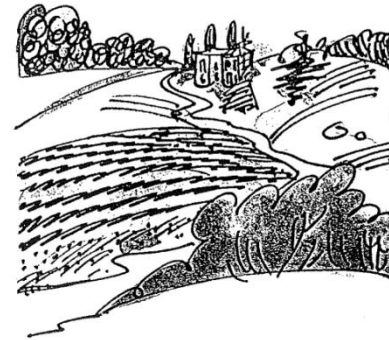




# Contract Farming – Mechanics

## Procedures

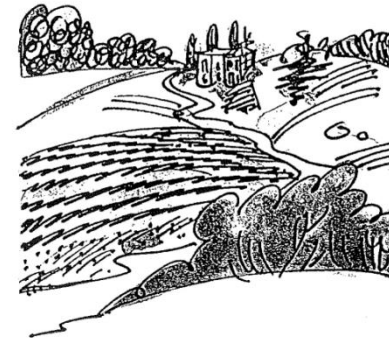
- Agree “Retention” & “Contractors Fee”
- Establish No.2 A/C in Farmers Name
- All operations financed through No.2 A/C
- IACS completed by Farmer
- Subsidy Claims submitted by Farmer



# Contract Farming – Mechanics

## Procedures

- Accounting period = 12 months
  - preferably November year end
  - Valuations may be required
- Appoint Agent (?)
- Keep Cashbook
- Prepare final account



# Contract Farming – Mechanics



**Farmer**

**Number 2 Account**

**Contractor**

# Contract Farming – Mechanics



**Farmer**

**Number 2 Account**

**Contractor**

Income  
**Crop Sales**

# Contract Farming – Mechanics



**Farmer**

**Number 2 Account**

**Contractor**

Income  
Crop Sales  
BPS etc.

# Contract Farming – Mechanics



Farmer

Number 2 Account

Contractor



Income  
Crop Sales  
BPS etc.



# Contract Farming – Mechanics



Farmer

Number 2 Account

Contractor



Income

Crop Sales

BPS etc.

Variable Costs

# Contract Farming – Mechanics

## Variable Costs

- Seeds
- Fertiliser
- Sprays
- Lime
- Crop Sundries

# Contract Farming – Mechanics

Farmer

Number 2 Account

Contractor



Income

Crop Sales

BPS etc.

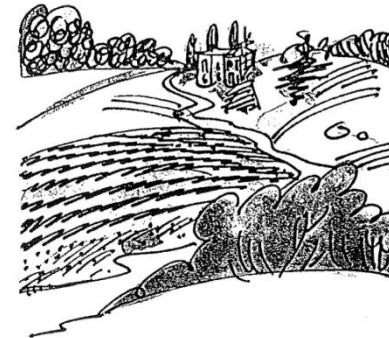
Variable Costs

Fixed Costs

# Contract Farming – Mechanics

## Fixed Costs

- Fuel & Electricity (Fixed Equipment)
- Insurances
- Property Repairs (Agreed Buildings)
- Rates
- Professional Fees
- Bank Interest



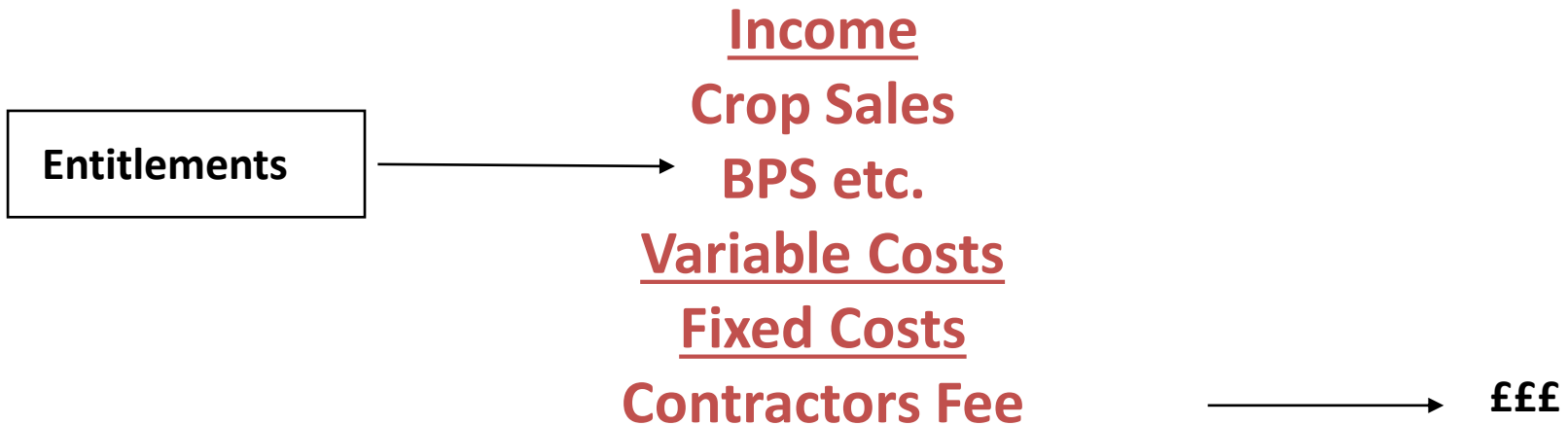
# Contract Farming – Mechanics



Farmer

Number 2 Account

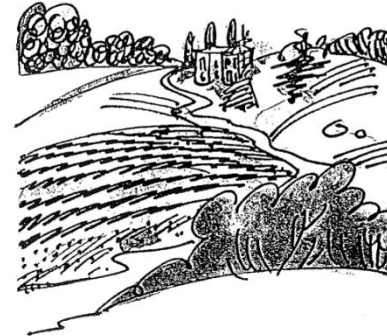
Contractor



# Contract Farming – Mechanics

## Contractors Fee

- Based on Machinery Ring Rates ?
- Commonly £85 to £115 per arable acre
- Payable Quarterly in arrears
- VAT invoice required





# Contract Farming – Mechanics



**Farmer**

**Number 2 Account**

**Contractor**

Income

Crop Sales

BPS etc.

Variable Costs

Fixed Costs

Contractors Fee

—————→ £££

Gross Profit

£££

←—————

Farmers Retention

# Contract Farming – Mechanics

## Farmers Retention

- Equivalent to a reasonable rent
  - Between Ltd Partnership & Seasonal Let
- Payable within 30 days of year end
- No VAT invoice required
- NEVER called a Rent



# Contract Farming – Mechanics



**Farmer**

**Number 2 Account**

**Contractor**

Income

Crop Sales

BPS etc.

Variable Costs

Fixed Costs

Contractors Fee

→ £££

Gross Profit

Farmers Retention

£££

←

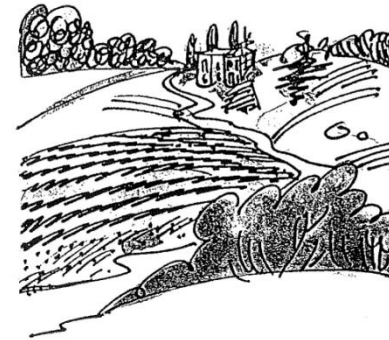
**Divisible Surplus**

→ £££

# Contract Farming – Mechanics

## Divisible Surplus

- 80% - 90% to Contractor
- 20% - 10% to Farmer
- Risk & Reward

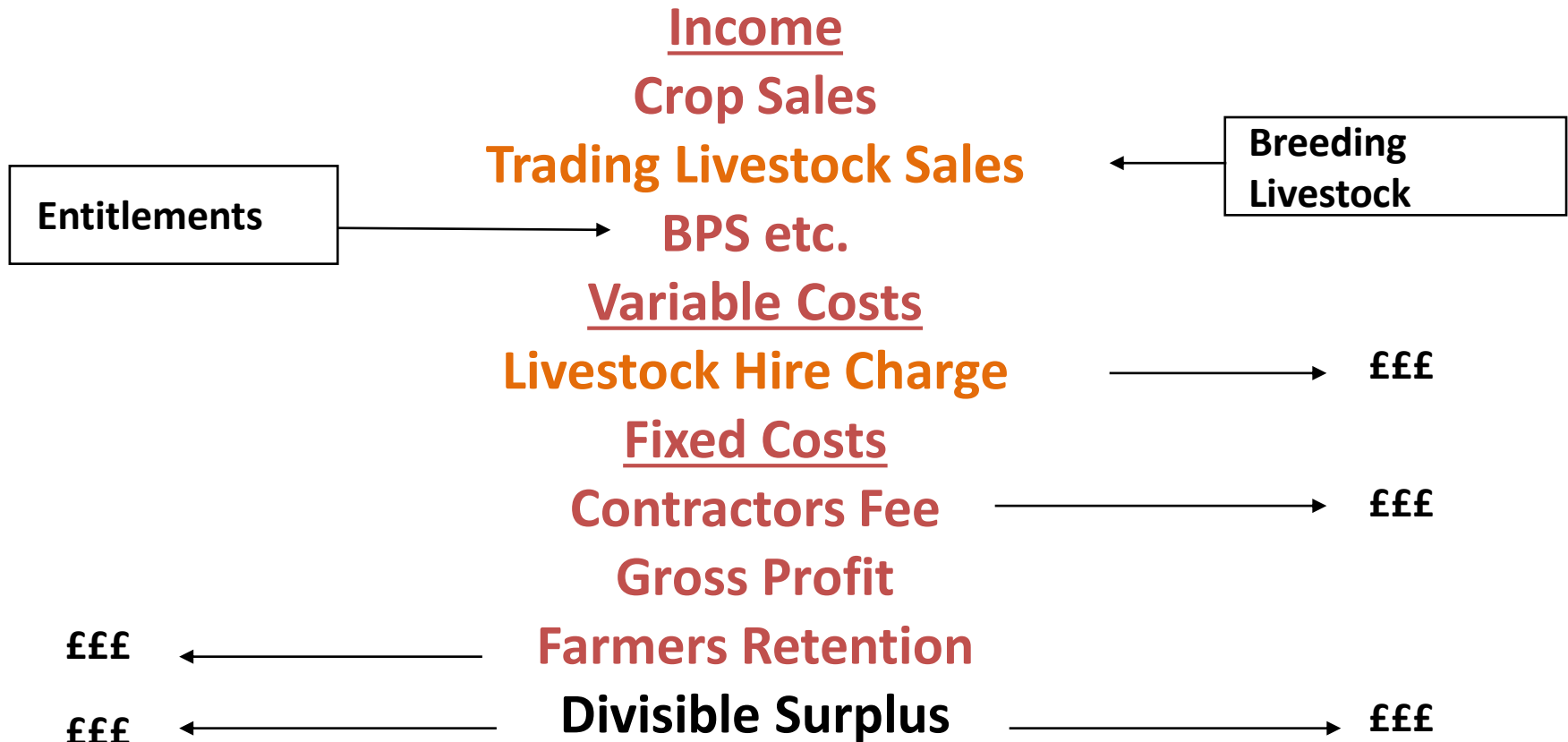


# Contract Farming – Mechanics

Farmer

Number 2 Account

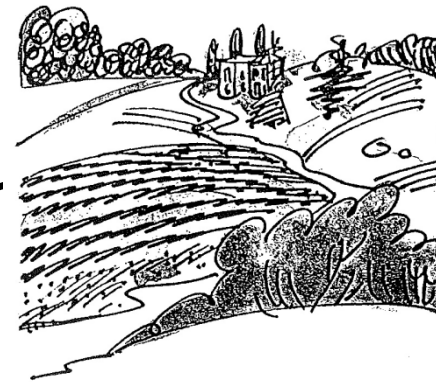
Contractor



# Contract Farming – Mechanics

## Livestock Hire Charges

- “loosely” based on replacement char
- £107 per Suckler Cow
- £28 per Ewe
- Not a sensitive factor

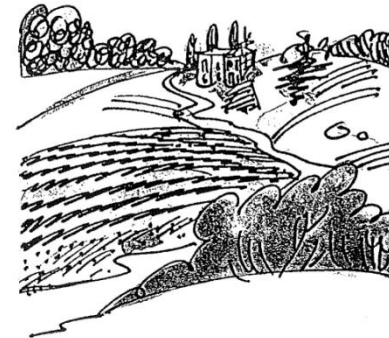




# Contract Farming – Mechanics

## Contractors Fee

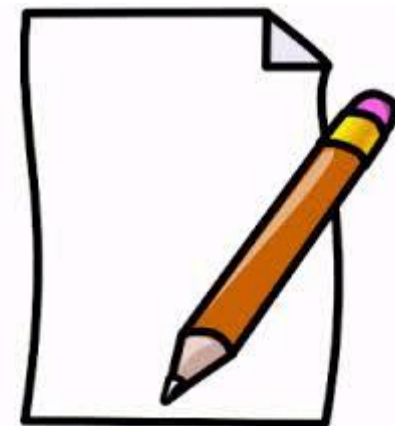
- Based on Machinery Ring Rates ?
- Commonly £85 to £115 per arable acre
- Livestock work calculated on time basis
  - e.g. £18,500/man = £150 per Cow
  - = £ 15 per Ewe
- Payable Quarterly in arrears
- VAT invoice required





# Contract Farming: Mini Quiz

- 18 Questions
- 4 possible answers to each Question
  - No. 1 Account (Farmers Account)
  - No. 2 Account (CFA Account)
  - No. 3 Account (Contractors Account)
  - Some other account unrelated to the CFA



# Quiz : Contract Farming

Which Account does the following item get paid from - No.1, No.2, No.3 – or some other account?

## 1. Tractor Repairs



# Quiz : Contract Farming

Which Account does the following item get paid from - No.1, No.2, No.3 – or some other account?

2. 5 litres of Fungicide



# Quiz : Contract Farming

Which Account does the following item get paid from - No.1, No.2, No.3 – or some other account?

3. 25t of cattle cobs



# Quiz : Contract Farming

Which Account does the following item get paid from - No.1, No.2, No.3 – or some other account?

4. Diesel for Grain dr





# Quiz : Contract Farming

Which Account does the following item get paid from - No.1, No.2, No.3 – or some other account?

5. Diesel for Tractor



# Quiz : Contract Farming

Which Account does the following item get paid from - No.1, No.2, No.3 – or some other account?

6. Spring Barley  
seed treatment





# Quiz : Contract Farming

Which Account does the following item get paid from - No.1, No.2, No.3 – or some other account?

7. Vets Bill for treating cows



# Quiz : Contract Farming

Which Account does the following item get paid from - No.1, No.2, No.3 – or some other account?

## 8. Farmers Holiday in Mauritius



# Quiz : Contract Farming

Which Account does the following item get paid from - No.1, No.2, No.3 – or some other account?

## 9. Contractors Holiday at Highland Show



# Quiz : Contract Farming

Which Account do the following items get paid into - No.1, No.2, No.3 – or some other account?

## 10. BPS Receipt.

BACS ( bank transfer )

Bank : Alliance & Leicester  
Account name : Design Unfolds  
Sort code : 72 00 00  
Account number : (0) 4404904



# Quiz : Contract Farming

Which Account do the following items get paid into - No.1, No.2, No.3 – or some other account?

## 11. Cast Cow Sales





# Quiz : Contract Farming

Which Account do the following items get paid into - No.1, No.2, No.3 – or some other account?

12. OSR sales



# Quiz : Contract Farming

Which Account does the following item get paid from - No.1, No.2, No.3 – or some other account?

13. Tractormans Wages





# Quiz : Contract Farming

Which Account does the following item get paid from - No.1, No.2, No.3 – or some other account?

14. Roof repairs to cattle shed



# Quiz : Contract Farming

Which Account does the following item get paid from - No.1, No.2, No.3 – or some other account?

15. Building Insurances



# Quiz : Contract Farming

Which Account does the following item get paid from - No.1, No.2, No.3 – or some other account?

16. Ear Tags for calves



# Quiz : Contract Farming

Which Account does the following item get paid from - No.1, No.2, No.3 – or some other account?

17. Lime



# Quiz : Contract Farming

Which Account does the following item get paid from - No.1, No.2, No.3 – or some other account?

18. 40t of Ammonium Nitrate



# Quiz : Contract Farming



# Answers



# Quiz : Contract Farming

Which Account does the following item get paid from - No.1, No.2, No.3 – or some other account?

1. Tractor Repairs

**Answer: No 3 A/C**





# Quiz : Contract Farming

Which Account does the following item get paid from - No.1, No.2, No.3 – or some other account?

2. 5 litres of Fungicide

**Answer: No. 2 A/C**



# Quiz : Contract Farming

Which Account does the following item get paid from - No.1, No.2, No.3 – or some other account?

3. 25t of cattle cobs

**Answer: No. 2 A/C**



# Quiz : Contract Farming

Which Account does the following item get paid from - No.1, No.2, No.3 – or some other account?

4. Diesel for Grain drier

**Answer: No. 2 A/C**



# Quiz : Contract Farming

Which Account does the following item get paid from - No.1, No.2, No.3 – or some other account?

5. Diesel for Tractor

**Answer: No. 3 A/C**





# Quiz : Contract Farming

Which Account does the following item get paid from - No.1, No.2, No.3 – or some other account?

6. Spring Barley seed treatment

**Answer: No.2 A/C**



# Quiz : Contract Farming

Which Account does the following item get paid from - No.1, No.2, No.3 – or some other account?

7. Vets Bill for treating cows

**Answer: No.2 A/C**





# Quiz : Contract Farming

Which Account does the following item get paid from - No.1, No.2, No.3 – or some other account?

8. Farmers Holiday  
in Mauritius

**Answer: No. 1 A/C**



# Quiz : Contract Farming

Which Account does the following item get paid from - No.1, No.2, No.3 – or some other account?

9. Contractors Holiday  
at Highland Show

**Answer: No. 3 A/C**



# Quiz : Contract Farming

Which Account do the following items get paid into - No.1, No.2, No.3 – or some other account?

10. BPS Receipt.

**Answer: No.2 A/C**  
(some other?)

BACS ( bank transfer )

Bank : Alliance & Leicester  
Account name : Design Unfolds  
Sort code : 72 00 00  
Account number : [0] 4404904



# Quiz : Contract Farming

Which Account do the following items get paid into - No.1, No.2, No.3 – or some other account?

11.Cast Cow Sales

**Answer: No. 3 A/C**





# Quiz : Contract Farming

Which Account do the following items get paid into - No.1, No.2, No.3 – or some other account?

12.OSR sales

**Answer: No.2 A/C**



# Quiz : Contract Farming

Which Account does the following item get paid from - No.1, No.2, No.3 – or some other account?

13. Tractormans Wages

**Answer: No. 3 A/C**





# Quiz : Contract Farming

Which Account does the following item get paid from - No.1, No.2, No.3 – or some other account?

14.Roof repairs to cattle shed

**Answer:**  
**No.2 A/C**



# Quiz : Contract Farming

Which Account does the following item get paid from - No.1, No.2, No.3 – or some other account?

15. Building Insurances

**Answer: No.2 A/C**



# Quiz : Contract Farming

Which Account does the following item get paid from - No.1, No.2, No.3 – or some other account?

16. Ear Tags for calves

**Answer: No.2 A/C**



# Quiz : Contract Farming

Which Account does the following item get paid from - No.1, No.2, No.3 – or some other account?

17.Lime

**Answer: No.2 A/C**



# Quiz : Contract Farming

Which Account does the following item get paid from - No.1, No.2, No.3 – or some other account?

18. 40t of Ammonium Nitrate

**Answer: No.2 A/C**





# Contract Farming – Mechanics

## Farmhouse & Dwellings

- Normally kept outside the CFA
- Available on a Short Assured Tenancy
- Care with workers accommodation





# Contract Farming – Mechanics

## Agricultural Buildings

- Agreement on what is included
- Care in selecting the buildings required.
- Commercial Rent on other buildings required



# Contract Farming – Mechanics

## Conservation & Biodiversity

- Agreement on what is included
- Land and Woodland exclusions.
- Responsibilities of the contractor.



# Contract Farming – Documentation

- Tender Documents
  - Prospectus
  - Farm Maps
  - Viewing Days
  - Steading Plan (Identifying Buildings in CFA)
  - Budget Pack
  - Interview Dates?



# Contract Farming – Documentation

## CFA Documents

- Contract Farming Agreement
- Livestock Hire Agreement(s)
- Dwelling House Short Assured Tenancy

# Contract Farming – Documentation

## Contract Farming Agreement

- 11 Pages - 23 Pages +
- Duration (Termination Date, Early Termination )
- Accounting Date / Review Date
- Farmer & Contractor Obligations
- Retention and Contractors Fee
- Leave to enter the farm
- Disagreement
- Agent Appointed



# Contract Farming – Documentation

## Budget Information

- Blank Templates in most Tender Packs
- Gross Margin Based
- Farm Management Handbook

## Annual Accounts

- Not Business in its own right
- Valuation/Audit/Calculation of Divisible Surplus
- Cashbook details (who keeps cashbook ?)



# Contract Farming - Finances

- Budget – Prepared on a Gross Margin Basis
- Rarely a cashflow and almost never a Balance Sheet
- Three bank accounts
- Two Businesses
- One Budget

**HSBC** 20 Jul 2009

Account Type :	BANK A/C
Account Name :	[REDACTED]
Account Number :	[REDACTED]
International bank account number :	[REDACTED]
Branch Identifier code :	[REDACTED]

20 Jun	Balance brought forward		6450.00
22 Jun	VIS	11.46	6438.54
23 Jun	VIS	2000.00	4438.54
01 Jul	DO	10.00	
01 Jul	SD	5.00	4423.54
03 Jul	CR	39.00	
03 Jul	ATM	100.00	4323.54
15 Jul	BP	700.00	
15 Jul	VIS	15.30	3557.30
15 Jul	CR		
17 Jul	SD	700.00	
18 Jul	ATM	100.00	
20 Jul	Balance carried forward		

**Lloyds TSB**

20 Jul 2009

Account Activity

Date	Description	Debit	Credit	Balance
20 Jul 09	Balance brought forward			6450.00
22 Jul 09	VIS	11.46		6438.54
23 Jul 09	VIS	2000.00		4438.54
01 Jul 09	DO	10.00		
01 Jul 09	SD	5.00		4423.54
03 Jul 09	CR	39.00		
03 Jul 09	ATM	100.00		4323.54
15 Jul 09	BP	700.00		
15 Jul 09	VIS	15.30		3557.30
15 Jul 09	CR			
17 Jul 09	SD	700.00		
18 Jul 09	ATM	100.00		
20 Jul 09	Balance carried forward			

PROFIT AND LOSS ACCOUNT			
Variable Costs	(£)	Output	(£)
Seed	9762	<b>Crop Output</b>	
Fertiliser	32693	Spring Barley	23563
Sprays	11444	Oil Seed Rape	14400
Contract Work		Winter Barley	38775
Casual Labour		Silage	
Sundry Crop	1301	Temporary Grazing	
Feed	5063	Permanent Grazing	
Vet & Med	1275	Winter Wheat	45000
Sundry Livestock	4575		
Total Variable Costs	66112		
		<b>Total Crop Output</b>	<b>121738</b>
		<b>Livestock Output</b>	
	33438	Feeding Steers	28440
	8000	Breeding Ewes	0
	3700	Suckler Cows	0
	3000	Feeding Heifers	0
	3600		
	8500	<b>Total Livestock Output</b>	<b>28440</b>
	6250	<b>Other Income</b>	
	55648	Contracting	
	32500	Interest Received	
		Sundry Income	
		SFP	38070
	23148	<b>Total Other Income</b>	<b>38070</b>
	4630	20%	
	18518	80% <b>Total Output</b>	<b>188248</b>
		<b>Total Output</b>	<b>188248</b>

# Contract Farming - Finances

Things to consider in the Budget:

- Bank Interest.
  - Depends on capital in No 2 Account.
  - No cashflow projection
  - Estimate:  $\frac{2}{3}$  Variable Costs &  $\frac{1}{2}$  Fixed Costs
- Profitability of Contractor's Fee
  - Are the power and labour costs covered in the No 3 Account?

# Contract Farming - Finances

Things to consider in the Budget:

- Normal Benchmarks Apply
  - Gross Margin = 60 – 70% of Output
  - Power Costs = 15 – 18% of Output
  - “Rent & Interest” = 15% of Output (max)
- Sense Check
  - What’s the “rent” being offered?
  - What’s the risk of £0 Divisible Surplus?
  - Competition?

# Contract Farming - Finances

## Year End Accounts

- Valuation at year end
- Therefore a carry forward from year to year.
- Don't expect the bank balance to come to £0 at the end of the year.
- It will/should come to £0 at the end of the agreement but it may take up to 6 months to get there.
- Audit or checking?

# Contract Farming - Finances



## Year End Accounts

- The No 2 account is not a business in its own right
- Account needs reconciled and the transactions checked to make sure:
  - Correct items have been paid through the account
  - All expected items have been paid into the account
  - No confusion over trading and breeding livestock
  - Correct allocations have been made to both parties
  - Confirm the divisible surplus and its split



# Joint Venture Farming

## SUMMARY

- Considered JVF options
- Concentrated on Contract Farming
- Grasped the principles
- Understood the mechanics
- Examined the Finances
- Ready to identify the opportunities

Evaluation - please





# Thank You

