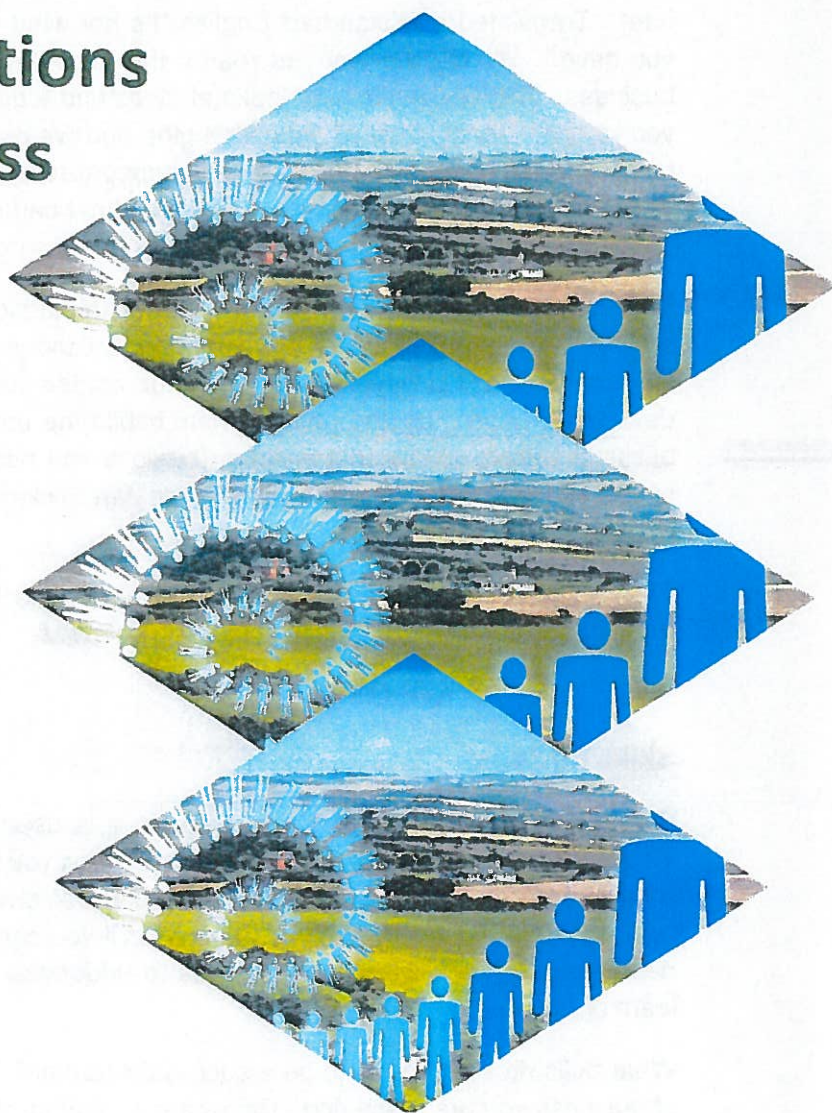


# The Scottish Government's New Entrants to Farming Programme



## Guidance Note: Laying the Foundations for Business Success



This programme is funded by the Scottish Government  
as part of its New Entrants to Farming Advisory Activity.

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## Introduction

As a new entrant new to managing a business you will need to develop new skills. Your past experience might involve working in a family farming business or working for an employer. But now you are in sole charge, making your own decisions and being responsible for financial success of the enterprise. This requires the learning of new skills and the knowledge of where to look for advice.

The Border Union have a motto for their annual crop and grassland competition, which is expressed in the Lowland Scots vernacular – “It’s nae whit ye hae, but whit ye dae wi whit ye hae”. Translated into standard English “Its not what you have, but what you do with what you have.” Whichever way you read it this is a very apt philosophy for anyone running a business. This Guidance note looks at ideas and tools that help you make the most of what you’ve got – recognition of your strengths and weaknesses, skills you have to work on or tasks you can pass on to others, training opportunities, sources of advice, business planning skills and decision making ability - and ideas that can help hone your skills and assist you to make better decisions at this early stage in your business career.

Every building needs to be built on strong foundations and a successful business is no different. If recognising your strengths and limitations establishes the hard ground on which to start building, accepting the need for continuous improvement is the hardcore and developing good business management habits the concrete on which you start building the bricks or breeze blocks that are the decisions you need to take to lay the foundations for a successful business. And the earlier you start thinking this way the longer you are likely to reap the rewards.

This Guidance note covers a number of ideas and techniques that can be used to start forming these good business techniques and habits.

## Skills analysis

Before deciding on priority training needs it is useful to assess your skills and abilities. There will be some things that come naturally or you have considerable experience of and others where you struggle. However a range of skills are required for running your own business and you are more likely to succeed if you can improve in your weaker areas. Skills needs assessment is a useful process to undertake to identify areas where you need to learn or improve.

What skills do you require to be a successful farmer? The list will vary according to the type of business you are managing. Below are a number of general suggestions that might apply to most farm businesses:

- Practical skills – stockmanship, machinery maintenance
- Technical knowledge – soils, fertilisers, sprays, breeds, EBV's, nutrition, animal health
- Financial management – budgeting and monitoring, cash book, VAT
- People skills – family, managing employees, contractors

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- Customer skills – buying and selling, doing deals, promoting and marketing
- Business management skills – planning goals and objectives, developing the business
- Record keeping skills – keeping up to date with legislation and records
- Analytical skills – thinking, reviewing, benchmarking, how could I do things better

A skills analysis involves listing what you think are the main skills you need to manage your business, and rating your performance from excellent to poor. This will work best if you can be specific about the key skills you need for your business. See an example in Table 1 below

Table 1 – Skills analysis, Willie Smith

Skill	Excellent	Good	Average	Fair	Poor
Stockmanship		√			
Machinery repair/maintenance		√			
Record keeping				√	
Accounts/bookkeeping					√
Technical knowledge				√	

The next step is to review the skills rating table and plan how skills can be improved or how difficult tasks can be passed on to others. Willie is a do-er who will prioritise practical tasks and getting on with things. Record keeping and accounts are a lower priority and regularly fall behind. If he does not have the inclination to take on these tasks then the best solution would be to see if they could be done by someone else – e.g. a family member, a farm secretary, if he does then attending a course may be the answer. He doesn't attend meetings or events because he is too busy working on the farm and his technical knowledge has slipped (you have to be honest when filling this in). He should therefore prioritise some time to attend relevant meetings or events and consider using a consultant to keep him up to date.

This is a very general example that highlights some important points:

- Be specific and honest with yourself when filling in a skills analysis grid.
- Getting off farm to attend training courses, meetings or events is an essential part of keeping your skills up to date and although it takes time the information you gain can save time in the long run.
- Recognise your weaknesses and where it would benefit you to pay someone else like a contractor, farm secretary or consultant to undertake the tasks that you either dislike or don't have time for. "Concentrate on what you do best and seek help from others to do the rest" This may free up more time to get off farm for training, or getting new ideas from other farmers.
- Personal development is a continual process and it is recommended that you should review your skills base on a regular basis.

Detail on training providers and sources of advice can be seen on page 6.



## Decision making

Think of a recent purchase or major decision and consider the process you went through and the time it took to reach your conclusion. Sometimes we tend to act on impulse and a decision too quickly, and often we procrastinate then wonder why we took so long. Were you overly influenced by sales talk, others opinions or the shiny new tractor the neighbours just bought, or put off by traditionalists? And what could you have done to reach a well researched and satisfying decision in a shorter frame.

There is a large amount of information on the decision making process and the list below highlights some options you can use to reach a satisfactory decision.

1. Define the issue – does it warrant action?
2. Gather as many facts as you can – information, others opinions.
3. Brainstorm to come up with possible options
4. Consider and compare the pro's and con's – features and outcomes
5. Select the best option
6. Take action and implement it.

Assessing pro's and cons is a useful way to help you close in on a decision. Enter reasons for and against as below and give items a score, which can be weighted according to the importance of each point. The following table shows some of the items that could be assessed when buying a car second hand versus new rated out of 10.

Pro's	Score	Con's	Score
<i>Saves £6000 of outlay</i>	9	<i>Three years older when sell</i>	6
<i>Good reviews for reliability</i>	6	<i>Not the colour I wanted</i>	5
<i>Has most of the features I want</i>	7	<i>Miss out on some new features</i>	5
Total pro's	22	Total con's	16

## SWOT analysis

The SWOT analysis is a simple and useful tool that aids understanding your business and decision making. It involves identifying your Strengths, Weaknesses, Opportunities and Threats and provides an ideal framework for gathering, structuring, reviewing and planning information on your business.

<b>Strengths</b>  <i>Hard working and enthusiastic</i> <i>Land capable of good yields</i> <i>Well located for markets</i>	<b>Weaknesses</b>  <i>Limited Single Farm Payment at present</i> <i>Limited capital for purchases and improvements</i> <i>Poor farm buildings</i>
<b>Opportunities</b>  <i>Agricultural contracting opportunities</i> <i>Add value through sales of performance recorded tups</i> <i>Increase use of clover to reduce fertiliser bill</i>	<b>Threats</b>  <i>Uncertainty over CAP reform outcome</i> <i>Future for business when tenancy ends?</i> <i>Threats to lamb price</i>

## Strategy or action plan

Do you have a vision of where you want your business to be at some period in the future? And if you do have you written it down? It is amazing how much difference it makes when you commit to putting your plan into writing – you have to properly define your goals, think through the actions you will need to take get there and put timescales against these actions. A written plan is less likely to be forgotten and should be reviewed and updated periodically. Discussing or thinking about the items you have written down affirms the commitment you are making, and increases the prospect of action.

Your action plan can be as simple as you want and can divide the objectives into time periods – short term, medium term and long term. All Monitor Farmers have been encouraged to produce objectives at the start of the programme, that are regularly reviewed, and some have made remarkable progress by the end of their three year term, describing “ten years worth of progress in three.” You will not have a facilitator and community group assisting you with your plan, but can share it with family members or others that you trust.

List your main goals and objectives – below are some general examples

- *Grow the business to provide a secure income for self/family*
- *Adopt practices that reduce labour time and working hours*
- *Commit to a two week break with family each year*

Prepare an action plan to identify how you are going to achieve these objectives and helps you prioritise those that are most important. Below is an example format:

Objective	Action	By when	Priority

## Mentoring and networking

As a new entrant you will have had to make some difficult decisions that you will have found very challenging, but you will also have gained from the experience. Think of the one top tip that you would pass on to anyone else who was about to embark on the same new entrant journey.

Then consider the benefit of tapping into the accumulated wisdom of a successful farmer who has continued to grow or innovate their business. Many of the most successful business people have attached themselves to a mentor – someone they could approach to run through their plans or question for advice. It is really all about trust and respect. If you are a member of a New Entrants group then you may have had the opportunity to network and share decisions with other members of the group.

## Sources of training and advice

One of the challenges for any self employed small business person is managing time, particularly for a new entrant who is under pressure to work with limited resources and grow the business to generate enough output to service borrowing, and cover living expenses and reinvestment.

How much time can you afford to be away from the business in this critical start up period? This could be turned around to ask whether you can afford not to take time off to attend events and training. I recall one New Zealand farmers response when asked how many on farm discussion group meetings he attended each year – “I go to them all, I can’t really afford to miss a meeting. If I stay at home I will continue to do what I have always done, these meetings are where I pick up new ideas that make me money.” Below is a list of some of the main current initiatives and what they offer:

### Group based

- Monitor Farms (various funders) work on the basis that one representative farm will be chosen for approx. 18 visits over a three year period allowing a community group consisting mainly of farmers and others in the agricultural supply chain to use that farm as a basis for decision making, trying out best practice ideas and observing the results. Monitor Farmers gain greatly from the experience of finding out what works on their own farm as well as tapping into others wisdom. Community group members gain by seeing things done in their local area that they can adopt on their own farm.
- Planning to Succeed (Scottish Enterprise) and Business Improvement Groups (QMS) involve small groups set up to encourage discussion, a willingness to discuss each others business information and reach common solutions. These groups are based on the trust and openness over time within a closed group and aim to cover benchmarking and business performance as well as undertaking visits to farms and others in the supply chain.
- Rural Leadership Programme (Scottish Enterprise) is targeted at ambitious farmers, rural business people and those working in the agricultural industry and takes them on a 13 day programme of events, over a 6 month period, designed to improve self awareness and leadership skills, increase understanding of key players in the rural sector and how they can influence the political process, as well as production of a specific action plan for each applicant. Networking with other like minded people from different business sectors is a key benefit of this programme.
- Commodity Groups – SAC Consulting and other organisations run local “commodity groups” covering beef, sheep, combinables and potato production that tend to meet around 3-5 times per year. These groups deal in distinct subject areas, which allows focussed, in depth discussion. Processors and retailers and co-ops also run groups for their clients.
- Focus groups – initiatives such as the Scottish Sheep Strategy (QMS), Grassland Development Farms (QMS) and Climate Change Focus Farms (Scottish Government) focus on improvement in specific subject areas.

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- Scholarships – a number of organisations provide travel scholarships that encourage travel and broadening of the mind with a commitment to spread the word and benefit Scottish or UK agriculture.

### Training

- A number of organisations provide training courses including LANTRA, SRUC/SAC Consulting. Assistance towards meeting training costs can be obtained through SRDP funds and the new programme has yet to be determined at the time of writing.

### Examples of Industry initiatives

- Monitor Farms
- Planning to Succeed
- BIG groups
- Scottish Enterprise Rural Leadership Programme
- Nuffield (and other) Scholarships
- Climate Change Focus Farms
- Grass Demonstration Farms
- Scottish Sheep Strategy
- Commodity groups
- Co-op membership

### Example Sources of information

- SRUC/SAC Consulting
- NFUS Bulletins
- QMS/HGCA/DairyCo.Publications
- Newspapers
- Online information
- Social media
- Trade newsletters/contact

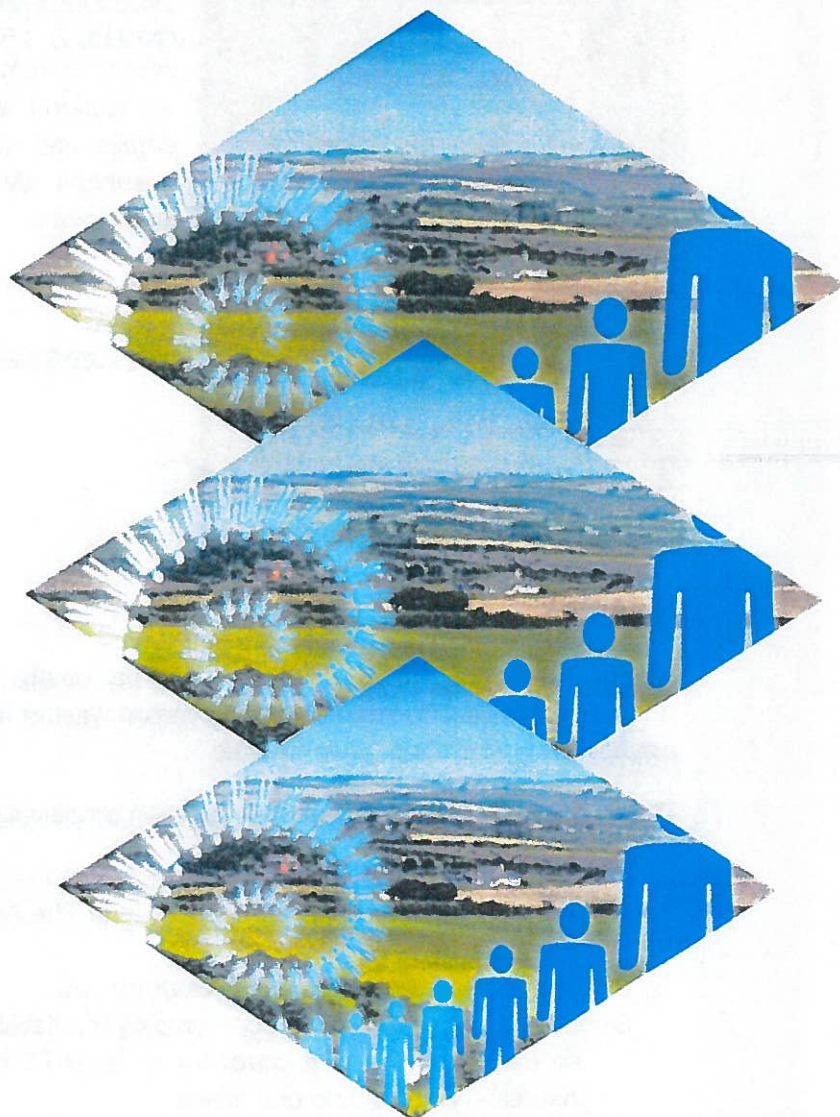




# The Scottish Government's New Entrants to Farming Programme



## Guidance Note Employing People



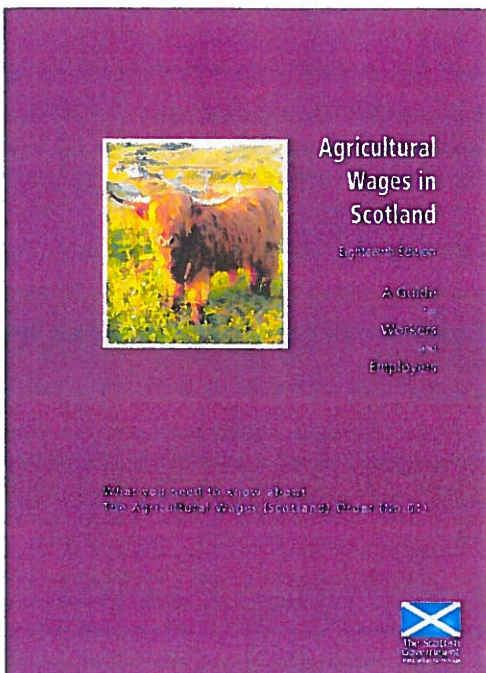
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## Introduction

Employing people can be a daunting thought, or is it just common sense? Employees are most firms' greatest assets, so it's worth spending a bit of time making sure you get it right. This note summarises some of the main points to consider.



For those considering employing agricultural workers, the best place to start is the current version of 'Agricultural Wages in Scotland' <http://www.scotland.gov.uk/Topics/farmingrural/Rural/business/18107> produced by The Scottish Government which summarises the key elements of the 'Agricultural Wages (Scotland) Order and gives details and guidance on topics such as holidays, absences due to ill health, benefits and dog allowances.

For non-agricultural employees more general advice is available at <https://www.gov.uk/browse/employing-people>.

## Recruiting People

Hiring employees, if done badly, can be costly, it can lead to: poor performance, unnecessary training, increased supervision, wasted management time, higher absence and employee turnover and lower morale.

There are 5 key things you need to do when employing staff for the first time.

1. Decide how much you need to pay someone: you must pay your employee at least the relevant minimum rate as set out in The Agricultural Wages (Scotland) Order for agricultural workers.
2. Check if someone can legally work for you.
3. Get employment insurance – employer's liability insurance as soon as you become an employer. It must cover for at least £5 million and come from an 'authorised insurer' – you can find one online.
4. Register with HM Revenue and Customs (HMRC) and pay your employee: You need to register as an employer, make any deductions for Pay as You Earn (PAYE) and give a pay statement (pay slip) to your employee. You are also required to notify HMRC about wages and deductions on an ongoing basis through their new Real Time Information (RTI) system [www.hmrc.gov.uk/payerti/getting-started/pay-basics/rti.htm](http://www.hmrc.gov.uk/payerti/getting-started/pay-basics/rti.htm).

5. Send details of the job (including terms and conditions) in writing to your employee: If you employing someone for more than a month, you need to give them a written statement of employment.

Good employment practices can help businesses anticipate employment problems and so improve managing the business. Employees know where they stand, what they can and can't do.

## **Making employment decisions**

It is important to try and anticipate employment needs not just for next month, but for next year and if possible for further ahead. But this is not always possible. Look for your employment needs. Are there peaks and troughs throughout the year e.g. lambing or harvest?

## **Understanding the requirements of the job**

Once the decision has been made to employee someone, there are a number of steps which should be considered before advertising.

1. Job description / job specification – this should detail the purpose, tasks and responsibilities for the job.
2. Person specification – this allows you to profile the ideal person for the job such as skills, aptitudes, knowledge, qualifications and experience required for the job.
3. Pay - decide what you would want to pay the individual taking into account equal pay. More information can be found on [www.business.scotland.gov.uk](http://www.business.scotland.gov.uk). You must also ensure that you comply with the provisions of current Agricultural Wages (Scotland) Order [www.scotland.gov.uk/Topics/farmingrural/Rural/business/18107](http://www.scotland.gov.uk/Topics/farmingrural/Rural/business/18107) in terms of pay rates, holiday entitlements, absences due to ill health etc.
4. Set a closing date
5. Decide on how you want your candidates to apply – CV.

Once the job has been clearly defined the search can begin.

By law an employer may not discriminate on the grounds of:

- Age
- Race
- Sex
- Marriage
- Disability
- Sexual Orientation
- Religion or belief.

All stages of the recruitment process must treat all races and both sexes equally.

## Advertising

It can be difficult to know where to place your advert. There are a number of options available such as;

1. Job Centres – a free nationwide recruitment and advisory service.
2. Employment agencies – they can assist in the recruitment process and charge a % fee of the salary or placement.
3. Adverts – in the farming press or local newspapers. There is a cost for this service dependent on the size and layout of the advert.
4. Internet – there are a number of recruitment websites available which charge a fee to place an advert on the site for a set period of time. Applications can be made direct to you through these sites.

## Interviews

An interview is one of the best ways to determine if someone is suitable for your role. It is important to note that it is not just the applicant who is being judged but the employer also. A badly prepared interviewer can create an unfavourable impression of the company.

Interviews need to be planned –

1. The interviewer has the candidates CV or application form
2. There are no interruptions
3. Think about applicants who may have a disability
4. Make the candidate feel at ease
5. Ensure that your questions get the information you are looking for and are not closed questions which prompt a 'yes' 'no' response
6. Applicants are given the chance to ask their own questions at the end.

## Employment Contract

Once the employee has been selected they should be issued with a contract of employment.

1. A contract of employment is an agreement between an employer and employee and is the basis of the employment relationship.
2. Most employment contracts do not need to be in writing to be legally valid, but it is better if they are.
3. A contract 'starts' as soon as an offer of employment is accepted. Starting work proves that you accept the terms and conditions offered by the employer.
4. Most employees are legally entitled to a Written Statement of the main terms and conditions of employment within two calendar months of starting work. This should include details of things like pay, holidays and working hours. Appendix 1 of 'Agricultural Wages in Scotland contains a usefull list of the type of information which should be included.

5. An existing contract of employment can be varied only with the agreement of both parties.

It is important to note that when self employed people are hired for example for contract work, the resulting contract is fundamentally different for an employment contract. Further information can be found at [www.gov.uk/employment-status](http://www.gov.uk/employment-status) [www.hmrc.gov.uk/employment-status/index.htm#5](http://www.hmrc.gov.uk/employment-status/index.htm#5)

## Rules and Procedures

Good rules benefit both the employer and the employee. They make clear what conduct the employer considers to be acceptable and what is unacceptable. They also make sure that employees conduct and job performance meet certain minimum standards. It also clearly indicates what actions will be taken if the rules are broken.

The ACAS code of practice Disciplinary and Grievance Procedures when dealing with disputes gives guidance on disputes but in the first instance guidance should be sought from the secretary to The Scottish Agricultural Wages Board (SAWB), see contact details below. ACAS will also provide advice and guidance where necessary. <http://www.acas.org.uk/index.aspx?articleid=2174>

## Further Guidance

The Scottish Agricultural Wages Board (SAWB) is the body responsible for overseeing the drafting and implementation of the Agricultural Wages (Scotland) Order and also provides guidance to employers and employees. Contact details:

Scottish Agricultural Wages Board,  
Saughton House,  
Broomhouse Drive,  
Edinburgh, EH11 3XD.

E-mail: [sawb@scotland.gsi.gov.uk](mailto:sawb@scotland.gsi.gov.uk)  
Tel: 0300 244 9749

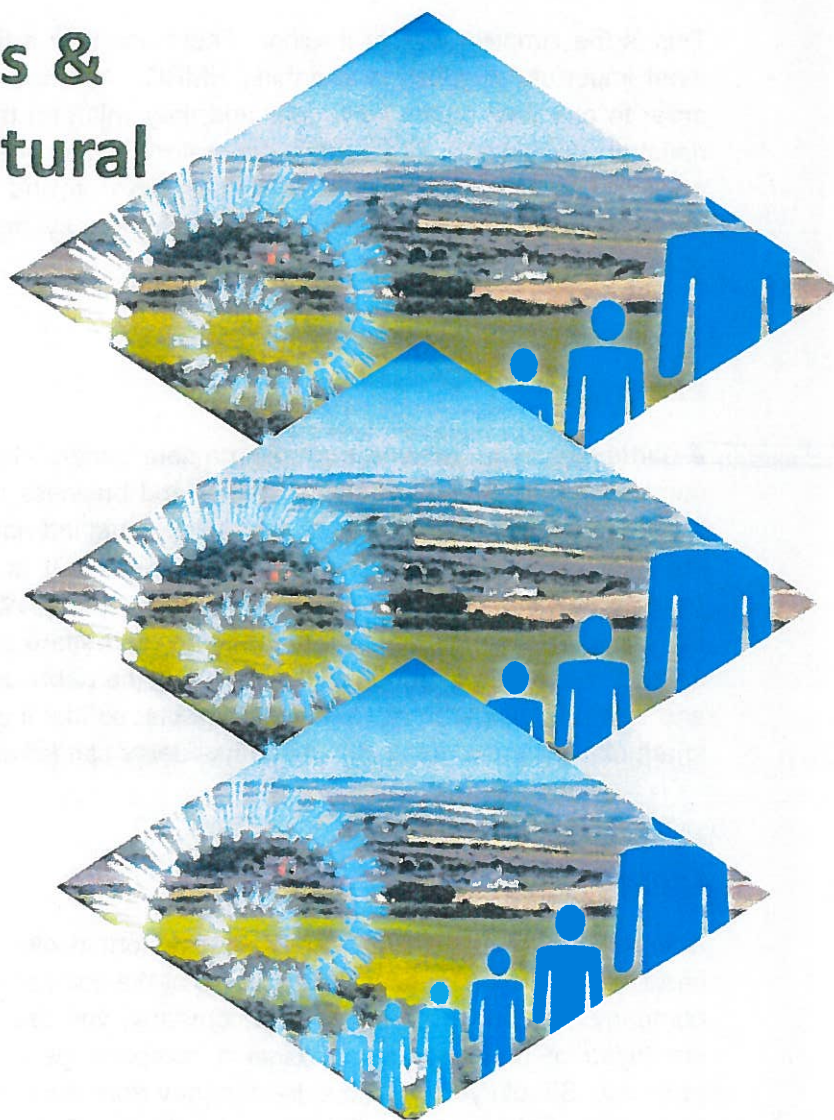




# The Scottish Government's New Entrants to Farming Programme



## Guidance Note: Business Structures & Taxation of Agricultural Businesses



**The Scottish  
Government**

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## **Business Structures – Which Should I Use?**

Having made the decision to be your own boss, it is important to decide the best legal and taxation structure for your enterprise. The most suitable structure for you will depend on your personal situation and your future plans. The decision you make will have repercussions on the way you are taxed, your exposure to creditors and other matters.

The possible options you have are as follows.

### **Sole Trader**

This is the simplest way of trading. There are only a few formalities to trading this way, the most important of which is informing HMRC. You are required to keep business records in order to calculate profits each year and they will form the basis of how you pay your tax and national insurance. Any profits generated in this medium are automatically yours. The business of a sole trader is not distinguished from the proprietor's personal affairs so that if there are any debts, you are legally liable to pay those debts down to your last worldly possession.

### **Partnership**

A partnership is an extension of being a sole trader. Here, a group of two or more people will come together, pool their talents, clients and business contacts so that, collectively, they can build a more successful business than they would individually. The partners will agree to share the joint profits in pre-determined percentages. It is advisable to draw up a Partnership Agreement, which sets the rules of how the partners will work together. Partners are taxed in the same way as sole traders, but only on their share of the partnership profits. As with sole traders, the partners are legally liable to pay the debts of the business. Each partner is 'jointly and severally' liable for the partnership debts, so that if certain partners are unable to pay their share of the partnership debts then those debts can fall on the other partners.

### **Limited Company**

A limited company is a separate legal entity from its owners. It can trade, own assets and incur liabilities in its own right. Your ownership of the company is recognized by owning share in that company. If you also work for the company, you are both the owner (shareholder) and an employee of that company. When a company generates profits, they are the company's property. Should you wish to extract money from the company, you must either pay a dividend to the shareholders, or a salary as an employee. The advantage to you is that you can have a balance of these two to minimize your overall tax and national insurance liability. Companies themselves pay corporation tax on their profits after paying your salary but before your dividend distribution. Effective tax planning requires profits, salary and dividends to be considered together.

There are many advantages as well as disadvantages to operating through a limited company.



There are additional administrative factors in running a company, such as statutory accounts preparation, company secretarial obligations and PAYE (Pay As You Earn) procedures. A big advantage of owning a limited company is that your personal liability is limited to the nominal share capital you have invested.

### **Limited Liability Partnership**

A limited liability partnership is legally similar to a company. It is administered like a company in all aspect except its taxation. In this, it is treated like a partnership. Therefore you have the limited liability, administrative and statutory obligations of a company but not the taxation and national insurance flexibility. They are particularly suitable for medium and large-sized partnerships.

### **Taxation of Agricultural Businesses**

HM Revenue & Customs gives advice on starting your own agricultural business at [www.hmrc.gov.uk/courses/syob/farm/index.htm](http://www.hmrc.gov.uk/courses/syob/farm/index.htm) and this gives guidance on how to register yourself and business for tax, national insurance, PAYE, VAT, etc as required.

The main taxes that you will have to deal with are:

#### **Income Tax**

Income tax is charged on the profits for a sole trader, partnership and on monies drawn from a company as salary or dividends.

The income tax rates are currently 20%, 40% and 45% and individuals under the age of 65 have an annual tax free allowance of £9,440 in tax year 2013/14.

#### **Corporation Tax**

Companies pay corporation tax on their profits. The tax rate is currently 20% on profits up to £300,000.

#### **National Insurance (NIC)**

Partners and self-employed people pay both Class 2 and Class 4 NIC. Class 2 is paid at a rate of £2.70/week and class 4 for 2013/14 is charged at 9% on profits between £7,755 and £41,450 and at 2% above that. Employees and directors of companies pay Class 1 NIC on salary at 12% and the employer pays Class 1 NIC at 13.8% on the same salary. Class 1 NIC is calculated on weekly and monthly pay and there are separate rules for directors.

#### **VAT**

VAT does not apply to all sales and for agricultural businesses many sales are zero rated. It can often be beneficial to register for VAT before you reach the statutory sales threshold of £79,000 so that VAT can be reclaimed on purchases.

Registration for most of the above taxes can be done online by visiting HMRC website [www.hmrc.gov.uk](http://www.hmrc.gov.uk).

All the taxes have specific rules and reliefs which apply to specific trades such as agriculture and it is advisable to seek the advice of accountants who specialise in this area. It is also advisable to take advice on the financial records you need to maintain or employ the services of an experienced book-keeper.

From the above summary of the tax treatment of various business structures, it would seem reasonable to suggest that operating as a company and paying tax at 20% is more tax efficient than operating as a sole trader or partnership if earnings take the tax rate into 40%. However, the decision to incorporate a business needs to consider many more aspects than just income tax savings.

In order to benefit from lower income tax rates in a company there needs to be a clear understanding of the future of the business in order to make plans to avoid additional costs and taxes and to protect assets for future generations. As noted above, there are points to take into account that involve more than just accounting and taxation considerations and it is advisable to seek advice from accountants with particular knowledge in this area.

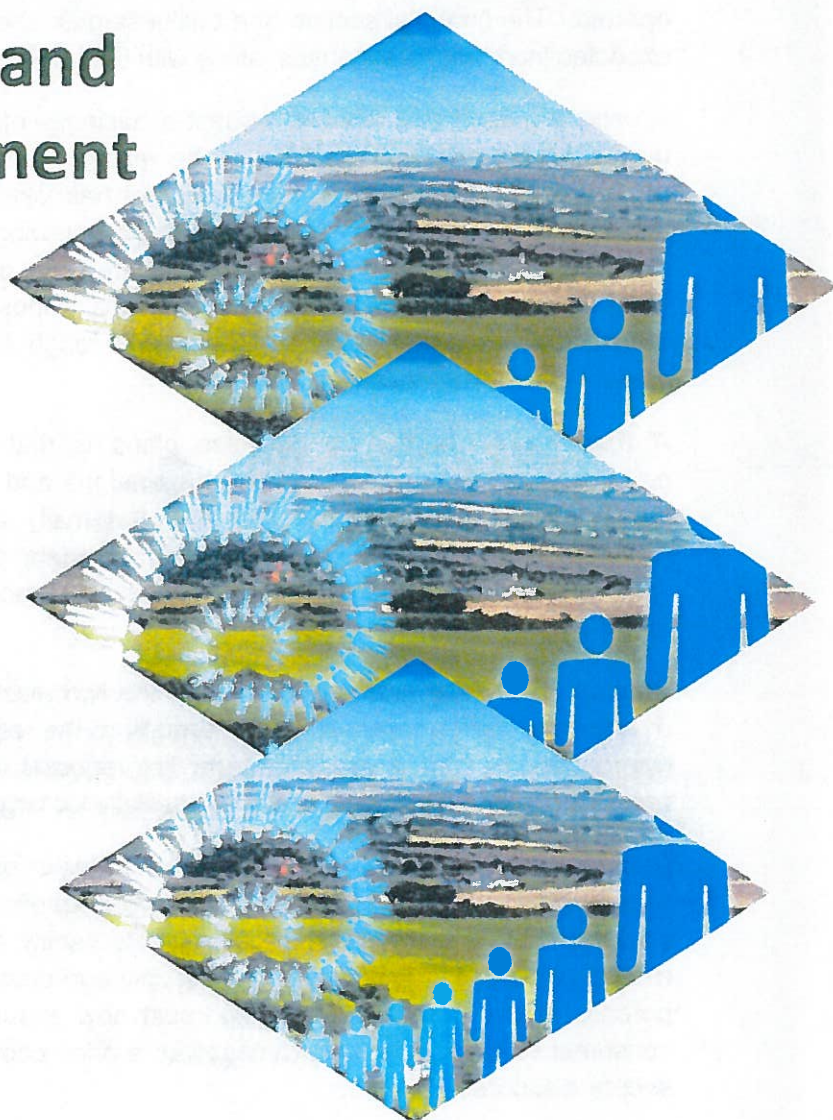
*This guidance note was prepared by Robin Dandie, Head of Agriculture at Johnston Carmichael chartered accountants [www.icca.co.uk](http://www.icca.co.uk).*



# The Scottish Government's New Entrants to Farming Programme



## Guidance Note: Business Planning and Financial Management



This programme is funded by the Scottish Government  
as part of its New Entrants to Farming Advisory Activity.

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## **Introduction**

The use of business planning in United Kingdom agriculture has grown rapidly in the past decade. The number of farmers developing and using business plans has grown for a number of reasons.

The most common reason farmers develop a business plan is to document the financial viability of a business. Most farmers who choose to write a business plan do so when they are seeking finance. A comprehensive business plan will address the financial viability of the proposed business, in addition to describing how the other aspects of the business will operate. The financial section of a business plan should adequately document current and expected income and expenses, along with the ability to repay debt.

A second reason that lenders request a business plan is that they want to verify that the farmer has thoroughly considered all the various aspects of managing the business. A good business plan demonstrates that the farmer has taken the time to think through the details required, to make the business succeed. By reviewing a business plan, a lender can quickly evaluate how well the farmer has considered the operational, personnel, marketing and financial aspects, successfully implementing a proposed expansion or start-up. The use of business planning, to help farmers think through all business management matters, is valuable for both farmers and lenders.

A third major function for business plans is that they serve as an effective tool to communicate the purpose, structure, operations and finances of a business to those who need to know more about the business. Externally, a business plan can communicate the essential information about a business to lenders or partners. Internally, the plan can communicate goals, operational procedures, and management roles to family members and employees.

Starting a business and expansions are the two most common situations in which farmers decide they need a business plan, normally at the request of a lender. Business plans are not required to start or expand a farm, but requests for a business plan in these situations are becoming increasingly common, especially for larger farming operations.

New entrants, or even well established farmers proposing a new enterprise, will find preparing and presenting a business plan very beneficial, as they communicate their ideas to lenders. Farmers now face the commercial reality of having to sell their produce into a market place that is linked into world supply and demand trends. This has shifted risk and potential reward onto farmers, who must now ensure they are producing a product the consumer wants and be able to negotiate a price above their cost of production, in order to secure a successful future.

Uncertainty will always be a feature of farming businesses. There are simply too many factors that are out-with our control. This does not mean that we have to ignore them. Far from it, we need to try to quantify them, to give ourselves best case and worst case scenario. If we do not attempt this we lose the initiative and merely become reactive to the events around us. Management should be pro-active, but this is made more difficult when many of the influencing factors are in large measure out-with the control of the individual producer. The weather is the obvious classic example, over which none of us has any control. The

Common Agricultural Policy is another area where individually we have little control, but where we can glean some indications of the general directions that the CAP is heading.

### **Business Plan Structure**

A business plan should contain the following:

- Business Objectives.
- Financial Forecasts.
- Marketing and sales strategy.
- Information about the Management Team and Staff.
- An Operations Plan, giving a description of the farm itself.

Business Objectives should include short and long term objectives, along with a timescale for achieving these objectives.

Financial Forecasts should show what you predict will happen to your business financially, when you implement your plan. These will include cashflow forecasts and projected profit and loss accounts and balance sheets.

Marketing and sales strategy would include details of the market being aimed at, with the product produced.

Details of the management team would include whether the business would be family run, with individuals' skills and experience.

The Operations Plan would include details about existing land, cropping, stocking, buildings, machinery and what is produced. Any plans for new buildings, machinery and purchase of land or livestock should be included.

Any environmental or conservation features can be included, along with NVZ areas if relevant.

### **Reviewing and Updating the Business Plan**

Even if your current farm business plan is successful, you should always consider reviewing it for possible growth opportunities and improvements to farming operations.

Things to think about:

- Your goals – for example, do you want to increase your profits?
- What changes you want to make to your business.
- How to best make these changes to your farm.
- How you will carry out this change.



- Any financial implications of this change, e.g. cashflow requirements.
- How long the changes will take you to implement.
- Potential risks – financial or otherwise – to your business.

In order to be financially viable, the business plan should demonstrate that the business can generate sufficient profits to cover:

- personal drawings;
- income tax;
- capital for reinvestment and major repairs;
- repayments on borrowing.

### **Assessing the Options**

An accurately prepared forward budget can assist a farmer to make decisions between a whole range of options that exist for management of the farm and its resources.

By looking ahead, it is possible to anticipate the likely outcome of decisions that need to be made today, and how they will impact on the future profit potential of the farm.

Assessing different scenarios, allows the business to identify the factors that are most important to future profitability, and to highlight where changes could be made that may improve the overall trading position of the farm.

### **Financial Control**

This is important to keep your business on target for success in today's difficult and rapidly changing economic conditions.

Knowing your costs, and margins, and preparing a regular budget, allows you to make informed decisions about what to change.

A whole farm budget (cashflow, profit & loss account, balance sheet) is an invaluable and under-estimated tool. It allows you to work out rapidly the implications of changes in prices over time and acts as a model of the business, which can be used to investigate changes in policy.

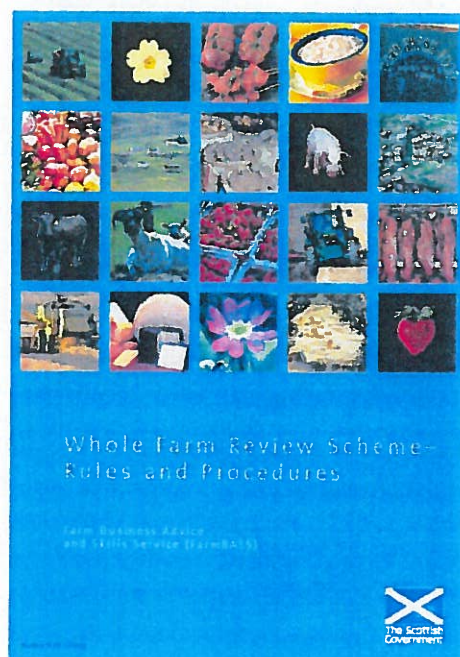
The budget helps you understand how your costs and revenues are generated. By monitoring actual income/expenditure against budget during the year, this provides an early warning system, and allows you to make informed decisions as the year progresses. Remedial action can be taken, when problems are identified early, and this helps to avoid future problems.

Monitoring and planning the business are essential components of good business management and should be viewed as a high yield piece of paperwork.

## **Further Guidance**



There are numerous guides and business plan templates available on-line. The Scottish Government and Department for Environment and Rural Affairs collaborated to produce the 'Mapping out a Farming Future' (see left) publication which is part of a series of documents on farm business management available at [www.gov.uk/farm-business-and-financial-planning](http://www.gov.uk/farm-business-and-financial-planning).



Financial assistance is potentially available for farmers in Scotland engage accredited consultants to help review and plan their business under the Whole Farm Review Scheme, details of which are available at the web address below:

[www.scotland.gov.uk/Topics/farmingrural/Agriculture/grants/BDandM/WFRS](http://www.scotland.gov.uk/Topics/farmingrural/Agriculture/grants/BDandM/WFRS)







# The Scottish Government's

VETERINARY & ADVISORY SERVICES PROGRAMME

## New Entrants



November 2015 Edition 1

**Welcome** to the first edition of new entrants news. We aim to produce short newsletters, to inform you of any CAP updates and opportunities for new entrants as well as news from the various groups throughout the country.

### NEW ENTRANT AWARDED TENANCY

Forestry Commission Scotland offered Woodfold Farm based near Huntly on a 10 year SLDT tenancy for a new entrant to agriculture through the Starter Farms Initiative. The farm covers 203.71 acres of mixed land including arable, grassland and rough grazing.

After successfully applying for the farm and enduring a panel interview, new entrant John Matheson, along with his herd of cattle will have just made the move from Ellon to Huntly to begin the venture.

John is a first generation farmer with a family background of distillery workers. John started his farming career as a farm manager on an Aberdeenshire estate before he started his own cattle enterprise on seasonal land in the Ellon area. John has grown his herd over the last six years on seasonal grazing. He applied for numerous tenancies before being successful at Woodfold and is now over the moon at finally having the opportunity to take his business forward as well as having full control of the technical side of the business e.g. grassland management, housing, etc.

John has attended the new entrant workshops based at Thainstone and has found these invaluable for networking, planning his business and understanding technical performance as well as highlighting opportunities for new entrants.

### NEW ENTRANT WEBSITE

There has been a website specially created for new entrants. On the site you will find a series of case studies, where you can learn from other new entrants experiences. There are also guidance notes available which are tailored specifically to assist new entrants to farming with their business needs.

[www.sruc.ac.uk/newentrants](http://www.sruc.ac.uk/newentrants)



### WORKSHOPS 2015/16

The new entrant workshops are starting for 2015/16. As well as our existing 9 groups, there will be 2 new groups based in the Borders and Dumfries. If you would like to join a group please contact us.



### Government Support Updates and Key Dates

- Check your communication log online to ensure your entitlement route(s) for national reserve applications have been "approved in principle". If they are "Not Eligible" you can request for the decision to be reviewed.
- The Scottish Suckler Beef Support Scheme is open for claims to be made up until 31<sup>st</sup> December 2015. This can include animals born from 2<sup>nd</sup> December 2014 up to 30 days old at point of application.
- The 2015 Basic payment Scheme exchange rate has been set at €1 = £0.73129, a fall of 6% compared to last year.
- The various New Entrants Grants are open for application, the Young Farmers and New Entrants Start-Up Grants next submission deadline is April while the New Entrants Capital Grant Scheme and Small Farmers Grant Scheme is an ongoing application window.
- For details of all government support [www.ruralpayments.org](http://www.ruralpayments.org)

## **LAND REFORM (SCOTLAND) BILL**

### **What's in it for New Entrants?**

The Land Reform (Scotland) bill seeks to help facilitate retirement and encourage new land on to the market for letting:

The Land Reform (Scotland) Bill was introduced to the Scottish Parliament on 22<sup>nd</sup> June 2015. As the name suggests, it focuses on land reform and contains many of the recommendations of the Land Reform Review Group. Perhaps of more relevance to New Entrants, the bill also contains a significant amount of tenancy reform, which follows the work of the Ministerial led Agricultural Holdings Legislation Review Group (AHLRG). The AHLRG recognised that there was a real issue for New Entrants, with demand for tenancies far outstripping supply. One of the work streams they followed was to help facilitate retirement in older tenants to release land to new tenants.

The main proposal in the Bill, which could help free up land for new tenancies, is to give farmers who have a secure 1991 Act Tenancy (and no one to pass it on to) the ability to convert it to a modern Limited Duration Tenancy (LDT)- which could be sold to a new tenant. Currently when a tenancy ends it is often lost from the tenancy sector as farms are brought in-hand or farmed under contract farming agreements. This, in conjunction with a tenant's improvements amnesty (allowing the registration of unregistered/ in-correctly registered improvements), may encourage an increase in the number of tenants looking to retire from their farms.

To help bring new land on to the letting market the bill will create a modern LDT, which will replace the current SLDTs and LDT. A new "modern LDT" with a minimum 10 year term (is to be) developed to enable landlords and tenants greater freedom in agreeing terms relevant to the type, duration and purpose of the lease. An optional break at 5 years should be available where the tenant is a new entrant – Recommendation 24 of the AHLRG. The modern LDT is effectively a free market in letting, which is something that organisations representing landlords have been asking for. Hopefully this will see an increase in new land available for letting. The break clause for New Entrants was deemed sensible as it protected both parties: it allows the New Entrant an early exit if things don't go according to plan for their new business and also gives the landlord encouragement to grant a tenancy to an untried farmer.

Mike Halliday, Dumfries Group Facilitator  
(Michael.Halliday@sac.co.uk)

## **POTENTIAL OPPORTUNITIES FOR PUBLIC LAND**

A new group has been set up at the request of the Cabinet Secretary, Richard Lochhead to identify what farmers of the future need, in progressing their career.

The group will examine the potential opportunities available from land within the estates of the main public bodies, and outline their proposals to maximise starter farm opportunities, on publicly owned land. Whilst there is a large amount of land within the public sector, a proportion of it is already under existing agreements or not suitable for agriculture, however, what opportunities there are will be explored. A number of points to be discussed by the group are the size of units required, the provision of buildings, at what rung of the ladder the units should be aimed at, as well as the potential for share farming opportunities. The outcomes of individual units will also be discussed with the option, for individual units to provide different outcomes including environmental improvements.

Membership of the group draws on a range of expertise and experience, including representatives from the Scottish Government, Forestry Enterprise, Forestry Commission Scotland, Crown Estates, NFU, Scottish Land & Estates, STFA SYF and Harriet Smith, a Forestry Commission Starter Farm tenant. Harriet is more than happy to discuss the above with anyone and feed back ideas. The group is looking for feedback on the following questions by the 4th December 2015.

- 1 What do you assess are the key facilities farmers of the future need in progressing their early career?
- 2 What do you regard as the timescale for the different facilities?
- 3 What are your views on the potential for a matching service through a central database that helps bring together new entrants with experienced farmers who have opportunities or land/facilities available?

Harriet Smith (hasmith1110@gmail.com)

### **FACEBOOK**

We also have a Facebook page dedicated to new entrants, please 'like' the page to keep updated on any opportunities or news that may happen.

<https://www.facebook.com/NewEntrants>



### **FURTHER INFORMATION**

If you require any further information about the new entrants programme or wish to join any of the groups, please contact Kirsten Williams, SAC Consulting on 01888 563333, [Kirsten.Williams@sac.co.uk](mailto:Kirsten.Williams@sac.co.uk)





# The Scottish Government's

VETERINARY & ADVISORY SERVICES PROGRAMME

## New Entrants



January 2016 Edition 2

**Happy** New Year and Welcome to the second edition of new entrants news.

In the last edition Mike Halliday, Dumfries group facilitator summarised the Land Reform (Scotland) Bill for New Entrants. Since this time there have been changes as Mike writes.....

### LAND REFORM (SCOTLAND) BILL

#### New Entrants to benefit from Stage 2 amendments to the Land Reform Bill

The Scottish Government has recently announced that it will be introducing two important amendments to the Agricultural Holdings section of the Land Reform Bill during Stage 2 of its passage to becoming law.

#### **New assignation process**

The Government intends to lodge an amendment which will create a process under which 1991 Act tenants (secure tenants) can assign their tenancy to a new entrant or to a progressing farmer (for value), with the landlord having the option to purchase the tenant's interest during the process.

The amendment allows the new entrant or progressing farmer to take on the tenancy under the same terms as the exiting tenant (i.e. a 1991 Act tenancy) with all the security and succession rights that this type of tenancy provides.

A new entrant is defined as someone setting up as head of the holding for the first time, a progressing farmer is one who is progressing in the industry and seeking to establish themselves further, this will mean someone who may have a Limited Partnership, an LDT or a similar short term tenancy. Anyone who already holds a 1991 Act tenancy is excluded from bidding.

The landlord has a right to purchase the tenants interest during the assignation process. This option has been introduced to provide protection for the landlord's property rights and to try and avoid the new legislation being challenged in the courts.

Some landlords will opt to exercise their right of first refusal, depending on the valuation and their personal circumstances, but others will permit the assignation to proceed.

#### **Full repairing lease**

The Government is also developing a new fully repairing lease which would permit landowners to rent out land in need of improvement with minimum fixed equipment on the condition that:

- The lease is for a minimum of 35 years
- The rent throughout the lease is based on the productive capacity of the holding at the start of the lease
- All tenants improvements are recognised and compensated for at the end of the lease

This type of lease is something that land owners have been asking for and should hopefully encourage more land on to the market.

These amendments have been introduced by the Government, who hold a majority in the Parliament, so they are likely to become law. Industry bodies will try and have further amendments added to the bill as it passes through Parliament, but due to the tight time schedule they are unlikely to be little more than fine tuning of the current proposals.

Mike Halliday, Dumfries Group Facilitator  
(Michael.Halliday@sac.co.uk)

### **NEW ENTRANT GATHERING 2016**

**You are invited to attend**  
**New Entrants to Farming Gathering 2016**

**Opportunities for Growth**

**SRUC**

This free event is aimed at Scotland's farmers of the future and has been organised as part of the Scottish Government's New Entrants to Farming Programme.

**Key Themes**  
– Finance, Land and Opportunities

Industry expert speakers and inspirational new entrants

**Tuesday 9th February 2016 10.45am – 3pm**  
**Perth Racecourse, Scone Palace Park, Perth, PH2 6BB**

**For catering purposes please phone SAC Consulting Turriff on 01688 563333 or [VBStarriff@sac.co.uk](mailto:VBStarriff@sac.co.uk) to book a place.**

Leading the way in Agriculture and Rural Research, Education and Consulting  
SRUC is a charity registered in Scotland, No. SC003713  
SAC Consulting is a Division of Scotland's Rural College (SRUC)

Funded through the Scottish Government's New Entrants Programme

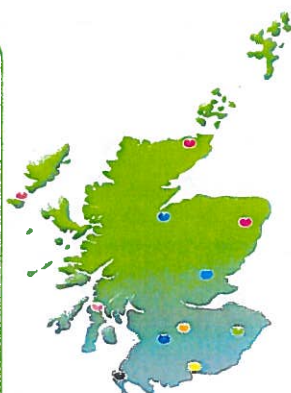
## Government Support Updates and Key Dates

- If you submitted an application to the Basic Payment Scheme in 2015, you should have received an illustration of entitlements letter from Scottish Government detailing the estimated number and value of your entitlements.
- The deadline for the next funding round of applications to the Food Processing, Marketing and Co-operation Scheme is the 6th March 2016.
- The Beef Efficiency Scheme (BES) starts in 2016 and all beef producers should have received calving diaries to aid in information gathering. All beef calves (with over 75% beef genetics) born from the 1st January are eligible for the scheme that are born on a holding that is a member of an approved livestock farm assurance scheme. The scheme opens for applications on the 1st April 2016.
- For details of all government support [www.ruralpayments.org](http://www.ruralpayments.org)

## Winter Workshops

New Entrant workshops have been running across Scotland throughout the winter, with many more planned before the busy spring months.

Argyll - Lochgilphead
Ayrshire - New Cumnock
Borders - St Boswells
Caithness - Thurso
Dumfriesshire - Dumfries
Grampian - Inverurie
Inverness-shire - Inverness
Lanarkshire - Lanark
Outer Hebrides - Berneray & Leverburgh
Perth & Kinross - Kinross
Wigtownshire - Stranraer



The workshops include business, technical and practical evening events aimed at New Entrants to assist with starting, building and expanding their businesses. If you would like to join a group please contact [Kirsten.Williams@sac.co.uk](mailto:Kirsten.Williams@sac.co.uk)



## New Entrant Gathering - "Opportunities for Growth"

**Date: 9th February 2016**

**Time: 10.45am – 3pm**

**Venue: Perth Racecourse, Scone Palace Park, Perth, PH2 6BB**

This years new entrants gathering hosts an excellent line up of speakers including industry experts and inspirational people from a diverse range of enterprise systems. The agenda has been built around the feedback gained from the break out sessions at last years conferences and has been structured with three key themes in mind

- gaining finance
- accessing land
- harnessing opportunities.

The intention of the Gathering, is to motivate and inspire the next generation of farmers by presenting industry leaders and real examples of those who have made a success of their chosen farming operations.

10.45	Tea/Coffee & Registration
11.00	Welcome & Introduction Kirsten Williams, SAC Consulting
11.05	Basic payment Update Scottish Government
11.25	A Different 'Route/Root' Gordon Caldwell, GC Growers
11.45	New Tenant & Contract farmer Andrew Tullie, Young Farmer
12.05	The Glenrath Story John Campbell, Glenrath
12.35	Lunch
13.30	Building a Resilient Business, Soils, Opportunities & Technology Gavin Dick, AHDB Cereal & Oilseeds
14.00	Industry Outlook, Risk & My Business Plan Jimmy McLean, RBS Chairman, Agriculture
14.30	Three Years In – Making a Small Farm Work Rupert Shaw, Gledpark
14.50	Summary and Close

For catering purposes, please phone to book a place

SAC Turriff on 01888 563333 or email [FBSTurriff@sac.co.uk](mailto:FBSTurriff@sac.co.uk)





# The Scottish Government's

VETERINARY & ADVISORY SERVICES PROGRAMME

## New Entrants



March 2016 Edition 3

**Welcome** to the third edition of new entrants news.

In the last edition we notified you of the *New Entrants Gathering*, this was an extremely successful event with over 150 people attending. The speakers on the day were excellent, challenging and stimulating the audience to overcome barriers, embrace change and harness opportunities.

### The Glenrath Offer - Announced at the Gathering

Well known farmer and free-range egg producer, John Campbell of Glenrath Farms gave an inspiring presentation and genuine offer of support at the recent New Entrants gathering saying "the livestock industry needs talented young people".

Looking over his successful career, he reflected on how difficult it was to start out. With this in mind, he outlined a major opportunity to help young farmers and new entrants to farming who want to set up a free-range egg production enterprise. Mr Campbell, is offering a £100,000 loan for eight prospective entrants to be used towards the required capital investment.

"Rates of interest would be favourable and currently stand at 3% but would vary with base rate" he said, pointing out the need for a sound business plan and additional financial backing. The preferred model would be to build two 16,000 flock houses with a central packing station. The offer comes complete with a 10-year egg contract with Glenrath. There have already been a number of enquiries.

Mr Campbell talked of the need to unlock the drive of young people, highlighting the increasing age profile of the industry, ending "opportunities are what is required".

Mr Campbell is a highly successful farmer. As a family, they now farm 15,000 acres with 10,000 ewes and 600 beef cows in Peeblesshire. Glenrath farms Ltd is also reputed to be one of the largest free-range egg producers in Europe.



For those interested in further exploring the offer, firstly contact [info@glenrathfarms.co.uk](mailto:info@glenrathfarms.co.uk), and anyone with a suitable plan is free to apply.

NB The Campbell family are hosting the *NSA Scotsheep* event at Blythbank, Blythbridge, West Linton, Peeblesshire on Wednesday 1st June 2016.

### Key Messages from the 'Gathering' ...

Despite current difficulties across farming, all speakers managed to inform and inspire the packed audience at Perth.

*"Focus your energy, don't look over the fence and compare"*  
Gordon Caldwell

*"Patience, trust and take a step away from the business"*  
Andrew Tullie

*"Look further than your location, be bold and forward thinking"* John Campbell

*"At times of crisis embrace opportunities"* Gavin Dick

*"Create a realistic business plan, factor in sensitivity"* Jimmy McLean

*"Look at unsupported areas of agriculture, be flexible"* Rupert Shaw



Conference speakers, from left to right:

Jimmy McLean (RBS), Gavin Dick (AHDB Cereals & Oilseeds), Rupert Shaw (Gledpark), Gordon Caldwell (GC Growers), Andrew Tullie (Young Farmer), John Campbell (Glenrath), Alan Hendry, (RPID).



## Government Support Updates and Key Dates

- The 2016 Single Application Forms are now open. This must be completed and submitted before 15th May 2016 to claim Basic Payment Scheme and LFASS. This must be completed to enable you, to claim all government support schemes e.g. Beef Efficiency Scheme, etc. (<https://www.ruralpayments.org>)
- Agri-Environment Climate Scheme applications for 2017 management close on 20th April 2016.
- The Beef Efficiency Scheme will open in April 2016.
- Over 100 new entrants/young farmers have been awarded start up grants from the SRDP.
- For details of all government support [www.ruralpayments.org](http://www.ruralpayments.org)

## News from the Groups

Members of the Lanark "New Entrants to Farming" group recently followed a consignment of cattle from the farm through to the abattoir to find out more about managing livestock to meet market needs.


The visits were organised by Lanark based Livestock Business Consultant Robert Logan who is mentoring the group on behalf of SAC Consulting.

The cattle came from one of the members' farms. The animals were weighed the day before they went to the meat plant, details were collected regarding the ration they had been fed on, and dates of birth etc. From this, daily liveweight gain was calculated as well as how efficiently that gain was produced. Seeing the cattle on farm helped visualize the animals and generated debate over weight, fat cover and confirmation.

A few days later the members went to the abattoir to see the cattle on the hook, and compare how they had graded against group estimations. The batch of eight cattle proved to be an excellent example to stimulate discussion, with one overweight, one very lean but with tremendous shape and two others which had been identified as slightly plainer but nonetheless classed as the required U-grade due to their length and balance throughout.


Estimated gross margins were calculated for each animal in the batch which moved the conversation away from just the sales price and allowed the group to examine the real costs and the margin received. The Live - Dead visit proved an interesting and highly worthwhile event for the group.

Best educated guess?



Answer:  
Closest liveweight estimate only  
20kg for the group of 8 cattle

Management tag 76



Breed	SB+
Sex	18
Age	19 months
Live Weight	554kg
CCW	352kg
ICW	81%
Grade	U+2
On farm gain	549kg
Ave GUVG	0.34kg/d

Comments:  
SAC's 10th annual survey  
1st of 1000 cattle  
Participate for date 2, nearly  
all date 1

Report change information  
Page 2

Members of the Western Isles group recently met for a technical workshop regarding sheep selection and the use of EBV's. Rod McKenzie, Muirton, Munloch and Rhidian Jones, SAC Sheep & Beef Specialist guided the group through selecting the perfect dam and sire for the island situation to aid profitable sheep systems in the West Coast of Scotland.

Members of the Borders group met in January to learn about the opportunities available through Joint Ventures. There was a varied degree in knowledge of the subject in the room which allowed for an interactive session with stimulated debate.

## Farmers Encouraged to Help Save Local Scottish Wildcats

The farm cat curled up by the fire is a comforting and familiar image but a large colony of semi-feral farm cats, whilst good for vermin control, are bad for Scottish wildcats. Not only do they breed with wildcats and dilute their gene pool but they also pass on diseases and parasites. As a result, the highly endangered native wildcat is under major threat from their cousins, our domestic cats.

Many people living and working in the countryside have a strong affinity for the Scottish wildcat. It's a different beast from any lap cat. Its reputation as a cunning and elusive animal is certainly deserved and if someone is lucky enough to see one, it's really special.

Affectionately known as the "Highland tiger", it is similar in size to a large tabby cat, but is truly wild in nature with many adaptations that make it a successful hunter: keen eyesight and sense of smell, longer limbs and a much bigger brain. It's easy to spot their big bushy tail and some possible wildcats have been sighted recently in the Highlands.

Sadly, there are so few genuine wildcats now as many are obviously hybridised (cats that have both wildcat and domestic cat ancestry). Those that do remain are at risk from fatal diseases passed on through fighting and breeding.

Scottish Wildcat Action is working to conserve wildcats on the ground, focussing on six wildcat priority areas (Angus Glens, Morvern, Northern Strathspey, Strathavon, Strathbogie and Strathpeffer).

If you live in a wildcat priority area and have lots of cats on your farm, get in touch with Scottish Wildcat Action. They may be able to help neuter and vaccinate your cats for free, which helps make sure your cats (and farm) are healthy, whilst also protecting the elusive Scottish wildcat. You can check if you live in a wildcat priority area with our map at [www.scottishwildcattaction.org](http://www.scottishwildcattaction.org)

To find out more contact project manager, Roo Campbell on 01463 725130 or project officer, Emma Rawling, on 07733 308002.

Dr Roo Campbell, Scottish Wildcat Action

Photo: Peter Cairns



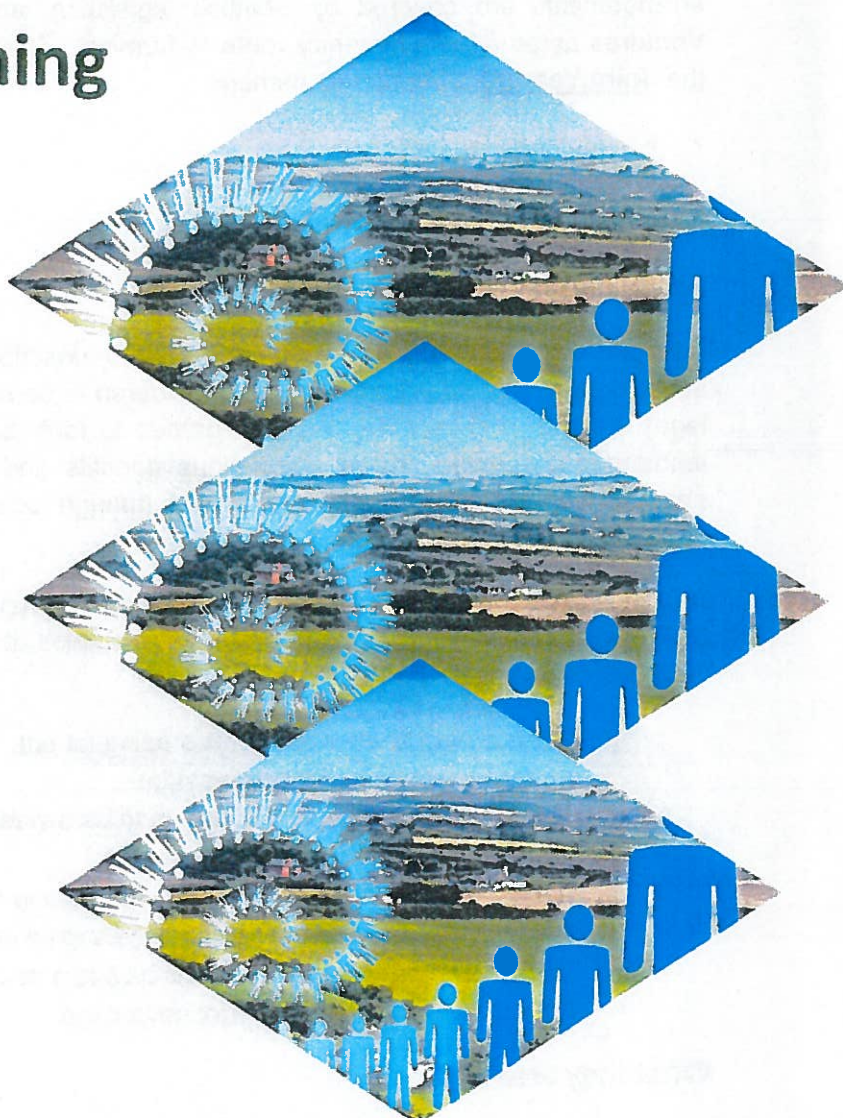


# The Scottish Government's New Entrants to Farming Programme



## Guidance Note: Joint Venture Farming

- Contract Farming
- Share Farming
- Equity Partnerships



This programme is funded by the Scottish Government  
as part of its New Entrants to Farming Advisory Activity.

*Leading the way in Agriculture and Rural Research, Education and Consulting*

## **Joint Venture Options**

Farmland tends to have a high asset value relative to its income earning potential. Therefore, there is a substantial financial barrier to entry into farming for aspiring farmers, and expanding businesses alike through land purchase. Separating or partially separating the role of 'asset' ownership from 'operator' can help reduce this barrier.

There are various mechanisms currently available to facilitate a step onto the farming ladder including a range of rental arrangements and joint ventures. Traditional, formal tenure arrangements are covered by Scottish legislation, and there is growing interest in Joint Ventures as an alternative entry route to farming. Therefore, this fact sheet concentrates on the **Joint Venture** agreements, namely:

- Contract Farming
- Share Farming
- Business equity partnerships

## **An Introduction to Joint Ventures**

The phrase "Joint Venture" can be used to describe a wide spectrum of collaborative agreements. A Joint Venture can be considered to be some form of co-operation, formed in a legal manner, between two or more parties to form a business relationship, other than as landlord and tenant. There are various benefits and reasons for their creation, including sharing risk, improving return on capital through combined resources and expertise and accelerated growth.

Another reason why these arrangements have been devised, in a farming context, is to avoid the need to create a formal farm tenancy. Examples of common circumstances in which joint ventures can be beneficial include:-

- Land coming back in-hand after being let out. The owner may be inexperienced but wishes to retain vacant possession.
- The farm may not be large enough to be a viable holding on its own.
- The farmer may wish to release equity.
- To obtain economies of scale through splitting the cost of farming with others.
- The business may be in need of large capital investment.
- The owner may want to retire, not having a natural successor, but not ready to sell.
- There may be a substantial tax advantage.

## **What they are not...**

Genuine joint venture agreements work well but must be more than a written document. In practice it is important for both parties to abide by the governing rules in order to retain the advantages (including tax benefits) and avoid it being construed as an alternative legal entity such as a tenancy, partnership, or employer/employee relationship.



## Guidance Note - Joint Ventures

Three different joint venture opportunities have been presented in this document. Note that each agreement will be different. SAC Consulting prepared this factsheet to provide general guidance. This does not substitute the need for specialist and specific advice or a professional agreement, as required.

If you are thinking of undertaking one of these joint ventures, speak to your solicitor and accountant to discuss tax implications as well as insuring legal documents are drawn up for both/all parties to agree and sign.

## Contract Farming

A standard Contract Farming Agreement (CFA) 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.

### Obligations:

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 neighbouring farmer, large farming company or traditional contractor. For this, they receive a basic contractor's fee (usually quarterly or half-yearly).

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

### The mechanics of a CFA:

1. Agree a land "retention" and "contractors fee"
2. There are three bank accounts (no. 1 farmers a/c; no.2 CFA a/c; no.3. Contractors a/c)
3. The Farmer establishes a No.2 a/c to be distinct from any other of their activities
4. Dwelling accommodation or industrial buildings are excluded from the agreement but may be available by separate negotiation with a residential or commercial lease

An example of how the three accounts work is shown below:

	No.2 A/C	Farmer Income	Contractor Income
Sales	£80,000		
Variable Costs	£30,000		
Gross Margin	£50,000		
Fixed Costs	£5,000		
<b>Contractors Basic Fee</b>	<b>£15,000</b>		<b>£15,000</b>
<b>Farmers Retention</b>	<b>£10,000</b>	<b>£10,000</b>	
<b><i>Divisible Surplus</i></b>	<b><i>£20,000</i></b>		
<i>Contractors Share (70%)</i>	<i>£14,000</i>		<i>£14,000</i>
<i>Farmers Share (30%)</i>	<i>£6,000</i>	<i>£6,000</i>	
<b>TOTALS</b>	<b>£0</b>	<b>£16,000</b>	<b>£29,000</b>

### Benefits to the farmer:

A properly constructed CFA can avoid creation of a tenancy and maintains the 'farmer' status for subsidy and tax purposes. It is a very flexible and adaptable agreement. It can generate a reasonably stable income through a basic fee / retention and avoid much of the reoccurring capital and maintenance cost of machinery. It may also avoid the need to directly employ staff, having reduced day-to-day involvement compared with an in-hand farm.

### Disadvantages for the farmer:

Maintenance of "farmer" status demands some time involvement in the venture and the farmer must retain some risk. The farmer incurs the administration costs, for example, to manage the agreement and prepare separate financial accounts. For simplicity, a contract ('No2') account is preferable for associated sales and input costs, although it is not essential. The No2 account is not a separate business so the farmer will need to reclaim any VAT and transfer back to the account.

### Benefits to the contractor:

Contractors can benefit from economies of scale (spreading fixed costs) by taking on more land without tying up capital through land purchase or full duplication of machinery. This makes it a relatively quick way to expand. There is a guaranteed regular payment per hectare (or per animal) through a contracting charge, with an incentive to maximise the financial surplus.

### Disadvantages for the contractor:

Despite having the flexibility of rolling from one agreement to the next, CFA's do not provide long-term guarantee, which can make longer-term planning difficult. There can be a higher administration fee for budgets and accounts. It does also rely on both parties getting on well together. While a CFA can provide economies of scale it may be difficult to build capital.

### How to make it work:

The biggest factors in a successful arrangement are:

1. Trust, honesty and pragmatism
2. Robust terms
3. Good incentives for the contractor to concentrate their efforts (this will also reward the farmer through a share of a higher divisible surplus).
4. Third party involvement to set up agreement

Consideration should be given to profit sensitivity to price, technical performance and weather impacts since the agreement also needs to work in more challenging times. Agreement clauses cannot safeguard against every eventuality, but a concise agreement will help structure important but easily omitted issues such as mutual responsibilities for cross-compliance, health and safety and associated insurance.

The "farmer's" overall return under a CFA can be comparable or better than under an in-hand farming operation as significant capital is released from investment in machinery etc. (enabling invested elsewhere). A Contractor's costs are invariably also less than the farms existing overheads due to economies of scale.

## Share Farming

Share farming is an arrangement between two independent businesses. It is often confused with contract farming but there are some differences, for example:

1. These are two entirely separate businesses working the same land.
2. As separate businesses they share the value of the farms output (typically sales) rather than a fee plus share of net profit.

There is no standard share farming agreement. The details are a matter for the parties involved but each party needs to bring complimentary resources and skill sets. The share farming structure is not as popular as contract farming in the UK but it is commonplace in New Zealand. It is possible to start as a share farmer with only a small share then progressively build equity share (within the terms of the agreement) until owning most or all of the stock and/or equipment. There are three conceivable paths for the agreement:

1. It may be a step towards farm succession.
2. If agreed, share farmer equity in livestock could be increased on renewal of the agreement.
3. Terminate the agreement:
  - a. allowing the share owner to follow an alternative plan.
  - b. to allow the share farmer to buy into another or larger farm.
  - c. liquidate to enable the share farmer to purchase their own farm and likely become a share owner.

### Obligations:

Typically, the share owner / occupier provides the land, buildings, fixed equipment, fixed machinery, major maintenance of buildings and expertise along with paying a certain percentage of certain input costs. The share farmer / operator will provide the working machinery, moveable equipment, and technical ability and pay the balancing cost of inputs. Livestock are usually held in undivided shares. Output and certain input costs (direct costs) are split using pre-agreed allocations.

### Benefits to the share owner:

Share farming can be a useful mechanism to release capital from machinery and livestock to focus on alternative investments. It is also useful if wanting to retain management involvement without the day-to-day operational role. It is a tax efficient method provided 'farmer status' is maintained. It can also facilitate the owner to retire gradually, while profitability could improve through tapping into the drive and skill set of the right share farmer. Share farming can allow for a new enterprise to be introduced to the farm, of which the owner may not have expertise in.

### Disadvantages for the share owner:

The length of any agreement may be limited if the share farmer has the opportunity to move to a larger farm business – although exit clauses can be defined in the contract agreement. While performance might improve, volatile markets and profit margins mean operators will need to be top performers to achieve adequate returns for each party.



### Benefits to the share farmer:

It presents an opportunity for significant involvement in a farm business for someone with the necessary skills, but limited capital. Share farmer assets are transferable and can therefore move if a greater opportunity presents itself.

While it has proven a successful mechanism for new entrants in New Zealand the success of the share farmer to accumulate sufficient funds to achieve any of the above aspirations (previous page) largely depends on profitability, commodity prices, breeding stock value and land markets.

### Disadvantages for the share farmer:

There are few share farming opportunities in the UK, therefore, progression beyond the existing agreement could be limited – this is most likely to progress to a larger contract farming agreement or equity partnership in the UK. In a share farming agreement the owner often remains in the farm house, resulting in no house being available for the share farmer.

### How to make it work

There needs to be a clear understanding of why both parties are entering into an agreement. Clear and honest discussion is required to frame expectations. This should also cover the philosophy to farming policy. For this reason, many agreements work best between parties that had a prior relationship.

In addition to technical ability, there needs to be comfort in the knowledge that a prospective share farmer has the management potential to move from potentially being an employee to business owner status – requiring a different skill set.

As with a contract farming agreement, careful construction of the agreement is necessary to ensure, as far as possible, each party has a reward relative to their involvement (responsibilities / time / skills / equity / risk). Careful consideration is also required to deal with, for example: issues of responsibility; terms and timing of payment of shared costs; or stock and machinery pay-out upon termination of the agreement. Sensitivity analysis on budgeted figures is imperative.

Having a written share farming agreement alone is not sufficient evidence of a proper share farming arrangement being in place. Care should be exercised to ensure that the arrangement is implemented in practice, and on examination, cannot be construed as some other legal structure or relationship. Genuine share farming by contractual agreement is not a tenancy and consequently avoids the associated rights and obligations governed by legislation. Neither is it a partnership or employer and therefore avoids any potential liability associated with a share farmer's debts or employment law respectively.

## Equity Partnerships

An equity partnership is an alternative way to invest in farming for those who are unable to finance a farm tenancy or ownership as an individual. It can also be an opportunity for outside investors and for existing farmers to grow their business. It may also benefit those wanting to release capital from land for alternative investments or allow partial retirement as part of structured succession, particularly with non-family members.

An equity partnership is most likely formed as a company, with potentially multiple investors. These shareholders will pool their capital (equity), and possibly skills or resources, in the aim of generating higher investment growth. The company will identify and assess an investment option, purchase the land, livestock plus necessary machinery and plant. This is funded through shareholder equity and bank debt, borrowed by the company.

There are various structures and the most appropriate will depend on the type of investor. Often one of the partners is employed as the farm manager, known as an equity manager. The board of directors will run governance. Each partner normally appoints one director to the board. This works well provided directors have the necessary and complimentary skills. This responsibility or process can be contracted out, particularly where investor(s) are time limited, remote from the operation or opt to be a 'sleeping partner'.

### Benefits of an equity partnership:

It is a route to establishing an ownership interest that may otherwise be out of reach. The intention would be that pooling capital and resources results in greater scale and a focused board to encourage faster growth and return on capital. It also spreads risk across multiple partners. A transparent share agreement – any financial surplus is shared by each partner and reflects their capital shares held in the company.

### Disadvantages for an equity partner:

The biggest factor to success through this mechanism is good relationships. Two or more investors increase the risk of disagreement over strategic direction or losing confidence during any period of successively low profits. Decision-making can become bureaucratic and slow. Changes in business or personal objectives of one partner can affect the other(s).

### The need for clear understanding:

Each partner needs to have a clear understanding of their role and responsibilities within the partnership and be honest about their motives. A robust process (due diligence) is required to ensure the people you are looking to invest with have similar values, purpose and vision. Regular board meetings are required to aid communication and help drive the business.

The rules need to be laid out in legal documents. A structure for the partnership needs to be established which is fair to all, tax effective and flexible (including an exit strategy and contingency plan). A sound business plan outlining farm policy, cashflow and capital budget is required, with a robust sensitivity analysis to ensure each partner has realistic expectations and understands their risk exposure – this is best practice for any business including the family farming partnership but the structure arguably instils greater focus.