

*“Start the conversation,
it’s good to talk”*



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Succession planning

...safeguarding the future of your farm business



#starttheconversation



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This booklet has been published in collaboration with Sian Bushell Associates to help you start your conversation on 'succession planning'. It does not obviate the need to seek professional advice.

Introduction

In an ideal world, the older generation would discuss their plans for the future of the farm business openly with other members of the family, long before the time when such a conversation becomes essential. Sadly that is often not the case, which can have very serious implications for both family and farm.

- The biggest threat to the family farm is within your control
- The biggest threat to the family farm is lack of a robust succession plan

This booklet will help you and your family identify some of the key issues you may need to discuss and consider ahead of planning what should happen to your business if and when your circumstances change. As time passes, everybody's circumstances change.

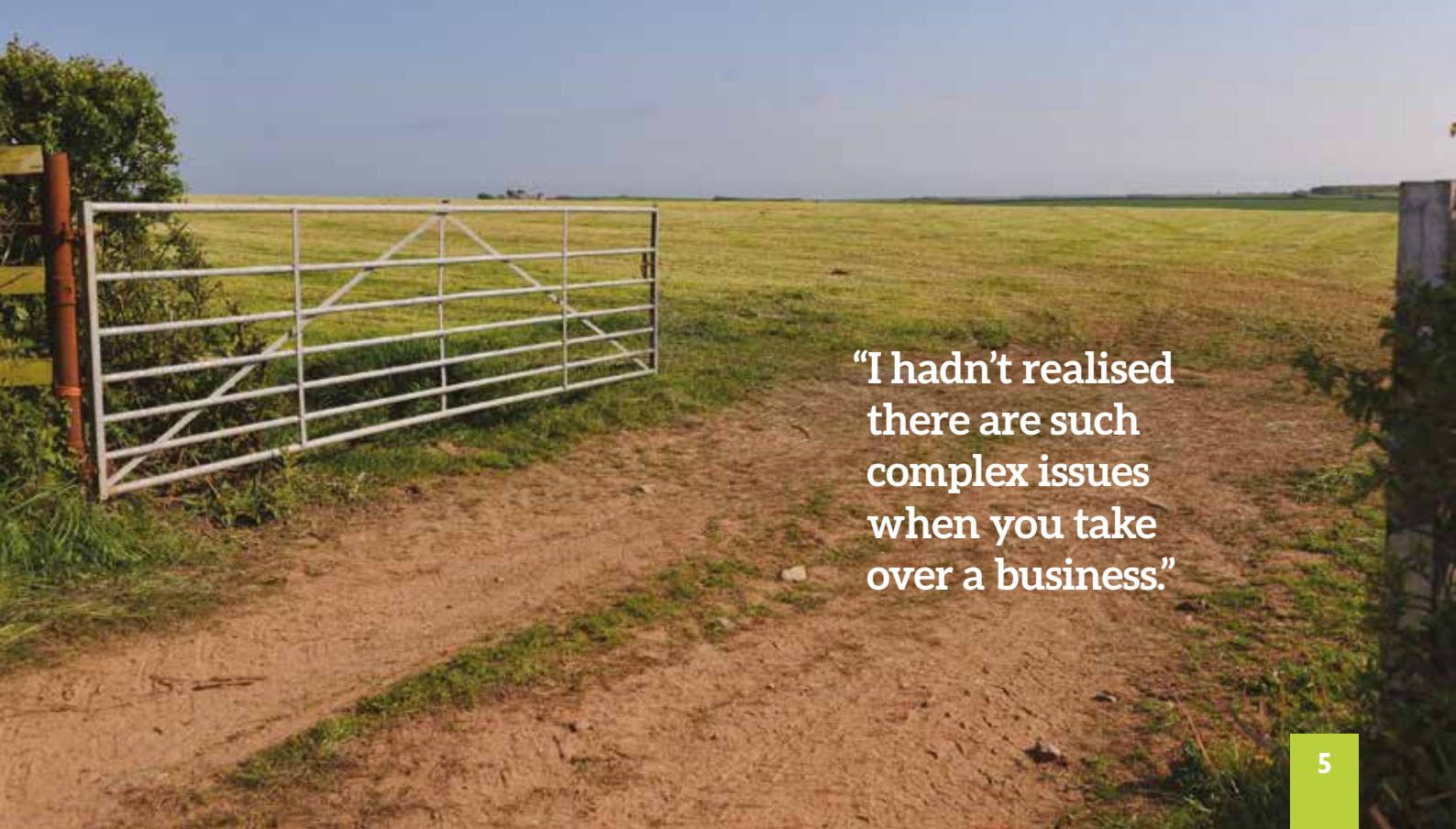
A 'toolkit' at the end of the booklet will enable you to discuss and record the issues pertinent to your business.

Completing the toolkit tasks will:

- help you collate facts, opinions and goals
- provide a useful record which your family can use as a basis for future discussions
- provide a template for a 'succession action plan' which sets out tasks and timelines
- save you valuable time when you discuss your requirements with a mentor and your appointed professional advisers

This booklet cannot cover every eventuality and in no way does it obviate the need for you to instruct professionals such as solicitors, accountants or business consultants. Expert advice will be critical as you plan for the future and consider the needs of both family and farm.

Knowing when and from whom you should seek advice and what support and guidance you can access will help prepare you and your family for those all-important conversations which need to take place.



“I hadn't realised there are such complex issues when you take over a business.”

Start the conversation, it's good to talk

What is succession planning?

It's about the long term plan for your farming business – the facts, goals and the means to achieve the best outcome for all concerned. Put simply, it is more than merely making a will!

Your succession plan will be unique to your business – there is no 'one size fits all' option. Every family is different, every business is different. What will never change is the need for every farming family to consider the future of the business and to plan ahead for different eventualities – the sooner the better!

Why you need it?

The biggest long-term threat to any family farm is the lack of a robust succession plan. The key risks of not having such a plan include for example:

- falling out of family members
- adverse financial consequences /the impact of inheritance tax / capital gains tax
- stress and anxiety, often combined with worry and grief
- loss of home/livelihood for family members
- impact on the family farm if it is sold, carved up or divided

Who needs to be involved?

All members of the family of sufficient age to contribute should be involved in conversations about succession planning. This includes those who are not actively involved in the business or who currently live or earn their livelihood elsewhere.

Don't exclude either the younger or older generation. All opinions matter even though you may not necessarily agree with them. Young farmers are the future lifeblood for many farm businesses and their new, innovative ideas are often transformative. Similarly, don't under-estimate the voice of experience.

Family meetings are a good place to start, but it's important to recognise that you may need an impartial mentor to facilitate such discussions. If there's any risk of discord or of voices or temperatures rising, a skilled mentor should be able to facilitate calm, constructive meetings.



Farming Connect's fully funded and confidential

mentoring programme may be able to match you up with a mentor who has first-hand experience of succession planning.

See Page 10 for further information.

It is essential to seek specialist expertise early on in the process, so the family meeting may become a business meeting. You might consider inviting your appointed solicitor, accountant, or business adviser to attend too. And when appropriate, you may need to speak to your bank manager and/or independent financial adviser.





**“I have learned
the importance
of timing and
planning in
advance.”**

The importance of good communications

When should you start the conversation?

Nobody knows what lies ahead but if you plan for the future now, you can make considered and informed decisions which could lead to the best outcomes – both for family members and the farm business.

If you haven't already discussed succession planning, then set time aside as soon as you can. It won't always be an easy topic, but it is absolutely necessary for all those concerned. It's never too soon to plan for the future.

Informal conversations can often be successfully started in any 'neutral' location where everyone is on an equal footing. Don't let succession planning become the taboo subject which everyone is afraid to mention!

Get the best out of meetings

Take informal family discussions to the next level by inviting those involved to set aside sufficient time for a meeting. Allow plenty of time by setting aside the whole day. Most people underestimate how long these meetings can take and time pressure can result in an unsatisfactory outcome.

Make sure that the time available can be dedicated entirely to

the succession discussion, which means finding a suitable setting, suitable for all and where you won't be interrupted.

Contact everyone who should be invited to participate via whatever means you usually keep in touch, for example phone/text/email etc.

It may help to prepare an agenda or a list of the concerns or issues you need to discuss. Always appoint someone to make notes of what was discussed and circulate these soon after the meeting. *(See Task 8 which lists some of the concerns which may warrant discussion)*

These notes or even verbal 'round table' agreements must not be regarded as legally binding, as parties may need separate representation before committing to any decisions. Professional advice should always be sought.

Openness, honesty and respect

Whether you meet on an informal or formal basis, always encourage openness, honesty and respect.

Encourage each individual to voice their opinions and contribute to the conversation without fear of interruption or criticism. If you involve everyone, including siblings who work away from the farm, and make them feel part of the decision-making

process, you reduce the risk of conflict.

You may not always agree with the points being made, but everyone must feel able to speak freely. Listening gives you the chance to learn and understand. It also gives you the right to reply.

Tackling sensitive issues and navigating your way through challenging discussions

Always try and navigate your way through challenging discussions with sensitivity and respect for all those involved.

Inviting a mentor, facilitator or invited professional to join the conversation may help you prioritise the key issues. Their presence and guidance could be invaluable as they will help you identify problems and opportunities in order to get the best outcome from the meeting. They can also ask those 'hard to ask' questions which need to be answered if the succession plan is to be effective and robust.

Similarly, this individual could be asked to help you draw up an action plan which sets out who has responsibility for a particular task and its deadline.

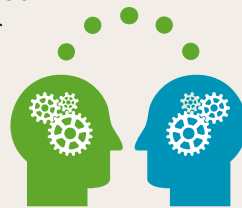


Seeking independent support and guidance

Farming Connect Mentoring Programme

Eligible farmers can apply for up to 22.5 hours of fully-funded, independent, impartial and confidential advice from a Farming Connect mentor who has relevant experience or knowledge of succession planning. There is a directory of approved mentors on the Farming Connect website and a filter system will identify those with specific knowledge of succession.

For further information on the mentoring programme visit: www.gov.wales/farmingconnect



Attending a Farming Connect 'Succession Planning' surgery

Eligible farmers can book a fully-funded one-to-one meeting with a specialist solicitor at a Farming Connect 'Succession Planning' surgery.

For information on the next round of dates and locations and to book a place, visit: www.gov.wales/farmingconnect

Taking the topic forward with your own professional advisers

Solicitors and accountants who specialise in agricultural matters will offer you professional advice. It is vital that you seek advice from professionals who understand agriculture and the importance of the family farming business.

Business and technical advice

Eligible farmers can access both business and technical advice through the Farming Connect Advisory Service. Funded by up to 80% for individual applications, a structured business plan which maps out strengths, weaknesses, opportunities and threats, may be an essential tool as you consider the future of your farm business.

For further information on the Farming Connect Advisory Service visit: www.gov.wales/farmingconnect_





Passing on the assets, passing on the responsibility

Supporting the next generation

Succession is not just about passing on the assets to the next generation, it must address passing on responsibility too.

Handing on responsibility is an important element in sustaining a successful family business, boosting the confidence and self-worth of successors, particularly for young farmers. Bringing a younger person in to manage the business can also help drive the business forward with fresh ideas and by introducing innovation.

It's important to encourage young farmers to stay in formal education as long as they can. It is equally important to introduce them to the concept of continual professional development, alongside gaining day to day experience 'on the farm'.

To become competent managers, they need to be up to date with best farming practice, current legislation and access the support they need to become successful business people in their own right.





Visit www.gov.wales/farmingconnect for further information on **Farming Connect's development and mentoring programme.**



What should be covered in a succession plan?

Although the purpose of a succession plan is to look ahead, it is often beneficial to consider for example:

- **The historical perspective**

- how did previous generations tackle succession?
- was the handover satisfactory?
- are there lessons to be learned from what happened previously?

Remember that many farm businesses believe they are operating as a partnership but without a legally binding agreement, the business is extremely vulnerable should there be a disagreement.

There are numerous things to consider in a succession plan, whether you have one obvious successor, more than one successor or no successor at all.

If it's the latter, you may decide to investigate a joint venture, such as share or contract farming. Farming Connect's Venture programme which introduces those wanting to exit or scale back from the industry with farmers keen to enter into a formal business arrangement.

- **Where the business is now**

- how the assets are owned/ managed now?
- who occupies the land and buildings and on what basis (owned/rented etc)?
- the current business structure
 - its strengths, weaknesses, opportunities and threats

- **What we want to achieve going forward**

- the involvement of all relevant individuals in a conversation which facilitates agreement on key issues
- access to support and advice to help us make the best informed decisions
- specialist professionals who can advise us on a legally binding, robust succession plan which safeguards the family farm and the interests of family members in the most financially efficient and viable way.



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SUPPORTING JOINT VENTURES

Visit www.gov.wales/farmingconnect for further information on **Farming Connect's Venture programme.**

Issues to consider

Changing circumstances

The following is **not** an exhaustive list because the conversation about your succession plan will be specific to your farm, your family and your particular situation. Remember that it is always important to seek professional advice before you make any firm plans or promises.

Issues to consider could include for example:

- how the farm assets are valued and owned i.e. who owns what – individuals/partnerships/limited companies
- who currently occupies the land and buildings
- the roles, needs or requirements of each family member (whether working within or outside the business)
- the long term strategic direction of the business
- financial issues including bank balances/pensions/ life insurance/investments/housing/ wills and trusts
- tax planning including inheritance tax/capital gains tax/tax breaks and ensuring available reliefs are maximised
- restructuring options
- keeping your bank, suppliers and customers informed
- planning the timing of the transfer of assets/responsibilities
- giving the younger generation the skills and experience they need to drive the business forward



Planning for the unforeseen

Death, state of health, marital status, financial affairs, the needs of dependents and so much else can change within any family. Time passes and circumstances change – time stands still for no man...or woman!

It's essential to plan for this and to seek the specialist help you need, when you need it. If you don't plan ahead, any one of these occurrences could put your farm business at risk. There are numerous possible repercussions – health could suffer; livelihoods could be lost; family homes and farms could be broken up.

The younger generation could be affected by some of these events, yet feel unable to articulate their true feelings. Older people may not receive the care, sympathy and support they need in their advancing years.

Once again, you are advised to speak to a professional experienced in the area which concerns you. A doctor will tell you what to look out for you if you fear someone is in failing health or showing signs of

dementia or any other mental health issues which could impact on the family or business. No doctor will breach confidentiality protocols, but you may find it helpful to talk to your own GP and they will advise you on any steps you can take. A Lasting Power of Attorney may be necessary so that you can appoint another person to deal with your affairs in the event of illness or incapacity.

Your family solicitor will explain that although fear of divorce is often a very real concern it isn't something that happens only to the younger generation. Remember that fear of the unknown should never be a barrier to succession planning. Always seek legal and financial advice so that you are well-informed and well prepared.

You must also ensure that all individuals in the business have up to date wills. Ideally, the content and its rationale will be freely discussed with those who will be affected. Wills should be reviewed every two years to

ensure they are still relevant. If those from the next generation are expected to commit to a business, or even if they are not, they should know what to expect long term. Avoid surprises and family fall-outs!



Planning for the unforeseen could include for example:

- death
- physical and mental health concerns
- marital status
- the short and long term needs of dependents/ family members
- financial concerns



Succession planning toolkit – tasks to help you prepare



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Tasks 1 to 10 will encourage you to keep a record of the facts. The table templates are a guide only – expand or reduce the space to suit.

Retain each copy of your templates as they will provide a useful reminder of discussions, meetings and progress and set out some but not all of the questions members of the family may need to ask.

Task 10 provides an action plan template, showing what actions need to be taken, by whom and when. This is a good opportunity to record the opinions, aims and ambitions of all family members

who will be affected by this succession plan. If and when these change, update your succession planning toolkit documents. They should reflect any changing requirements, expectations or circumstances.

Some tasks should be completed by all those family members involved – a round the table discussion might be the best way forward. Others can be completed by an individual –

usually one of the senior partners in the business, but let others have the chance to comment or edit it.

NB Your family may not want to tackle each of the ten tasks at once. Prioritise the tasks that are most relevant to your family and business. The remainder may be useful at a later date.

Task 1: Looking back – a historical perspective

How succession happened in the business/family in the past will often influence how people think it should happen in the future.

The present generation have an opportunity to learn from the mistakes of the past and plan succession more effectively.

Ask each member of the family to fill in their own responses first, and then have a family discussion. Make a note of the final outcome of that discussion.

Name:

1. How did previous generations tackle succession?

2. How did it affect family relationships?

3. How did it affect the performance of the farm business?

4. What lessons can be learned from what happened previously – or what should we do differently this time?

5. Any other issues

Task 2: In an ideal world...

Use the table below to describe your ideal outcomes for the succession of the farm business.

Be honest. What will your life look like? What will your business look like? This table can be used as a basis of discussion with the rest of the family and should be reviewed and updated as the discussions progress.

Ask each member of the family to fill in their own responses in the space provided and then have a family discussion. Make a note of the final outcome of that discussion.

Name	My ideal outcomes
	<ol style="list-style-type: none"> 1. 2. 3. 4. 5.
	<ol style="list-style-type: none"> 1. 2. 3. 4. 5.
	<ol style="list-style-type: none"> 1. 2. 3. 4. 5.
	<ol style="list-style-type: none"> 1. 2. 3. 4. 5.
	<ol style="list-style-type: none"> 1. 2. 3. 4. 5.
	<ol style="list-style-type: none"> 1. 2. 3. 4. 5.

Task 3: Communication is key

Effective communication is the bedrock of a happy family life and a successful business. However this does not happen without planning and allocation of time. Good communication is always time well spent and often avoids wasting time and money further down the line.

Ask each member of the family to fill in their own responses in the space provided, and then have a family discussion. Make a note of the final outcome of that discussion.

Name:

1. Which members of your family have difficulty communicating with each other?

2. How are the communication skills in your family when the farm business is concerned?

3. How is this affecting the family?

4. How is this affecting the business?

5. What steps can you take to improve communication within the business?

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4. How is this affecting the business?

5. What steps can you take to improve communication within the business?

Task 4: Taking stock – considering the values

It is important that everyone who is involved in the succession process appreciates the approximate value of all the assets. This task needs to be done when everyone is present and can contribute. It could work best on a white board or larger piece of paper.

This task is suited to a family discussion.

Assets	Detail	Value
Land (owned and rented)		
House(s)		
Buildings/outbuildings		
Livestock		
Machinery		
Investments/banks or building society deposits and shares		
Pensions		
Other		

Debts/Liabilities	Detail	Value
Banks/Building Societies etc.		
Personal loans		
Other		

Clarify what would happen to the above if the asset holders died tomorrow.

When will you have a family meeting to discuss succession and financial implications?

Date: / /	Time:	Venue:
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Task 5: Siblings in business together

Siblings can get on well within normal family life, but this might not always be the case when it comes to working in partnership. Many external factors can affect this including the role each sibling plays within the business to the influence of spouses, children and other family members.

In many cases, if families have seen evidence of conflict between siblings before succession has taken place, sometimes the best solution may be to split the business or to share/divide responsibilities to accommodate everyone. Legal and/or financial advice should always be sought.

Question 1 should be discussed and answered by the older generation or senior partners.

Question 2 should be answered by each sibling independently.

Ask one person to write down the consensus view.

1. How well do you feel your children work together?

2. How well do you feel you work with your siblings?

Task 6: Housing

The provision of suitable housing for everyone involved in the business is an important aspect of avoiding conflict. It also has to be remembered that any house owned by the farm business that is occupied by someone who is not involved in the farm business may be subject to inheritance tax. This could include for example, Grandad who may be a partner, still living in the main farmhouse but cannot be deemed to be part of the business due to ill health. Timely and professional advice is essential in this situation.

If you have a large farmhouse ensure you have proof that it is an integral part of the farm business. It should house the farm office and be the main business postal address. Any visits from professionals should be recorded as having taken place in the farmhouse as this could be useful in future for the purposes of obtaining Inheritance Tax reliefs.

This task is suited to a family discussion. Ask one person to write down the consensus view.

When should assets be passed to the younger generation to avoid them being used to pay for any care needs for the older generation?

Where is everyone going to live?

Are the current housing arrangements suitable to continue for the next 20 years?

How will maintenance/renovation for the houses in the business be paid for?

Will any family living arrangements need to change?

Task 7: Realistic expectations

When a young person works for someone else they know exactly how many hours a day, how many days a week and how many weeks a year they will be expected to work.

When they come home to the family farm this is rarely considered effectively. Although there will be peak periods when it's all hands on deck at all hours, this is an ideal opportunity to plan ahead and agree core hours. It results in more efficient business management and there is less likelihood of conflict at a later date.

This task is suited to a family discussion. Ask one person to write down the consensus view.

	Person 1	Person 2	Person 3
Name:			
What time will work begin in the morning?			
What time could work finish on most days?			
How many days off could be expected in a week?			
Which days?			
How many weeks holiday in a year?			
Any times of year when holidays would not be permitted?			

Recognising effort – paying what’s due

It is essential to recognise effort and to pay fairly. When a young family member comes back into the business it is important that they are acknowledged for what they would be worth or paid if they were working for someone else.

This is important for their own self-esteem and other family members need to acknowledge that the young person may be earning less than they could elsewhere.

	Person 1	Person 2	Person 3
Name:			
What is their realistic pay scale?			
What will you pay them?			

Added value benefits

Most young people working in the family business receive 'added value benefits' that they would not have if they worked for someone else. It is important that a monetary value is assigned to these. This can help the young person value them properly and also other family members understand their exact value rather than speculating on the advantages of working at home.

Discuss and acknowledge any of the following that are applicable to those working within your business.

	Person 1	Person 2	Person 3
House			
Council Tax			
Use of vehicle			
Telephone			
Food			
Laundry			
Work clothes			
Miscellaneous			

If there is a shortfall between what the young person is worth and how much they are paid and the 'perks' they get, some families use this as an opportunity to:

- Record the shortfall and keep it as a rolling total over the years of what the business owes that young person.
- Use the shortfall as a mechanism for the young person to buy into the business by allocating an equivalent value in stock, land or business shares, or
- If they subsequently become partners in the business this amount may be added to their capital account.

Task 8: Seek first to understand before being understood

It is essential to be open to new ideas and suggestions and to always be ready to consider the other person's perspective.

Some issues will not be black or white. There will be grey areas where compromise may provide a solution. The following list is not exhaustive but will hopefully help you begin to understand other points of view during your conversation.

Choose the relevant questions in this list and ask the relevant individuals to discuss them together.

(i) Questions the older generation or those currently in charge may need to ask

Is the business successful now and how can we ensure this continues going forward?

What will my role be in future?

What am I going to live on?

Where am I going to live and for how long can I stay there?

How will maintenance/renovation of the house be paid for?

Will my children work satisfactorily together?

What if my children fall out?

What is a realistic pay scale for children who work on the farm?

What should I expect of them?

Am I doing sufficient to make them feel valued and their efforts rewarded appropriately?

What non-monetary incentives could I offer them e.g. housing/car/phone?

What steps can I take to ensure that assets are not stripped to pay for residential or nursing care?

Have I got an up-to-date will and where is it?

Has everyone over 18 in the business got an up to date will?

Would it be helpful to share the content of my will with my beneficiaries?

(ii) Questions the likely successor(s) may need to ask

Will I be able to provide for myself and my family?

Will I be expected to provide for the older generation?

What will I earn?

Will accommodation be provided for me and my family?

Will I be able to cope with any claims other family members may make on the business?

Will I be given total responsibility and if not, what is expected of me in terms of responsibilities/workload/hours etc?

Am I entitled to know what is in my parent's will?

Do my parents have an adequate pension?

If I'm worried that Mum or Dad's mental or physical health is deteriorating and it's affecting the way they run the business, what should I do?

(iii) Questions family members who don't work on the farm may need to ask

Will I be part of the conversation about what is to happen after Mum and Dad's day?

Will I be told about what is to happen in future?

How can I avoid conflict with my siblings?

Will my parents regard my education or anything else I've received as having a value that should be offset against me not inheriting the farm?

What happens if my brother or sister who is expected to inherit the farm sells it and spends all the proceeds?

What do I consider a fair inheritance?

Will Mum and Dad be adequately provided for and who will look after them?

I don't want the farm to be sold or split up so that I can be paid off – what is the alternative?

Am I entitled to know what is in my parent's will?

Do my parents have an adequate pension?

(iv) What to consider if you have no obvious successor(s)

All the following options should be discussed with your appointed professional adviser, as although some of them may seem to offer an attractive solution, there could be tax implications as well as other issues which it's essential to consider.

The option you choose must be based on professional advice and will also depend on the individuals/personalities involved and whether it is possible to achieve the outcome you hope for.

Options to consider could include for example:

- Selling the farm
- Renting out the farm
- Passing the business on to relatives or others outside the immediate family
- Joint Ventures (see page 13 or visit www.gov.wales/farmingconnect to find out how Farming Connect's Venture programme may be able to help you find a suitable Joint Venture partner)

Task 9: What if we have a succession plan? What if we don't?"

Discuss the implications of having or not having a robust succession plan in place.

This task is suited to a family discussion. Ask one person to write down the consensus view i.e the three (or more) most important outcomes for both scenarios.

What are the most positive things that could happen if we plan succession in good time?

- 1.
- 2.
- 3.

What are the most negative things that could happen if we don't plan succession in good time?

- 1.
- 2.
- 3.

