New Entrants to Farming Fact Sheet

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Joint Ventures

What are the opportunities for Livestock Enterprises?

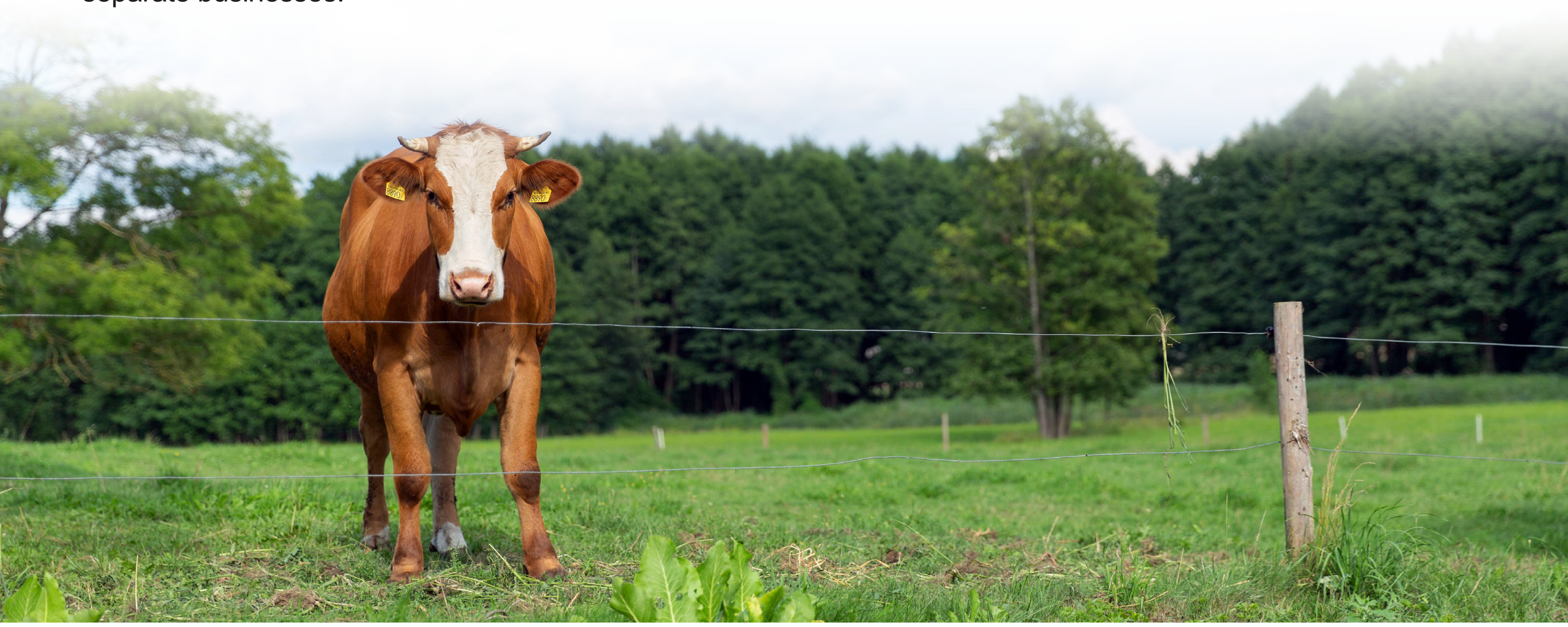
Whether you are looking to set up a new venture as a new/young entrant or looking to expand an existing business or are looking to slow down/scale down, Joint Ventures (JV) could be the perfect business arrangement, but the question is – which type of joint venture suits your needs best and what do you need to be mindful of?

Contract Farming	Share Farming
Farming Partnerships	

What is Contract Farming?

How does it work?

Contract farming is essentially where a landowner (the ‘farmer’) outsources specific agreed services from another party (the ‘contractor). A contract farming agreement is essentially the terms of understanding between two parties. While most commonly found with arable enterprises, a contract farming agreement can work well with livestock enterprises. As with arable contract farming agreements, both the farmer and the contractor operate legally separate businesses.



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472318LH / 05.10.2021

Who provides what and gets what?

While each contractual agreement can be unique, typically in a contract farming agreement is on the basis of:

Landowner/Occupier –	Land, buildings, fixed plant and equipment, major maintenance, and a business bank account. The farmer makes all the day-to-day management decisions, is responsible for cross compliance and claims the BPS payment. He/she receives a basic fee and a share of any profits each year.
Contractor	Labour, moveable equipment and machinery. The contractor provides his/her services for an agreed fee and a share of any profits each year.
Timescale	Contract operates for a fixed period of time – typically 3-5 years.

Domestic accommodation is not included in a contract farming agreement, where available, it will be covered by a separate residential lease agreement.

What about the money, money, money?

Bank accounts	The Farmer has a separate contract farming bank account (often referred to as the 'No.2 account') which is used for all the farm income, to pay for inputs e.g., fertiliser, and to pay the contractor for his/her services. In addition to which, the Farmer and the Contractor also have their own separate business accounts.
Fees	The contractor gets an agreed fee for his/her services (either monthly, quarterly, or bi-annually as per the agreement and the landowner gets an agreed fee for the use of their assets/fixed equipment.
Accounts and Profit Margins	Annual accounts are prepared and any surplus margin shown in the annual accounts is divided between the two parties in accordance with % split set out in the contract farming agreement: this will vary between businesses and agreements.

Livestock

For a livestock farm, either the farmer or the contractor can own all or part of the livestock which are then leased to the agreement for the length of the contracted agreement. The hire charge is based on an agreed amount per head. It is important to note that only one party can be responsible for the livestock from a registration and traceability perspective.

The agreement must have a clear livestock policy that includes an agreed valuation, livestock replacement plan and how changes in livestock numbers will be re-imbursed.

Who does this type of agreement best suit?

- **Existing landowning farmers who want to slow down/scale back and/or release capital from owned machinery, but still want to be involved in key management decisions.**
- **Existing famers/contractors looking to expand their business/spread their fixed costs over a larger acreage.**
- **New entrants looking to start farming with a low capital requirement, and reap the benefits of having the landowner as a business mentor.**

How can it work in practice?

	Farmer/Landowner	Contractor
Mixed farming	Willow Estate has diversified into tourism ventures. Dyzek and Anna want to keep managing their 110 suckler cow herd and 250 ewe flock but don't want to employ staff that they don't have all year round work for.	Sam and Lindsay want to build on from their start-up tenancy which does not provide a full-time income.
Sheep	Bob and Jean are in their late 60s, they want to reduce their physical workload to working with their lowground flock only and not the hill ewes.	Iona wants the flexibility of working as a contractor as she has her own flock to attend to each day. She is happy to take on the physical workload of the 800 hill ewes.

Pros

- **Allows existing landowning farmers to scale back their physical workload/concentrate on other aspects of their business but retain overall control of their business.**
- **Farmer and contractor have defined roles that don't require a close working relationship.**
- **Farmer maintains tax relief benefits.**
- **Both parties have guaranteed income in the form of agreed fees.**
- **Opportunity for contractors to expand their business/spread fixed costs.**
- **Allows the next generation an opportunity to expand their business with a low capital requirement.**

Cons

- **The farmer bears the main financial risk.**
- **Shares in the surplus are fixed for the period of the agreed contract.**

What is Share Farming?

Share farming is 'what is says on the tin'; it is an arrangement where two or more farmers essentially share a farm.

- **Each party operates their own separate farming business with their own bank account/s, and**
- **Is responsible for its own VAT returns and tax accounts.**
- **There is no joint account, no partnership agreement, and no employment contracts.**

Share farming is effectively a form of co-operation whereby the parties join resources to operate the farm together. Each accepts full commercial risk as well as potentially benefiting from production gains.

How does it work?

The parties must have a contractual agreement which sets out:

- **the resources each party has e.g., land, buildings, machinery, labour,**
- **the overall basis of the agreement,**
- **what the farming policy/policies are,**
- **what operational roles/activities each party is responsible for,**
- **what inputs each party is responsible for,**
- **who is eligible for each business support payment/grant**
- **how the proceeds will be divided, and**
- **importantly, what happens if something changes – if one share farmer dies or the share farming working relationship breaks down.**

Aspects covered in the contractual agreement should also include insurance responsibilities, and contingency planning linked to force majeure.

Who provides what?

While each contractual agreement can be unique, typically in a share farming agreement is on the basis of:

Landowner **Known as Share Owner**	Land, buildings, fixed plant, and equipment, & major maintenance.
Share Farmer **or share operator**	Labour, moveable equipment and machinery.
Timescale	Flexible to suit both parties.

Livestock

While share farming is an option for livestock farming, it is important to note that it is not possible to share livestock – they must be owned by one party as the legal owner for registration and traceability reasons.

Who does this type of agreement best suit?

- **Existing landowning farmers who want to slow down/scale back but still want an active involvement in farming/want to be a mentor to a new/young farmer.**
- **New entrants/young farmers with limited resources wanting to start their own farming business and,**
- **Existing farm businesses looking for opportunities to expand their operations.**

How can it work in practice?

Dairy Unit	Susan and Bob (60+) have a 100 cow dairy unit, no successors, want to reduce their physical workload. Dan (40) has worked as a herdsman for 20 years and wants to milk his own cows with partner, Kate. Dan and Kate buy and milk the cows, Susan and Bob own the dairy youngstock – buy calves at birth from Dan then sell replacement heifers back to Dan. Each covers the costs of their own enterprise but share the farming responsibility for the grassland/forage crops. Dan and Kate happy to provide advice and guidance with regards the cows and do some relief milking. The agreement costs out each party's share of the overall business e.g., S & B 65%, D & K 35%, and the proceeds are split after shared costs by the same percentage. Over time, Susan and Bob can increase their % share by reinvesting some of their profits each year.
Sheep	David runs a 1000 ewe hill flock and a 200-ewe low ground flock. The shepherd is retiring. Lesley wants to establish her own sheep flock – she buys the low ground flock and agrees to take over fattening the store lambs leaving David more time to manage the hill flock and his autumn calving suckler cow herd. Each happy to help out at their respective lambing times. Over time, Lesley could get the opportunity to take over the hill flock or she may take on a tenancy agreement which allows her to expand her low ground sheep numbers.
Beef & arable	The Davidson family have 3 children keen to farm. By share farming with the neighbouring estate in terms of land and buildings they can expand their own cattle enterprise, finish all their youngstock and provide employment opportunities for their children, who all have different agricultural interests.

Pros

- **Allows existing landowning farmers to retain an active involvement in farming/policy/decisions making on their farm but it allows a 'new farmer/producer/entrepreneur' to come on board with assets of their own, and the option to create new enterprises.**
- **Maintains tax relief benefits.**
- **Risk shared between both parties.**
- **Shares in the partnership can be re-negotiated each year if required.**

Cons

- **Effectively two bosses when it comes to decision making – need to have a close working relationship.**
- **There is no guaranteed income.**
- **Huge amount of trust needed on both sides.**

How is the leasing charge calculated?

Establishing an initial take-over value

If a contractor or share farmer are buying the stock from the landowner there needs to be a consensus of what the initial take over value is based on the planned takeover date e.g., the date at which the full breeding flock/herd for the coming year will be on the farm, say just prior to tupping or bulling.

Each party can either appoint their own valuer and then average the values or they can agree to accept the values from one particular valuer.

Determining the hire charge

The hire charge is basically what the annual cost paid of each breeding ewe or tup/cow, or bull is. This is calculated from:

Hire Charge Calculation	Breeding ewe example £/head	Breeding cow example £/head
Initial Price of the ewe/tup/cow/bull	£140	£1,750
Expected Number of years in flock/herd	4	7
Cast/draft value at end of that period	£70	£1,000
Expected mortality rate %	5%	2%
Rate of return the investment needs to provide*	3.5% p.a. = £5	3.5% p.a. = £61
Calculated Hire Charge	= £140 – (£70x0.95))/4 = £18/ewe + £5 = £23/ewe	= £1,750 – (£1,000x0.98))/7) = £110/cow + £61 = £171
Date at which the flock/herd taken over	1st October	1st June
No of ewes/tups/cows/bulls	500	100
Total Hire charge for breeding ewe/cows	£11,638	£17,125

*i.e., needed to cover the cost of the investment, particularly if using borrowed funds.

Please Note: the figures above are for illustration purposes only and should not be used as the basis of any hire charge agreement.

Points to Note – Agreement needed on:

Every agreement is different, there can be a great deal of flexibility but communication is absolutely key to ensure smooth running of the business from both sides. Some aspects that may be worth discussing is scenario planning for eventualities, such as the below.

- **Deaths – does the owner supply a replacement ewe/cow/bull/tup if one dies or is the agreement to 'square up' at the end of the agreement, e.g. allowing for ewes that didn't rear a lamb to weaning?**
- **Does the owner of the livestock want first refusal on purchases of youngstock from the hirer, at an agreed rate? i.e., does the owner want the option to buy ewe lambs/replacement heifers from the hirer, rear them on until they are ready to join the flock/herd (at which point the hire charge applies).**
- **Date at which the flock/herd is taken over – e.g., the date at which the full breeding flock/herd for the coming year will be on the farm, say just prior to tupping or bulling or another option is for the lease to take over the responsibility/rights from the point of a successful scan.**
- **Force majeure – the best and simplest option is to have insurance cover for force majeure.**
- **While the hire charge covers the value of the breeding stock for the duration of the agreement, agreement is needed with regards improvements (or degradation) in the quality of the stock over the period of the agreement be, especially if the breeding stock are to be sold at the end of the agreement?**
- **Unhefted breeding flocks – the agreement should cover whether at the end of the agreement if the ewes have to be sold back to the owner or if they can be sold on the open market, if not required by the owner.**
- **What happens in the case of disputes arising with any of the aspects noted above? The agreement should set out grounds for arbitration.**

What are farming partnerships?

Farming partnerships are legal agreement between the two parties who are legally bound to run the farming enterprise together through a single business entity. Partnerships are governed through a partnership agreement which sets out the share of assets and profits. Each partner is taxed on their share of the partnership profits. Partnerships can provide different ways of co-operation and interaction between family members and also between existing farmers who may wish to encourage new/young entrants.

Pros

- **A partnership agreement is often a good vessel for older and younger generations to work together.**
- **Is a means of transferring business assets through time.**
- **Risk shared between both parties.**
- **Greater degree of security for a 'partner' farmer/producers/new or young entrant.**

Cons

- **Entering into a partnership agreement with a non-family member/s requires a significant amount of trust**
- **There is no guaranteed income.**
- **Given that each partner is responsible for the other's obligations, it is important for both parties to get good legal advice before entering into any agreement.**
- **Does not have a defined end point.**

What is the secret to a successful Joint Venture?

- Trust
- Robust Agreement Terms
- Pragmatism
- Setting realistic goals/targets
- Being clear about what each party wants out of the agreement
- Honesty
- Good communication & regular meetings
- Seeking professional advice when setting up the agreement, and to mediate with any resultant issues
- Allowing some flexibility to deal with weather and market price issues
- Co-operation/Compatibility

For more information on joint ventures in practice visit our inspirational stories, where we have a range of short videos and podcasts of how agreements actually work in practice **https://www.fas.scot/rural-business/new-entrants/inspirational-stories/**