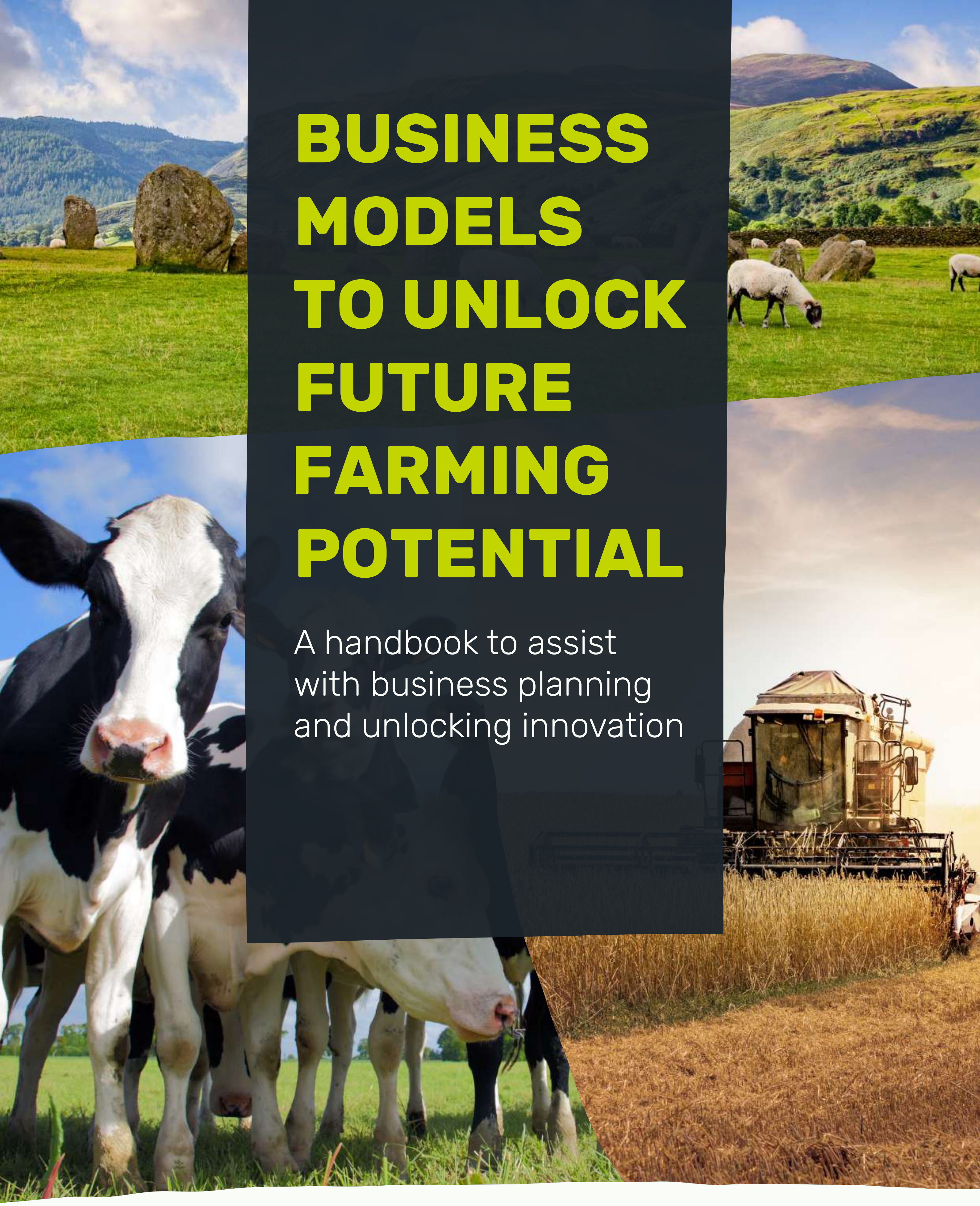


BUSINESS MODELS TO UNLOCK FUTURE FARMING POTENTIAL

A handbook to assist with business planning and unlocking innovation

FDSC
The Food and Drink Sector Council

APTF
Agricultural Productivity Task Force

Business Models To Unlock Future Farming Potential

Contents

Foreword

Tom Bradshaw
Joint Chair of APTF
NFU - Deputy President

Tim Mordan
Joint Chair of APTF
Defra - Deputy Director

The farming industry is facing some of the biggest challenges in a generation, with developments in agricultural policy, new trade agreements and the increasingly unpredictable weather as we see long term impacts of climate change in action. The transition within government support in England is perhaps the most fundamental shift that will require most businesses to pause and assess options for the future. The profitability of farming enterprises is likely to come under greater scrutiny and many businesses will need to make some changes to how they operate. This could be changes in farming systems, cost savings, alternative land uses, working off the farm or investing in diversification. With change inevitable come difficult decisions for some which creates opportunities for others. For some it might be time to consider alternative ways of running the business or time to pass on to the next generation. Whether you are looking for efficiencies, expanding, exiting or a new entrant to the industry, one area to consider is the business model. The ownership model or the tenanted model tend to be the most common but there is a whole range of other opportunities that could be considered. This handbook is designed for all parties to get an initial understanding of the options available before taking more detailed advice. It is an invaluable resource when considering the future and will help open up new ideas.

How to use this handbook…

Wherever you may be in your farming career, from new entrant, diversification, looking for expansion, changing your farming systems or even retirement planning, then you could need to consider which business models are the best fit for your requirements. There is a wide choice from traditional lettings through to a range of joint ventures or profit share business models to fit your requirements and succession.

For ease of use the handbook is divided into five steps. Steps 1 – 3 help to assess your current situation and set out business planning considerations. Analysing different business models can open up a various ways to take your business forward including access to land, people, and skills to achieve your objectives. The focus at this point is to gather all the information needed for your preferred business model.

Step 4 outlines the key business models in more detail, including advantages of each, where they might best fit according to business requirements and tax considerations with **links** to related case studies. This section will help you consider the best model for your business and to inspire and promote innovation.

Once your business model has been selected and implemented, then Step 5 looks at longer term business planning to help it adapt as it evolves.

The Food and Drink Sector Council (FDSC) brings together representatives from across the agri-food chain to work with Government. Its primary focus is on strategic food chain issues that affect the whole food and drink supply chain. The Council overseas a number of working groups focusing on key areas of the supply chain, including the Agricultural Productivity Working Group. The Agricultural Productivity Working Group published a report in February 2020 with 5 key recommendations to drive agricultural productivity growth. The Agricultural Productivity Task Force was established in June 2020 to implement these recommendations, chaired by Tom Bradshaw (NFU) and Tim Mordan (Defra), with stakeholders from across the agricultural sector. More details can be found **here**.

The 5 Step approach used within this handbook known as the 'Land Partnership's Approach', was created by Tom Curtis and its use is permitted via Fresh Start Land Enterprise Centre.

Understanding the steps to selecting your business model

The emphasis is on creating the right business models and relationships with all parties taking the initiative.

This stepped approach can assist anyone who is considering changing to different business models or joint ventures. This could be land or business owners, or those seeking land or active participation with another business 'farming entrepreneurs'. Landowners can use this approach to identify different options for the management of land or buildings. Farming entrepreneurs can use this approach where they are seeking land and/or buildings on which to establish or develop businesses, but aren't limited to just occupying land. Strong emphasis is placed on the forming and maintaining of sound business-to-business relationships through a range of collaborations and options. Legal agreements are an important part of this process, but they are seen as a follow-on to the formulation of a good business deal. This handbook presents a spectrum of legal 'Business Models' to create effective partnerships and collaborations. The approach is primarily aimed at setting up new agreements, but it can also be used for review or re-negotiation of existing arrangements.

What makes the approach different?

The approach builds on a long heritage of land tenure, from traditional tenancies, Farm Business tenancies (FBT) through to other 'joint ventures' such as share farming and contract farming.

Our approach will tend to differ in terms of ethos and process:

- The ethos is essentially reciprocal and mutual, with both parties taking the initiative to shape the nature of the business deal itself. The result is likely to be more balanced, and long lasting.
- What is on offer from the landowner and what is expected from the farming entrepreneur will be open to novel proposals and creates potential for collaborative planning.
- Deciding and agreeing the most suitable form of legal agreement will be the end point of the process.

Why is this useful?

Owners can diversify their operation and bring in new skills and knowledge through new business relationships, and it gives farming entrepreneurs the chance to apply and develop their business skills without the high cost of land purchase. This can lead to better use of skills and knowledge of assets, integration of enterprises, improved risk management, different ways of marketing, or it may simply involve the creation of a new business.

Opening up thinking space for creative entrepreneurship is important. The world is changing rapidly with increasing demands and shrinking resources, and innovation in business relationships is as important as other industry developments.

Considering your business model

Land/Business Owner

- Late career farmers, thinking about succession, planning to wind down from some of the practical aspects of running a farm, or to pass on experience.
- Landowners, who want to see their land used practically and gainfully, but who are not able to farm the land themselves.
- Active farmers, with land, may wish to diversify their agricultural business or beyond this without the risks and complexities involved with establishing and running several businesses at once.
- Estate owners or managers who have identified a gap in their estate system.
- Landowning trusts or charities wishing to find cost-effective ways of achieving their social or environmental objectives.

Farming entrepreneur

- Young farmers, with the training and experience to set up a new farm business, but without the land or capital.
- Experienced farmworkers or land managers, who have decided to take the step up into running their own business, but who do not have the capital to buy land.
- People with a related business background, such as food retail or horticulture, who are keen to branch out into the business of land-based production.
- Communities or groups of consumers who wish to set up or invest in a Community Supported farm which will produce products on their behalf.
- Existing farmers seeking opportunities.

This handbook is structured around a 5 step process designed to address the technical and relationship-building aspects of creating a strong business-to-business arrangement.

Step 1
Taking stock

Making a clear assessment of the assets, skills and experience you have at your disposal, and what you would like to achieve with them

Step 2
Finding the right match

Getting the right combination of land, people, mindset and ambition

Step 3
Creating a balanced agreement

Working out how to share the risks and rewards of new business models to unlock future farming potential

Step 4
Selecting a legal framework

Selecting the right legal framework for your business relationship, using tried and tested models to create novel outcomes

Step 5
Thinking long-term

Being prepared for the inevitability of change; creating options, optimising resources, and building business relationships that will stand the test of time

Land/Business owners and farming entrepreneurs should use this handbook as a stepping-off point; to scope what is involved, to help explore options and to point towards sources of more detailed and specific information and advice.

Step 1

Taking stock

Scrutinise your own motivations, assets and requirements.

Whether you are the landowner or the farming entrepreneur, the approach has to result in a viable and realistic business arrangement. The aim is to generate value by bringing together complementary assets, skills and aspirations.

The starting point is to be very clear what your own assets, skills and aspirations are. By taking stock you will be able to:

- Honestly communicate what you have to offer.
- Draw up a focused set of search criteria so that you can select the best options for you and your business.
- Identify clear outcomes and parameters against which to evaluate potential arrangements.

Our key recommendations for getting the most out of this process of taking stock are to:

1. Structure your thinking

We find it useful to do this under these three headings:

- **Motivations**
  What are your plans and aspirations?
- **Assets/Skills**
  What have you got to offer?
- **Requirements**
  What do you need?

It is vital that you are honest with yourself when looking at your motivation, assets and your requirements for a business.

2. Take time

Avoid simply plumping for the most obvious answers and conclusions. The process of reviewing your business might generate new ideas and perspectives. Do your own research and, if possible, speak to others who have taken different approaches to what you might naturally lean towards. Keep an open mind for future innovation and collaboration.

3. Discuss

What do your family, friends and colleagues think? If it is a new idea, gather all the facts and consider taking professional advice.

4. Balance clear vision with flexibility

It is important to have a clear vision for your business, but you should remain flexible about how you might achieve your objectives. By collaborating with another business, you may discover unexpected solutions and opportunities.

In shaping the balance of any business relationship, a key consideration will be the degree of risk each party feels able to take. This will vary from relationship to relationship and will depend on the experience, skills and confidence of each party, as well as their personal motivations and resources. It's useful at this stage to consider your attitude to risk.

5. Taking risks

Both the land/business owner and the farming entrepreneur can face elements of risk within a new business arrangement. The acceptable level of risk for each will vary and can be a factor in the selection of the appropriate business model. Correctly managed with the right business structure and good communications, these risks should be minimised.

Questions to ask

	If you're a landowner	If you're a farming entrepreneur
Motivations	• Is this about building up a farm business or scaling back your commitment? • Are you looking for someone to develop a particular business opportunity, or are you open to suggestions? • Is this part of a vision for the whole farm or a solution for one parcel of land? • How hands-on or hands-off do you want to be?	• Is this a foot in the door, a stepping stone to something else or a long-term commitment? • Do you have a precise vision for a type of farm or business? • Is this to build a business, earn a living, a way of life or to change the world? • Are you aiming for independence or do you want a close business partnership?
Assets / Skills	• What land, buildings and equipment might you wish to make available? • What other business interests do you have that might complement a new one? • What markets can you give access to? • What skills and experience might you be willing to offer? • Is there any infrastructure that you will need to develop or upgrade before you can offer land?	• What skills can you bring to the new business? Do they just relate to farming, or do they include retail, marketing, communication or business development? • Do you have equipment or livestock? • How much capital do you have access to? • What's your business idea and what research have you done? • Are there any skills or plans you need to develop? • Do you have other land already that you will continue with?
Requirements	• Do you need the new business to provide a particular service (straw, muck, energy, environmental delivery…)? • Is there a financial benchmark you need to match? • What absolute red lines do you have? For example, these might relate to contractual commitments, grant or tax pitfalls (see legal briefing on page 14), or personal preferences.	• Does this have to provide you with an income? Do you need a house/accommodation? • How much land/property do you need to get started? And further down the line? • What infrastructure will you need? • Are you absolutely fixed on one business idea? • Is your location preference flexible or fairly fixed if needing to incorporate factors such as family commitments?

Landowners could be interested in

- Income generation.
- Getting buildings used and maintained.
- Supporting the local community.
- Encouraging new business talent.
- Maintaining/enhancing their reputation.
- Building support for future development.
- Creation of complementary enterprises.
- Adding value to existing enterprises.
- Demonstrating good practice.
- Enhancing the environment.
- Reducing their carbon footprint.
- Increasing local business resilience.

Farming entrepreneurs could be keen on

- Making a living.
- Realising an ambition and passion to farm.
- Remaining in a locality or moving further afield.
- Making a business idea reality.
- Making use of their specialist skills.
- Developing new business skills.
- Contributing to their community.
- Continuing a family business.
- Establishing a family enterprise for future generations.
- Working alongside complementary businesses.

Step 2

Finding the right match

The right mix of land, people, skills and aspirations forms the foundation of any farm business arrangement.

The aim of this step is to make the most of the chances of creating and finding the best and most compatible business arrangements. This means presenting your skills and assets in the best light and to the right sort of people; understanding what others might be looking for and, ultimately, making a good choice about who to work with. In practical terms this involves two things:

1. Putting the word out

Be strategic. It is important to balance the need to get exposure to lots of people against selectively getting in touch with the best people, with the best credentials. Possible avenues are likely to be:

- **Personal and professional networks** - Do you, a colleague or a local agent know someone, or who can spread the word? This approach can give you access to recommendations and intelligence at little cost.
- Attend discussion or business groups to increase your network and seek out opportunities for collaboration near you.
- **The media** - Adverts in the farming press or in a newspaper, but now more likely to involve posts on social media, so update personal profiles on sites such as LinkedIn and follow online discussion forums. Opportunities may also be promoted to the media as news stories in themselves.
- **Brokers** - There is a wide range of professional and voluntary organisations who may know of potential collaborators. Examples might include firms of rural surveyors and valuers, agricultural colleges or organisations such as the Fresh Start Land Enterprise Centre (England). Other industry membership organisations (such as NAAC, NFU, CLA, TFA, NFYFC) may also be able to assist in this area.

Equivalents are available in the devolved nations.

2. Choosing

Ideally you will be in a position to compare several options before making a choice. Our advice is to be both methodical and to use your instincts:

- Initial contact by phone, or video call to start the general conversations.
- Meet, at least once onsite where the business model will be delivered. The need for the parties involved to meet in person is essential at the site of the land or business owner or even the other way around. This can create revealing and different conversations. They also help emphasise the two-way nature of a typical, successful land business arrangement.
- Use a checklist and think through these areas:
  - Practicalities – could it work?
  - Personalities – will you get on?
  - Circumstances – evaluate the timing, does it seem especially good, or perhaps not so good?
- Be clear about your needs and goals and avoid wishful thinking. Honesty and respect on both sides is a must. If you have nagging concerns, flush them out and address them now. Whatever the outcome, it's better to know.

Creating a good impression

Here are some areas where landowners can help applicants make the most of what they've got to offer.

- **Invite informal expressions of interest early in the process**
- **Actively seek out new entrants using local networks, young farmers groups and colleges**
- **Understand their own underlying requirements to ensure a balanced agreement**
- **Make it clear what will be expected every step of the way**
- **If appropriate, is there an opportunity for mentoring, to pass on experience?**
- **Encourage applicants to take professional advice to provide an independent reality check for their budgets and plans**

Top 10 things

That landowners are looking for:

1. **Realistic business ideas or people to work with a new business idea** - The landowner has a financial interest in the business doing well, so drive and enthusiasm have to be backed up with a robust business case. It's essential for a farming entrepreneur to have written a detailed business plan and have a full understanding of your plan content and the figures contained in it. Get advice, test your own ideas and develop your approach.
2. **Professionalism** - They need to be confident that compliance issues, contractual commitments and the day-to-day business will be managed competently.
3. **Commitment** - They want good people who are committed to the length of the term agreed; a high turnover of tenants or business partners outside of agreed terms is expensive, time consuming and risky.
4. **Clear communication** - Is important in all working relationships, all the time.
5. **Practical proficiency** - Is critical for the day-to-day running of any land-based business and a good farming entrepreneur will be seen as an asset to have around.
6. **Drive and confidence** - To see the plan through and aim to establish resilient business models.
7. **A positive mindset** - Making a living from the land can be hard and even the best business relationships have frustrations, so finding people who are solution-focused has value.
8. **A sound financial position** - They need to be confident that start-up costs can be met, and that the business has the creditworthiness to invest and grow. Evidence of access to capital or a financial portfolio from previous investment and business will be beneficial.
9. **Shared values** - While the new enterprise needn't be exactly what the landowner would do, it should fit and respect their business ethos.
10. **Somebody they get on with** - Farm communities often involve working and living in close proximity. Finding people who respect the existing community culture.

That farming entrepreneurs are looking for:

1. **A fair deal** - They might be betting their future on this, so a solid and transparent deal will be important.
2. **Stability** - They will need to put a great deal of commitment into their new business, so they need to feel confident that circumstances are fairly stable.
3. **A can-do approach to problem-solving** - The practical capacity to react, solve, move on is priceless.
4. **Clarity and consistency** - Is important to both. It saves time and builds trust.
5. **The right infrastructure** - Can they run their business from the property?
6. **Access to markets** - Are there established routes to market, promising leads or favourable local demographics? Is passing trade important to their business and if so, does it exist?
7. **Space to develop** - In terms of physical space, business growth and scope – will they have the freedom to adapt and grow as they go along, if they want to?
8. **Opportunities for collaboration** - It may be marketing, logistics or machinery. The existence of complementary enterprises, open to working together, can be attractive to a start-up which has yet to build its capacity.
9. **Experience** - Some will value the advice and perspectives of an experienced mentor, this may be another farmer or other established businesses.
10. **Encouragement** - Is welcome if it is optimistic and emboldening.

Remember

All parties in a collaboration/joint venture need to benefit. There will be risks on both sides to consider but talking through and creating the right agreement should help minimise these for all involved. Talking, reviewing and creating a sound working relationship is absolutely key.

Step 3

Creating a balanced agreement

Once landowners and farming entrepreneurs have agreed to work together they need to define a business relationship that will last.

A new business relationship involves a significant investment of time, energy, money and goodwill.

When this stage is reached both parties will have a clear idea of their own interests and objectives. And there is a requirement to develop a genuine understanding of, and respect for, each other's interests. This will help to spot synergies and potential conflicts early on so they can be built on or managed constructively as needed. It will also help avoid misunderstandings that often result from preconceived ideas and ready-made assumptions. This is a two-way process and is a crucial step towards building trust and developing the insight needed to form strong relationships.

To enable creativity, at this stage it is important to keep options open and not become too focused on a particular outcome or predetermined solutions.

The better the understanding of each other's needs, the more imaginative the exploration of ways to meet them. This requires a transparent and flexible approach and a willingness to address issues and opportunities together, side by side rather than in opposition across a negotiating table.

To create really positive relationships, it is in both parties' interests to help solve the other's problems and to look for mutual gains. Some things that might be of low cost to one might be of high value to the other. Identifying such opportunities can be liberating.

Successful arrangements will not be founded on hard bargaining or one party getting a good deal at the other's expense. One-sided agreements will be weak, will harbour resentments and be prone to disputes or early breakdown.

It is fine for both landowner and farming entrepreneur to hold on passionately to their interests, but positive relationships are about striking the right balance and being open-minded about the best way to meet respective interests. The relationship formed must be reliable and able to continue through the challenges that all farming businesses face.

Enlightened professional advisers or agents working to a suitable brief can facilitate the whole process.

Thinking about risk

Attitudes to risk, and perceptions of risk, have a strong influence on decision making. In general, it is natural for us to perceive activities we are familiar with as being safer than things that are new. But any business, whether long-established or an untried start-up, is exposed to risk.

And in uncertain times taking a chance on the new might just pay off against holding fast to an old business model.

So, it is important to make an even-handed assessment of risk. Some risks will be familiar – internal to the business or capable of being managed, such as the diversity of income, legal compliance or breadth of the customer base.

Others will be external and less controllable, such as input and commodity costs, the weather, the impact of new agricultural and other policies and introduction of new environmental schemes. Some will be difficult to gauge, such as those from novel enterprises, young entrepreneurs or untested plans. But that doesn't mean they are not worth taking.

Both parties should examine their appetite for risk and should plan for uncertainty proactively. The development of new businesses will introduce new risks; but the opportunity to diversify, integrate systems and perhaps reduce off-farm inputs may offset others.

This approach encourages a more flexible use of agreements, tailoring contractual responsibilities to suit individual circumstances and the varying levels of control required by each party.

More details of legal agreements and business model structures can be found in step 4.

Defining the business arrangement: things to consider

Defining the relationship
It is crucial to spend adequate time on Step 3. If full and frank conversations are not carried out at this stage, then the potential for problems to arise further down the line pre or post legal agreement is far more likely.

The following should be things to consider within these discussions and be well defined before seeking a legal structure and getting professional help to draw up any agreements if required.

- Ways of working need to be correct for all parties involved.
- What land, buildings, machinery or livestock are involved?
- How long does the agreement need to be?
- Who provides capital?
- What services are available?
- What help and support might the business need?
- How much control does the owner/farmer business want to retain?
- What is the basis, frequency and proportion of payment and how often should it be reviewed?
- What degree of risk is each party prepared to take?
- What happens at the end - who will own what, how are improvements made during the agreement paid for, what will be left behind?
- How will any losses be handled?

If all parties involved agree on the structure or business model they feel will work, then do be clear in your instructions on what you are aiming to achieve when discussing this with other professionals such as accountants and solicitors in Step 4.

Step 4

Selecting a legal framework

Practicalities and terms defined, it's time to agree the right legal framework.

Once the landowner and farming entrepreneur have thoroughly defined their business relationship, they are in a strong position to start thinking about appropriate business models and the appropriate legal frameworks with which to formalise their agreement.

In broad terms, the legal options exist along a spectrum of control: from landowners retaining full control at one end, to farming entrepreneurs taking progressively more control towards the other end, as illustrated on the next page.

Increasingly, there are also a range of other business models that help the business bring in access to certain commodities, share a market outlet or deliver by one of several community models that are now available.

By collating this information and building a working relationship within any business model before briefing your lawyers/agents/professional advisers, then you are more likely to achieve a legal framework which serves your purposes. You are also likely to save money: the clearer the brief, the more cost-effective the legal process will be.

Some other considerations

One of the most important things to consider when selecting your business model, is the degree of flexibility you may require in agreement type and length. It may be worth considering starting off with an easier short term agreement such as a contracting or grazing licence whilst you establish new working relationships and build up business resilience. If these models develop well, then perhaps share farming or a tenancy may be the next stage. Don't be afraid to use a stepped approach to reach your business model goals.

Getting the legal framework right is imperative but it must work with all the parties involved. The range of legal agreements outlined over the next few pages are all well established and recognised within the agricultural and horticultural sectors, but often have far more versatility within them than many people realise.

The professionals supporting the industry will have good knowledge of each model type, but some may have been more involved than others with certain business models e.g. share farming. Do your research and ensure good communications with your professional advisers at all times as this will make for a far better outcome. If you are looking at a different business model type and are uncertain how it works in practice, do try to speak to or even better visit other farmers that are operating with that particular business model. This can provide you with additional information which can help you with your final decision making.

Selecting your business model

Checklist

- **Read through the various business model types before shortlisting those that might be of interest.**
- **Consider the benefits and risks for all parties.**
- **Engage professional help such as lawyers and accountants when sorting the finer details or any agreement.**
- **Ensure you have a plan of review once the business model is up and running at agreed times.**

Other things to think about when selecting your business model

Payment Schemes

There are an array of Government and external payment schemes available, and these are currently changing. Depending on the type of business model you choose, you will need to ask question if you have access to these schemes and if you are responsible (or have agreed authority) to deliver any of the allocated actions under any agreements. These discussions need to be clear to all involved as it could impact upon the workload and outcomes for the business/es.

For the most up to date information on Government schemes go to the **Defra website**. Any external private schemes will need to be reviewed on a case to case basis.

Finance

Many business models will require some kind of finance, be it from banks, other (agricultural) financiers or even family - the amount of finance and the sourcing of funds should be explored and established after writing a full business plan which will set out the business model and its potential delivery. A well written business plan by those involved can create the anchor to any business and can then be adapted to the various requirements of different financiers. You will also feel more empowered to make critical decisions around your business.

Legal Briefing

Having legal support and achieving final documentation for any agreement is essential. This lays out clearly the terms and conditions. Good agreements once finalised can normally sit in the background to the main day to day business as a reference point for discussion or review but will also be vitally important if any dispute arises.

Legal Checklist

- The terms and conditions are clear and agreed at the outset thereby reducing the time and cost of documenting the arrangements.
- The potential for future dispute should be reduced.

The landowner and entrepreneur should, however, sense check the proposed arrangements with their professional advisers before finalising the agreement. Points to look out for include:

- Agricultural Property Relief (and Business Property Relief) can provide significant Inheritance Tax savings to landowners. A landowner should check that the proposed arrangement will not prejudice his or her estate receiving such tax relief. If it will, can the agreement be structured so that it does not?
- It is important to have a clear understanding of whether the farming entrepreneur's proposed use of the land/buildings qualifies as an agricultural use from a legal and planning perspective. The law's definition of what constitutes agriculture is not the same in every context. Whether the proposed activity is deemed to be agricultural or not can make a big difference for taxation and Town and Country Planning purposes. It will also influence the most appropriate form of tenancy agreement to be used.
- Even if there are no plans to make physical changes to the land or buildings Planning Permission may still be required. The land entrepreneur's new business could, in itself, constitute a change of use in the eyes of the Planning Authority.
- If the land is subject to an agri-environment scheme the landowner will need to make sure that the requirements are not breached by the intended use. Criteria necessary to maintain any ongoing payments will also need to be met. Penalties for non-compliance can include reduction or loss of future annual payments or possibly the repayment of money already received.
- Be aware that statutory requirements often import rights and obligations into contractual arrangements. Any agreement reached by both landowner and entrepreneur may be subject to rights and obligations imposed by law. This is particularly true for tenancies.

Contract Farming

Where a farmer instructs a contractor to undertake the practical operations and management of a crop or other enterprise within the farmer's stated policies and for the farmer's business.

Their roles and operations are defined by the contract between farmer and the contractor.

The crop or other produce is the farmer's with the contractor providing labour, machinery and any other services specified on an agreed basis for remuneration.

- Governed only by the law of contract, farming with contractors is a very flexible model that could be for as little as a single operation or as much as the complete enterprise or farm management considered here.
- The instructing farmer is and remains the responsible person with financial risk from the outcome of farming and so liable for compliance and records.
- The contractor is a supplier of services to the farmer. **NB** - Without that relationship, it could be found to be a tenancy, a partnership or employment.
- The contractor's role is defined by the contract and has access to the land by the farmer's permission (licence).
- A good working relationship and liaison between the two parties is essential to make this work, aided by prior agreement on expectations and responsibilities from mud on the road to the supply of inputs.
- Many remuneration arrangements for whole enterprise contracts have separate accounts kept with a division of the profit or loss between the parties.
- At enterprise level, it is better suited for combinable cropping or production of progeny or milk from livestock than where the identity of the producer matters. **NB** – As a business relationship, both should be able to profit from it, with the contractor practical in pricing and the farmer realistic about what is sustainable for the contractor.

Tax

- The two businesses remain separate and independent, with each recording their income and costs to calculate the taxable profits as appropriate.
- The farmer, by continuing a farming business with risk and responsibility for positive husbandry of his land (and where relevant livestock), can continue to qualify for farming and business status for tax purposes. The instructing farmer retains risk and responsibility for the business; attempts to avoid that can prejudice the status of the business for tax and other purposes.
- The contractor's buildings could be exempt from business rates if solely used for agriculture.

Benefits of this model

For the Farmer

- To have the benefit of the contractor's labour, machinery, skill and commercial approach while minimising new investment in machinery.
- Many farms prefer having a contractor to reinvesting in expensive or specialised machinery and having a good relationship on a sustainably priced basis can give long term value.
- The contractor can manage one enterprise (e.g. combinable crops) or an aspect of an enterprise while the farmer manages another.
- To remain as a farmer with all the risk and involvement in the farming business. If that is not acceptable, a different arrangement is needed.

For the Contractor

- It is a commercial way to focus on farming professionally, whether primarily a farmer or a contractor without carrying the cost of the land in question.
- It provides a larger volume of work and income to help carry the costs of machinery and labour provided the contactor prices this on a sustainable basis, aware of risks as well as hopes.
- A contractor can have several agreements with different farmers at the same time and while being the farmer on the contractor's own land.
- A contract done well will help win others.

Grazing Licence

A licence is a permission to do something that would otherwise not be allowed. Here a licence to graze is a permission given by a landowner to an owner of animals to enter onto land to graze for a permitted period typically, but not necessarily, just a grazing season. It gives no other rights or powers over the land unless they too are permitted in the agreement (or additional agreement) and does not exclude the landowner from the land.
NB - Access to land for contractors, partners and others is also granted by a licence. If exclusive possession is given with control over land, the arrangement might be seen as a tenancy with different consequences.

- Grazing licences are also known as grass lets and grass parks/grass keep.
- They will typically grant access to the land for defined period to take the grass by grazing with limits on numbers, requirements to avoid poaching the land and other rules.
- With issues involved, a licence should be recorded in writing (CAAV, CLA and NFU all provide models) with the rules followed in practice.
- A mowing licence gives the power to enter the land to cut and take grass, usually to conserve as silage or hay but now perhaps also for anaerobic digestion.
- If the permission given is simply for grazing or mowing the land:
  - the grazier has no authority for any action other than grazing or mowing and is responsible for the animals, their welfare and movement recording and other issues
  - it will be for the landowner to manage the crop of grass so that it can be grazed or mown and so handle fertilising, spraying and other husbandry.
- That would usually keep the land at the disposal of the landowner for Basic Payment.
- Granting other powers of management to the livestock owner could lead to it being a different arrangement such as a tenancy with consequences for support schemes, tax and other matters such as Nitrogen Vulnerable Zone (NVZ) rules.
- The landowner remains responsible for maintenance of boundaries, gates, drainage and other fixed equipment; if these are inadequate the grazier might use electric fencing to keep animals in.
- The land remains the landowners for NVZ records – this and other regulatory points requires co-operation between the parties.
- Water might be available and could be included in the agreement or might be charged for.

Tax

- A sale of grass is subject to VAT at a zero rate.
- If the licence is only for the sale and taking of grass grown under care of the landowner, the grazing fee would be farming income for Income Tax.
- Where the crop of grass is managed by the owner and the grazing let seasonally, the land is then typically used by the owner for the purposes of agriculture and business property reliefs for Inheritance Tax and for business for Capital Gains Tax reliefs.

If the grazier takes more control of the husbandry of the grass, the arrangement might be seen as a tenancy and so change its treatment for both tax and support payments.

Benefits of this model

For the Grazier/Mower

- To be able to take extra grass and so support more animals, whether easing pressure at home or growing the business.
- Paying simply for that access, usually with no commitment beyond the season licence.
- Relationships often continue for many seasons.

For the Landowner

- To retain farming use of pasture without owning or being responsible for animals.
- Having an income according to the market for grass that season.
- Having the benefits of that grazing for managing the land.
- Where only grazing/mowing is permitted, retaining farming occupation for tax and support payment purposes.

Share Farming

Where a landowner and a farmer operator run separate farming businesses on the same land with the landowner providing and looking after the property and the operator undertaking the farming. They agree to share a common gross output from the farming of the land divided between them on an agreed basis with each having the exposure to risk that that may give. Each business carries its own costs (some perhaps apportioned between them).

That shared interest in the gross output from crops, milk, livestock or other produce should see mutual discussion of and agreement on farming policy and requires each party to have an empathy with the other.

- A business agreement between landowner and operator.
- This relies on a good and understanding relationship between them.
- A farming and land management policy should be discussed, agreed and regularly reviewed by them, with a willingness to revise it when circumstances require.
- The operator is on the land by the permission (licence) of the landowner with only the rights given by that permission.
- The operator carries all the direct costs of farming and the landowner carries the property costs of the land and buildings; some costs may be apportioned between them.
- The gross farming output (such as sales of produce) is split between them.
- Each keeps their own accounts and calculates their own profit or loss.
- The operator, in particular, needs to be clear that the split properly recognises the costs of farming and hope of profit.
- Farming liability and record keeping would typically lie with the operator.

Tax

- The operator has an independent farming business assessed to tax in the usual way.
- Where the landowner is seen to be farming, the income may count as farming income for Income Tax. For Inheritance Tax, the land would typically qualify for Agricultural Property Relief (APR) and may also count towards Business Property Relief (BPR). Where the landowner is farming, their house might qualify as a farm house for APR on meeting the required tests.

Benefits of this model

For the Operator

- Access to farming land without paying for it with the chance to build capital.
- An opportunity to develop and show farming skills to seek more opportunities, sometimes drawing on the experience of the landowner.
- Where the split of gross output offers a realistic profit.

For the Landowner

- Means remaining in legal occupation of the land.
- An opportunity to be involved in a farming business using the land.
- With income as share of gross output, it will always be positive.
- Where possible, the potential opportunity to mentor and share knowledge and experience with a new operator.

Joint Ventures

Where two or more people usually all farmers, whether owners or tenants,(but could be one or more farmers and landowners) form a joint venture to undertake farming of some or all of their land between them.

The joint venture, whether a company or partnership (including an Limited Liability Partnership (LLP)), then typically farms the land on a licence. The land is not an asset of the joint venture.

When between farmers, this model can allow the more efficient use of machinery, livestock, labour, skills and management across the land than they would each achieve separately and they can divide responsibilities between them.

It can also be used as a vehicle between a landowner willing to be active in farming and a new or progressing farmer to have a joint operation to the benefit of both and in which the latter can build experience and capital.

- Governed only by the law of contract, this is a flexible model that could be for some or all of the farming of the parties.
- The business relationship between the parties should be discussed agreed and recorded, with what each of them is to contribute and do and how the rewards are to be allocated (as by shares in the partnership or company and any salaries).
- Agreement will be needed on the initial financing, how it might be brought to an end and what is then to happen.
- Each party can have responsibility for a separate role, whether for particular operations or business functions.
- The farming joint venture is then a separate business from any other activities of those involved.
- As with any other business it can adapt as circumstances change and those involved can agree.

Tax

- Where the operation is as a company it would be taxed on its profits and losses in its own right.
- Where the operation is a partnership, a separate partnership tax return is needed while each partner is taxed on their share of any profits.
- The participants' drawings, dividends or salaries would be taxed as appropriate.
- The land of participating landowners used by the joint venture would typically qualify for APR. Where the farming is done from their dwellings they might be farmhouses for APR. The position for BPR would depend on the facts.

Benefits of this model

For the Participants

- Where there are willing parties able to work together.
- Access to a larger business than each could achieve on their own.
- Giving efficiencies of overhead costs and potential buying power for inputs.
- Allowing each a role in that business which can recognise other inputs such as management – so the benefits of specialisation as well as cooperation.

For the Landowners

- Remaining in legal occupation of the land.
- Not needing to commit all land or farming to the ventures.
- Supporting the effective farming of the land.
- Access to working with new people and other skill sets which can help business development and innovation.

Partnerships

A partnership is an association of "persons carrying on a business in common with a view of profit" (Partnership Act 1890). The partners contribute to the partnership as they agree, divide profits and losses between them on an agreed basis and are jointly liable for the debts of the partnership. With unlimited liability, a partnership does not issue public accounts.

Within the framework of the 1890 Act, the partners' responsibilities and rights will be defined by the agreement or the PA itself as a default if the agreement is silent on the matter.

A **Limited Partnership** (1907 Act) includes a partner whose liability in the partnership is limited but with management control equally limited.

A **Limited Liability Partnership** (2000 Act) limits the partners' liability to third parties, and is registered with Companies House and files accounts in the same way as a limited company. This is possibly more important for activities with larger risks like food processing.

- It is important to have a written partnership agreement defining the business, the partners, their rights and obligations, what assets are included in it and how it might be ended, including whether the partnership is to continue after a partner's death.
- Each partner's contribution should be recorded with any changes in them shown in the accounts which may be evidence of how the partnership has been conducted
- A farming partnership does not have to include any rights in the land to be farmed but can simply have a licence to farm the land of one or more partners.
- Where land is rented, the tenants would be the partners at the time, not the partnership as it might change.
- A farming partnership would usually be the claimant or agreement holder for official schemes.
- The partnership business with its income and costs has a common set of accounts with overall profit or loss for each period.
- Each partner will have a defined share in that profit or loss.
- Any profit may be left in the partnership or taken as drawings to be income for a partner.
- Partners are jointly and severally liable for the debts of the partnership.

Tax

- While the partnership is to make its own tax return, each member is self-employed and liable for their own tax return and tax payment assessed on their position with opportunities for averaging.
- There are limits on loss reliefs where a partner does less than 10 hours a week.
- The agricultural land used by the partnership remains eligible for Agricultural Property Relief (APR) but Business Property Relief (BPR) may be limited. The qualification of a house as a farmhouse for APR would be a matter of the facts.

Benefits of this model

For the Partners

- In farming, a partnership is most often used in a family context involving family members in the business and a versatile means to ease succession, with adjustment of partnership shares.
- It can be used to involve people with particular skills, resources or experience needed for a business venture, especially as it need not give any rights in the land, offering management responsibility, risk and the hope of reward.
- It is more private than a company.

For the Landowner

- A partnership can ensure continuity in the business farming the land, a phased approach to succession or introducing new skills while remaining fully in business as a farmer.

Companies

Using a limited company gives a business structure that can trade with its own legal identity and with a capped liability to third parties doing business with it, protecting those involved in the company. It is owned by shareholders (sometimes just one) who put capital (equity) into the business and is managed by directors, appointee by the shareholders who can also vote to dissolve the company.

With its protected position, the Companies Acts provide a legal framework including registration and lodging of accounts with Companies House and requiring the company to make its status clear and keep records.

Other types of company such as a **company limited by guarantee** or a **community interest company** can be used to provide not-for-profit structures or serve community purposes.

- A company can be a distinct farming business which need not (but could) own or rent the land it farms.
- Its ownership structure with shares gives a flexible way to involve family members and others without them needing to have a management role.
- The transfer of shares can transfer ownership or control of the company without changing the identity of the company.
- Its management structure can involve some or all shareholders as directors and equally have non-shareholders as directors with management or other skills.
- Shareholders need to understand that a company is a separate legal entity with its own accounts and decision processes; its money and resources are not theirs to use readily at will but have tax and other consequences.
- There are responsibilities in being a director.
- Separate accounts, records and Companies House public information must be kept up to date.

Tax

- A company is taxed under Corporation Tax.
- The returns to individual shareholders (dividends) and directors (salaries) follow their tax status.
- Directors will be taxed on benefits in kind (especially any housing) they have from the company.
- Where a company sells an asset to return funds to shareholders, there will be Corporation Tax on any gain and then the shareholder will be taxed on the receipt.
- Where a company owns housing it can be liable to the Annual Tax on Enveloped Dwellings but many farming situations can be relieved.

Benefits of this model

For the Participants

- To have a means to farm that is ring-fenced from other businesses (and if just for farming operations can be independent of the land).
- It can provide a means for businesses to work together in a joint venture.
- Share ownership can give risk and reward to those running the business.
- Limited liability can matter where there is particular exposure to risk (but lenders and others can still ask for personal guarantees).
- Where the business is likely to have continuing value independent of a key participant.
- Share ownership is not limited to those involved in the business so can be open to other family members or investors.

For the Landowner

- A company can ensure continuity in the business farming the land, a phased approach to succession or introducing new skills or finance. Where wanted, it allows direct business management to be separated from land or business ownership.

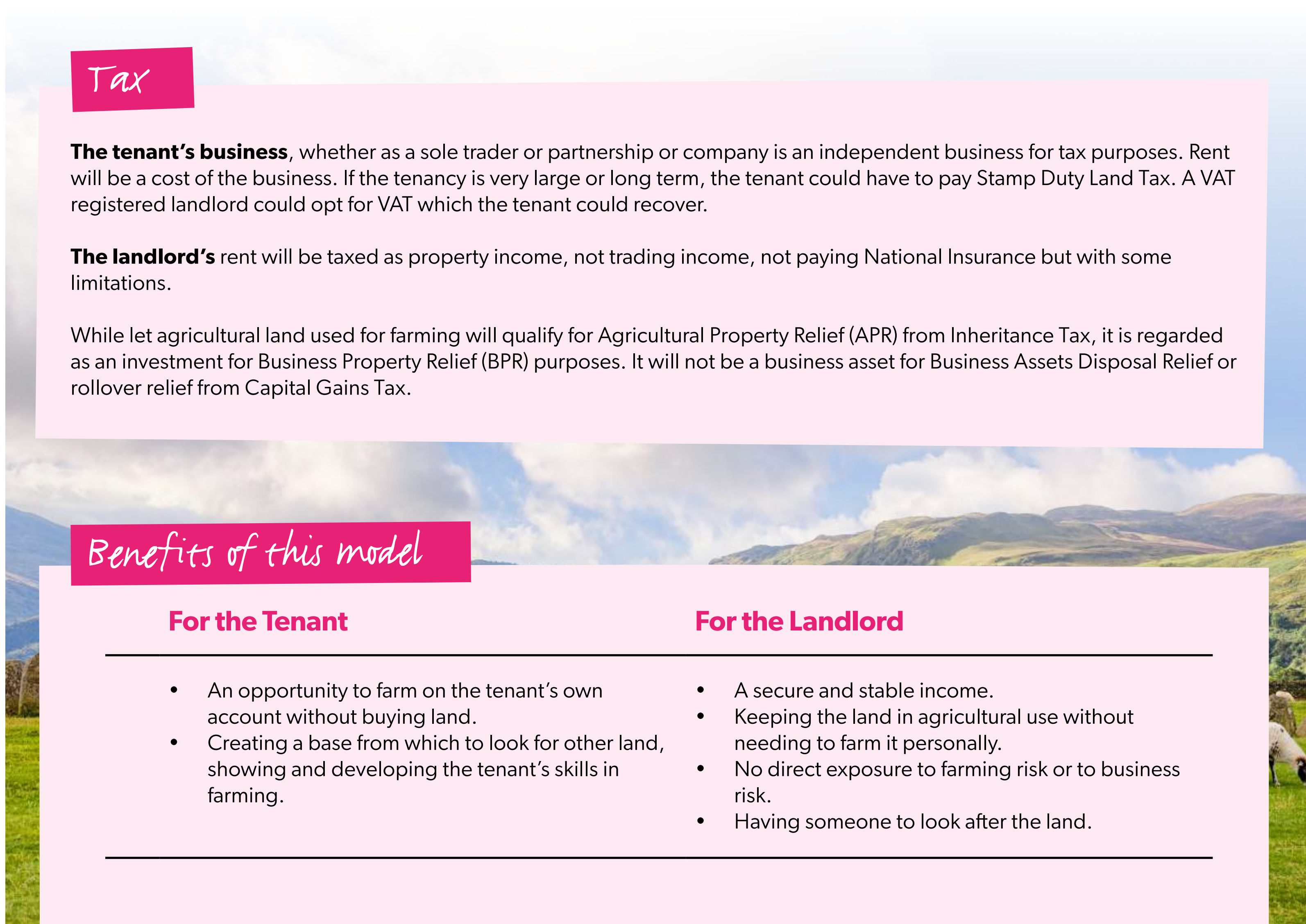
Tenancies

Where a landowner lets land (arable or pasture) or buildings to someone to farm in exchange for rent.

The tenant, operating as an independent business, has control of the land and how it is used except where limited by the tenancy agreement. The tenant typically has maintenance and other responsibilities.

New tenancies in England will be Farm Business Tenancies (FBTs) under the Agricultural Tenancies Act 1995 with much freedom of contract within a basic framework for rent review, tenant's investment and dispute resolution. An FBT can be for any fixed term or can run on a periodic basis (as from year to year).

- A tenant pays rent for occupation of land and/or buildings.
- The tenant runs an independent business needing the skills and finance for that.
- The tenancy could but might not include a house.
- The rights and obligations of the tenant and landlord should be set out in a tenancy agreement, making it important to ensure that it is relevant and fair from the start, considering all practical issues.
- Understand how long the tenancy is to be for, how it could be ended within that set period and what is to happen on its end.
- Judge the rent that is fair between the parties, attractive and sustainable for the opportunities and risks of the tenancy.



Tax

The tenant's business, whether as a sole trader or partnership or company is an independent business for tax purposes. Rent will be a cost of the business. If the tenancy is very large or long term, the tenant could have to pay Stamp Duty Land Tax. A VAT registered landlord could opt for VAT which the tenant could recover.

The landlord's rent will be taxed as property income, not trading income, not paying National Insurance but with some limitations.

While let agricultural land used for farming will qualify for Agricultural Property Relief (APR) from Inheritance Tax, it is regarded as an investment for Business Property Relief (BPR) purposes. It will not be a business asset for Business Assets Disposal Relief or rollover relief from Capital Gains Tax.

Benefits of this model

For the Tenant

- An opportunity to farm on the tenant's own account without buying land.
- Creating a base from which to look for other land, showing and developing the tenant's skills in farming.

For the Landlord

- A secure and stable income.
- Keeping the land in agricultural use without needing to farm it personally.
- No direct exposure to farming risk or to business risk.
- Having someone to look after the land.

Community Models & Land Trusts

These can be considered where a wider group of people, such as a local community or a group, whether as individuals or a council or other body, interested in a particular project for land participate in ensuring its farming. This might be for local purposes, to support a form of production, heritage or other reason.

While typically retaining someone to do the farming in accordance with the objectives, this model could also see such a group require access to land from a sympathetic landowner. This can use structures such as:

- Community Interest Company, a separate body.
- Charitable company, a separate body.
- Trust, with trustees responsible for it.
- Industrial and Provident Society (a mutual framework acting for its members).

In some cases, the agreement will provide for distribution of produce to members who have provided money for the operation.

- Model may develop not purely for commercial reasons, but it still requires competent farming and management.
- They bring wider resources and engagement to help a project be established or continue.
- There can be any number of people involved.
- It will need clear written rules for who is involved, how it is funded and decision making.
- It will need to be able to comply with the law and good practice for whichever structure is adopted, requiring arrangements for necessary administration.
- There may be a need or opportunity for volunteers.

Tax

- The tax treatment will follow the structure chosen.
- Where recognised as a charitable or not for profit enterprise, Income Tax and Corporation Tax will not normally apply to the core activity.
- According to scale, VAT will apply but most agricultural produce is zero rated.
- If it is structured as a mutual operation, transactions with and services to members will not give rise to Corporation Tax but losses will not be a trade loss; that structure excludes capital allowances. Other activities (such as with non-members or where it buys produce from members) would be subject to Corporation Tax.

Benefits of this model

For the People Involved

- To have the means to give effect to a wider objective and have land farmed and managed in ways sympathetic with the objective.
- To protect or retain a local property.
- To maintain a part of the landscape or a local heritage property, as for traditional orchards.
- To ensure a particular method of production or approach to farming.
- To provide education or training, as for agricultural, landscape, environmental or social matters.
- To support social objectives, as for disadvantaged children, wellbeing and access.
- To enable wider access to nature.
- To give local people or those involved a sense of ownership in the project. In some cases, produce may be available to them.

For the Landowner

- It gives access to land and the wider resources that may be available.
- Where the farmer and the organisation share objectives.
- The possible marketing opportunities it may offer for produce.
- Ancillary activities that may help with income or promotion.

Co-operatives & Machinery Sharing

A cooperative is simply a venture in which farmers pool resources achieving scale and efficiency, whether to:

- supply services (such as buying, marketing, advice, machinery, haulage or credit) to members; or
- farm jointly

with the aim of maximising benefits for members rather than specifically for the business. An intermediate option sees some farming operations provided to its members by the cooperative.

Machinery rings are often a co-operative of one form or other, making better machinery available than could be afforded individually or which would only be used irregularly by any one farmer.

Cooperative storage and marketing of grain or other produce can be a cost effective way of managing compliance and marketing.

A joint venture share farming agreement might also be structured as a cooperative.

- Farmers pool resources for the chosen purpose(s) using an association, company, partnership, industrial and provident society (that requiring the cooperative to be the agent of its members) or other structure.
- That can bring a scale larger than any individual member for efficiency in operations or effectiveness in markets.
- There can be any number of participating members.
- The cooperative then acts on behalf of its members and provides services to them (mutual) rather than the market as a whole.
- The members are responsible for the governance but the cooperative can, if members wish, retain specific staff such an agronomist for crops, an engineer for machinery, an auctioneer for a market or a grain seller so bringing expertise into the business.
- It will need a written constitution with rules for joining, funding, decision making and leaving.
- Funding may be by loans form or charges to members as well as by grants or bank borrowing.
- If operating on a mutual model, surpluses not needed to fund operations may be distributed to members, usually in proportion to their activity with the cooperative.

Tax

- The tax treatment will follow the structure chosen.
- Where accepted as mutual trading, transactions with and services to members will not give rise to Corporation Tax but losses will not be a trade loss; that structure excludes capital allowances.
- Other activities (such as with non-members or where it buys produce from members) would be subject to Corporation Tax.
- Recurrent charges to members can be tax deductible for them; the initial charge and loans are not.
- Buildings used by the cooperative in conjunction with its members' agricultural use of land can benefit from the agricultural exemption from business rates.

Benefits of this model

- To achieve a capability that the farmer could not readily have as an individual.
- The cooperative's scale could provide specialist resources from machinery or silage making to buying inputs or selling grain or milk.
- It could provide access to retained specialist advice, such as from an agronomist or vet or for compliance.
- It could handle downstream processing for members such as for milk on behalf of a number of dairy farmer members or cold storage and packing for fruit growers.

Step 5

Thinking long term

Allowing the collaboration to adapt as the business evolves.

Adopting an approach based on trust, openness and a balanced agreement that genuinely respects both parties' interests will immediately multiply the chances of success. But rural businesses operate in a dynamic environment – markets for products and services come and go, standards and legislation evolve, consumer expectations change, technology moves on, experience grows, and new skills are developed.

All of this means that if the business arrangements are to be effective in the long term they have to be prepared to adapt and change so that they can absorb pressures and be open to new opportunities.

Above all, it is vital to maintain goodwill in the relationship and to recognise the value of this in financial negotiations. All too many land and business relationships start off well, with optimism and good intentions, only to falter when it comes to reviewing the business, especially around the financial side of things. Getting the right balance of reward is never easy but it is critical to the success of the relationship.

The contribution of both parties must be understood and properly recognised. This does not just mean the financial contribution; it also has to take proper account of the skills, physical effort and emotional contributions that are so important to making the business work.

Some of the important things that help make the relationship last will include:

- An open and frank relationship that builds and maintains trust.
- Common objectives – understanding and respecting each other's interests.
- Ensure regular dialogue throughout the agreement and not just leaving it until the official review date. This could be weekly, monthly, six monthly depending on the business model type, but the more regular the conversations the better the collaboration.
- Keep notes of suggestions, ideas and requests which may lead to any alteration of the agreement longer term.
- Flexibility – being open to new ideas.
- Willingness to learn from experience.
- Recognising and valuing interdependence – sharing problems.

Important things that help make the relationship last:

• An open and frank relationship that builds and maintains trust.

• Common objectives – understanding and respecting each other's interests.

• Regular dialogue and review – not just at rent reviews.

• Flexibility – being open to new ideas.

• Willingness to learn from experience.

• Recognising and valuing interdependence – sharing problems.

More than one agreement

An agreement will often be a one-off deal, for a single plot of land or business agreement, but as this approach starts to be used in more agreements. Two options can be seen below:

Option 1

Farming entrepreneurs with more than one agreement

This is starting to be seen more and more where a set of complementary agreements come together to benefit the entrepreneur's business as a whole, building a portfolio and maybe even involving several different landowners. For example, someone may start off with a grazing licence, then extend this with a joint venture and perhaps later on join it with a tenancy. There can be huge scope for an entrepreneur to expand their business significantly by working with a range of landowners, but you should consider the following:

- Start off with one agreement and ensure you can work and manage it well before embarking on new ventures.
- If you do consider adding other agreements, do you have enough time and finances to give it full commitment?
- Be honest with yourself – do they really fit with your business plan as whole? Analyse each one with its strengths and weaknesses. Seek additional advice if you need it.
- If you are already in an agreement, should you, out of goodwill and respect, talk through and inform the other parties even if they are not involved directly with the new agreements?
- Have you informed the other party to the new agreement of your other enterprises?
- Don't run the risk of your original agreements failing through lack of input and communication.
- Review your business regularly and make sure you have the right combination of agreements. As a business grows you may need to change the balance of them.
- A mix of agreements could spread your costs, risks and overheads more efficiently and increase income and may not always involve land and farming!
- Recognise that some business ventures are start-ups or purposefully time limited so it's not always the case of growing the business by adding and expanding in the same place, it may be necessary to move by ending one business arrangement and starting a new one in order to expand the business.

Option 2

Landowner building a cluster of enterprises

Agreements can also be used progressively to build a community of land enterprises. This significant shift in business model can bring a number of benefits:

- For the landowner it diversifies income streams and builds financial resilience by spreading the risk of failure and income fluctuations across a number of enterprises and business types.
- For all parties it has the potential to extend networks and open up new markets.
- It creates opportunities for collaboration through internal markets for materials, labour and waste products. Or practical cooperation such as sharing machinery or the cost of certification schemes; or by forming marketing syndicates and developing shared brands.

Making it work

For landowners to run more than one collaboration, they will have to take an active and strategic approach.

They will require efficient infrastructure, both practical and administrative; and select the right combination of enterprises and getting them to work well together and consider:

- Consultation - Make sure that existing or incoming businesses are aware of your intention to build a cluster of enterprises; it may well be an attractive prospect.
- System analysis - Think how enterprises might fit together in the future; what they will need, and what they might provide. Select and locate them accordingly.
- Selection criteria - Use them to test proposals to ensure they complement existing businesses.
- Collaborations - Interactions between businesses will happen by simple virtue of proximity. By discussing ideas for businesses to work together can help ensure opportunities are not missed.

This booklet is available to download on partner websites and view at **AHDB** as web content with linked case studies.

Business Models to Unlock Future Farming Potential produced by Fresh Start Land Enterprise Centre CIC

Production of this handbook is only possible due to the input and support from:

FDSC The Food and Drink Sector Council

APTF Agricultural Productivity Task Force

Design by Harriett Steele Graphic Design Ltd & Aquillia Design