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venture HANDBOOK

Supporting Joint Ventures in Wales

mentro venture
CEFNOGI MENTRAU AR Y CYD
SUPPORTING JOINT VENTURES

Cronfa Amaethyddol Ewrop ar gyfer Datblygu Gwledig: Ewrop yn Buddsoddi mewn Ardaloedd Gwledig
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Fresh Start
LAND ENTERPRISE CENTRE
investing in the future

Foreword

Professor E. Wynne Jones OBE FRAgS

Finding a way into farming can be a daunting prospect if you or your partner don't come from a farming family background, or if the family business isn't of sufficient scale to support a new incomer. That all-important opportunity to earn a livelihood within a family farm business is currently out of reach for many would-be farmers in Wales, but Farming Connect's pioneering Venture programme could well provide the way forward and be a solution for many.

Malcolm Thomas 'Next Generation into Farming' report, published in 2014, identified the importance of mobility within the agriculture industry in Wales in order to create a resilient, sustainable and professional future for farm businesses. One of Malcolm's key recommendations addressed the need to set up a new Joint Opportunities Platform to support new business opportunities.

I am delighted that Farming Connect is fulfilling those recommendations with Venture. It provides support, guidance and those all-important personal and business development opportunities which will be stepping stones for both those seeking a route into farming in Wales as well as established farmers and landowners looking to take a step back.

Every prosperous and resilient industry needs constant supply of new people, new ideas and fresh energy to progress. This is an extremely valuable and important service for the Welsh agricultural industry and I encourage you to make the best use of the package of support offered to fuel your goals and ambitions.

Professor E. Wynne Jones OBE FRAgS
Chairman, Farming Connect Strategic Advisory Board

Fresh Start Land Enterprise CIC (FSLEC) first created and launched the Land Partnerships Approach and their associated Land Partnership Handbook: Using land to unlock business innovation, in 2012. Now on its second edition, its core message and processes remains the same and it is recognised by the wider farming industry as a leader in this area. FSLEC also provides supporting services of business academies, mentoring, training, workshops and runs the Land Partnerships Service for England www.freshstartlandenterprise.org.uk

Fresh Start
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Venture Handbook

Contents

What is the Venture Programme?

Do you want to venture into running your own farm or forestry business someday?

Do you want to scale down or take a step back from the industry?

Why not consider a Joint Venture?

Farming Connect's new Venture programme can provide you with:

- An integrated package of training, mentoring, business support and specialist legal advice, tailored to your personal and business requirements
- A mechanism to match you with a potential business partner
- The skills, guidance and support you need to help you achieve your goals

A learning curve

When you begin your Venture journey you may be looking for more information, help to decide which direction to go and guidance on the options available.

- Learn more via resources on our website including factsheets, videos and blogs from farmers already operating successful joint ventures
- Sign up for one of our fully-funded Farming Connect e-learning modules or other training options to boost your skills and knowledge
- Join a Farming Connect discussion group where you'll meet others with similar business objectives and expand your networks
- Apply for the Agri Academy, our flagship personal development programme

Customised support

At this stage, you will be ready to start your Venture journey and begin to search for your potential business partner.

You may consider taking up some of the following services:

- We'll help you create your own personal Venture profile which can be shared with potential partners
- Identify a compatible joint venture partner
- Select one of our approved personal mentors to support and guide you through the Joint Venture process
- Attend a one-to-one surgery where you'll receive expert specialist advice
- Consider joining a Farming Connect Agrisgôp group where you'll benefit from the support of like-minded individuals with similar business goals

Form a Joint Venture

If you find a match, we can also support you through the final stages of your journey. We will help you to:

- Access the Farming Connect Advisory Service to develop a new joint business plan which is 100% funded to a maximum of €3,000 for a new Joint Venture
- Bring in specialist legal support to ensure you draw up a formal joint venture agreement suitable for all involved

To access Venture you must register with Farming Connect. If you do not qualify for full Farming Connect membership, but want to set up a new farming or forestry enterprise and have the necessary qualifications or experience, you can still register for Venture. Visit www.gov.wales/farmingconnect to access the online registration form, or call our Service Centre to register over the phone on 08456 000 813.

Our Approach

This handbook is structured around a five-step process designed to address the technical and relationship-building aspects of creating a strong business-to-business arrangement. The approach was developed by the Fresh Start Land Enterprise in England and has been specifically tailored for Welsh farmers taking part in Venture. Each step emphasises a critical element of the approach, as in the diagram below.

Step 1: Taking stock

Making a clear assessment of the assets 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, skills, and objectives

Step 3: Creating a balanced agreement

Working out how to share the risks and rewards of new joint ventures

Step 4: Selecting a legal framework

Most of the required legal and business structures exist already. This is about using tried and tested tools to create novel outcomes

Step 5: Thinking long-term

Being prepared for the inevitability of change; creating options, optimising resources, and building business relationships

Potential joint venture partners should use the 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.

Who is a potential provider?

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 to a new generation.

New 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, who wish to diversify their business 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.

Who is a potential seeker?

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.

Step 1: Taking stock

Scrutinise your own motivations, assets and requirements before you look for a partner.

Whether you are the provider or seeker, the joint venture has to result in a viable and realistic business arrangement. The aim is to generate value by bringing together complementary assets, skills and aspirations from both parties. The starting point for making this happen is to be very clear what your own assets, skills and aspirations are. By taking stock before starting to look for a land partner you will be able to:

- Communicate what you have to offer, so that you can attract the most appropriate partners
- Draw up a focused set of search criteria so that you can select the best land partner for you and your business
- Identify clear outcomes and parameters against which to evaluate potential ventures.

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 you in this for?
- Assets/Skills – what have you got to offer?
- Requirements – what do you need?

It is vital you are honest with yourself when looking at your motivation, assets and your requirements for a business so you can establish a sound base to work from. Be pragmatic in your approach.

2. Take time

Avoid simply going for the most obvious answers and conclusions. The process of reviewing your business might spark off new ideas and perspectives. Do your own research and, if possible, speak with others who may have similar approaches to the ones you are interested in.

3. Discuss

What do your family, colleagues, land agent and other professional advisers think? If it is a new idea they will need all the facts before them to make a valued contribution to the debate.

4. Balance clarity against being too prescriptive

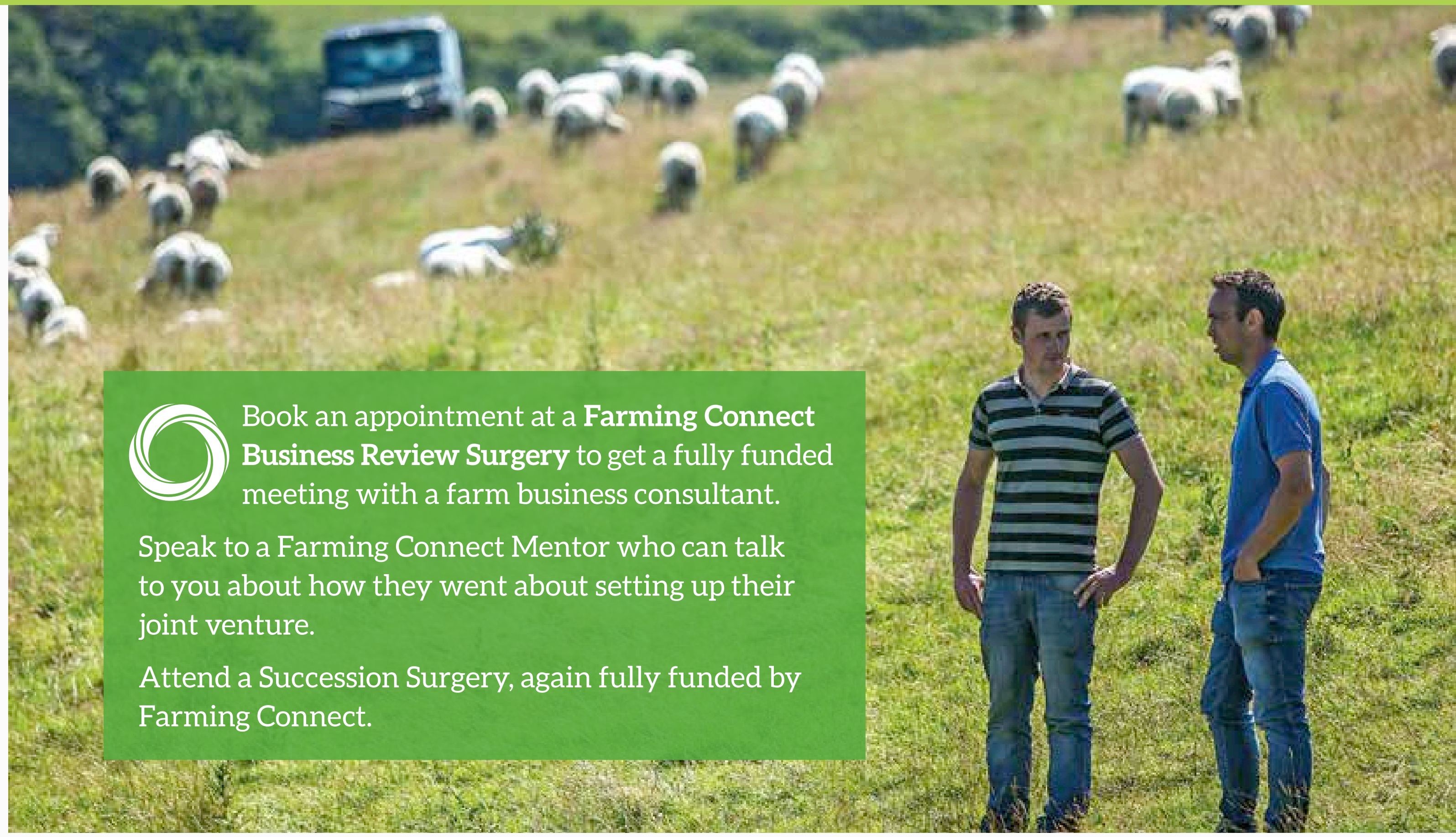
It's critical to be clear about what you are looking for, but you should remain open about how you might achieve your objectives. One of the benefits of Joint Ventures is that, by clubbing together with another business, you may discover unexpected solutions and opportunities.

"From the outset, both partners need to state what they want out of the venture to avoid any confusion so that the Seeker and Provider are in agreement as to what they both want to achieve and who is responsible for what.

Both parties need to communicate regularly about problems/successes encountered to avoid "surprises" which can later emerge out of the woodwork and to avoid burying problems. The joint venture should have a timescale so that both partners achieve what they want out of the agreement during it's life."

Aled Roberts, Senior Advisor, RSK ADAS

Aled Roberts



Book an appointment at a **Farming Connect Business Review Surgery** to get a fully funded meeting with a farm business consultant.

Speak to a Farming Connect Mentor who can talk to you about how they went about setting up their joint venture.

Attend a Succession Surgery, again fully funded by Farming Connect.

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, or the weather. 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.

The Venture approach encourages both parties to examine their appetite for risk and to 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.

Questions to ask yourself

	If you're a provider	If you're a seeker
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 stepping stone to something else or do you see this as a long-term commitment? • Do you have a precise vision for a type of farm or business? • Is this a way of life, a way to change the world, or just a way of making a living? • Are you aiming for independence or do you want a close business relationship?
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 up 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? • Are there any skills or plans you need to develop before looking for a joint venture?
Requirements	• Do you need the new business to provide a particular service (straw, muck, energy...)? • 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 p15), or personal preferences.	• Does this have to provide you with a living wage and do you need a house? • 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?

Joint ventures are about unlocking the maximum potential of assets and people to accelerate the achievement of their respective goals. Whilst maintaining their independence, joint ventures allow participants to:

- Work to a common end
- Smooth out the potential impact of volatility
- Optimise any combination of land, buildings, stock, labour, machinery and finance
- Release capital to re-invest
- Release time to spend on other things
- Retain occupation of the farm and resulting taxation benefits

The best "Joint Ventures" match the right people and resources in the right agreement type.

Mark Wheeler, Farm Business Advisor, Promar International

Mark Wheeler

Step 2: Finding the right match

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

The aim of this step, for both the provider and the seeker, is to make the most of their chances of attracting the best and most compatible land partner. For both parties 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

This is something to be strategic about. Advertising can be an expensive business and 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. The first and potentially most effective avenues are likely to be:

Personal and professional networks. It's quite likely that you, a colleague or a local agent know someone, or know someone who knows someone. This approach can give you access to recommendations and intelligence at little cost. Attending local discussion groups or taking part in the Agri Academy can also provide a wider network or seeking out and asking landowners near you. But if this is not successful then it makes sense to open up the field and shop around.

The press. This would most likely involve a small ad in the farming press or in a local newspaper. Alternatively, Venture opportunities can and have been promoted to the media as news stories in themselves. Contact the Farming Connect Venture team if you want to arrange additional publicity.

Brokers. There is a wide range of professional and voluntary organisations who may know of potential partners. Examples might include firms of rural surveyors, agricultural colleges or Farming Connect's Venture team of course.

If you're not in Wales, get in touch with the Fresh Start Land Enterprise Centre (England) or Land Mobility (Ireland).

Hywel Davies used Venture to find a potential Joint Venture partner.

Your Venture Profile

Completing a Venture Profile is an essential part of putting the word out. Venture collates profiles from seekers and providers across the country. The profile collects all the necessary information to give a clear and concise picture of you, your skills, experience, background and vision for the future. Provider profiles are shared with the seekers. If any opportunities take their interest, we will send the seeker's profile to the provider.

Contact Us

Farming Connect Venture Team

Tel: 01970 636297

Email: einir.davies menterabusnes.co.uk

2. Choosing

Ideally both providers and seekers 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:

Meet, at least once. The need for the seeker to come out to the land to meet the provider is obvious. We also find that visits by the provider, in the other direction, can create revealing and different conversations. They also help emphasise the two-way nature of a typical, successful Joint Venture arrangement.

Use a checklist and think through these areas:

- Practicalities – could it work?
- Personalities – will you get on?
- Circumstances – is there something about the timing that is especially good, or perhaps not so good?

Be clear about your needs and goals and avoid wishful thinking. If you have a nagging concern, flush it out and address it now. Whatever the outcome, it's better to know.

The Farming Connect Agri Academy, now approaching its fifth year, has 125 alumni and was first launched in 2012.

Naomi, Ceri and Reuben Davies have all been on the Agri Academy.

The aims of the Agri Academy are to identify the most promising and ambitious individuals making their way in the agricultural industry in Wales today, giving them the inspiration, confidence, skills and contacts they need to become future rural leaders, business people and entrepreneurs.

The Agri Academy is paving the way to success in business for its alumni, and many of them credit the action-packed programme of training, mentoring, support and guidance across a wide range of disciplines with their current success and plans for the future.

Once selected, candidates participate in a series of challenging workshops and seminars during three residential study periods, including an overseas visit.

The application window is opened every January. For further information, eligibility criteria and to download application forms, visit: www.gov.wales/farmingconnect

Making the right match

Making connections in person is a good way of creating a credible first impression but the farming community is making more and more use of online forums, discussions and classified ads for building up connections.

There is a raft of opportunities out there to discover but it takes work to find them. Quite often providers are uncertain what they can offer and do not want to invest in costly advertising, while seekers need to be able to source a range of options even if it means moving to achieve that.

Creating a good impression

Applying for a joint venture opportunity can be a daunting experience. Here are some areas where providers 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
- Try to understand their own underlying requirements and to ensure a balanced agreement
- Make it clear what will be expected every step of the way
- If appropriate, use outgoing tenants in a mentoring role or encourage them to pass on their experience to new applicants
- Encourage applicants to take professional advice to provide an independent reality check for their budgets and plans.

"Farmers need to approach joint ventures with an open mind. There is huge potential to increase the use of such agreements on farm, which can be of great benefit to both parties. Finding the right person is critical to the success of the venture, and I would encourage the early involvement of the farm accountant, solicitor and advisor in ensuring that all potential issues are discussed at the outset."

Wendy Jenkins, Lead Advisor, CARA Wales

Attend a Business Planning Workshop. Book a free appointment at a Business Review Session. Ask one of our Mentors for a second opinion.

Wendy Jenkins

Top 10 things

That providers are looking for…

1. Realistic business ideas – the provider 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 you have a full understanding of your business plan content and the figures contained in it. Get advice if you need to but make sure your own ideas remain and do not get modified.
2. Professionalism – they need to be confident that compliance issues, contractual commitments and day-to-day business will be managed without fuss.
3. Commitment – they want good people who will stick around as it's essential for continuity and a high turnover of business partners 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 will be seen as an asset to have around.
6. Drive and confidence – to see the plan through.
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 upbeat has real value.
8. A sound financial position – they need to be confident that start-up costs can be met, and that the business has the assets to invest and grow. Evidence of access to capital or a financial portfolio from previous investment and business will be beneficial.
9. Shared values – land goes deep and while the new enterprise needn't be exactly what the landowner would do, it should fit and respect their ethos.
10. Somebody they get on with – farm communities often involve working and living in close proximity. Finding people who fit in is of real value.

That seekers are looking for…

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

Eilir Evans is one of our Mentors and is involved in several types of Joint Ventures.

Beca (left) and Elin (right) took part in the Farmer Enterprise Competition to gain more experience and knowledge.

Step 3: Creating a balanced agreement

Once providers and seekers have found each other they need to define a relationship that will last.

A new joint venture involves a significant – and largely irretrievable – investment of time, energy, money and goodwill. So the seeker will want to avoid the prospect of uprooting their business, and the provider will want to avoid having a high turnover of lettings, empty properties or conflicts of interest; all of which take up resources and can have an impact on local relations.

By this stage both parties will have a clear idea of their own interests and objectives. Now, a crucial ingredient is 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 Joint Venture 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 Provider and Seeker 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. Enlightened professional advisers or agents working to a suitable brief can facilitate the whole process.

The Farming Connect Advisory Service can provide fully funded advice and guidance to providers and seekers setting up a new Joint Venture. Our network of accredited advisors can help you develop and agree on a suitable business structure and plan. We can also involve an agricultual solicitor to provide legal guidance and establish the formal agreements. This is fully funded to eligible members of Farming Connect.

Rhys Williams has been involved in several Joint Ventures and is one of our mentors. By accessing our Mentoring Programme, you could secure up to 22.5 hours of fully funded support and guidance from Rhys.

Neil Blackburn

"The Venture Programme is a great forum for farmers to look at the opportunities of Joint Ventures. Through the advisory service, we can provide independent advice to look at the business options for the Joint Venture, to ensure a fair and workable structure is developed for the Seeker and Provider. Legal advice from a Solicitor is also provided as part of this service."

Neil Blackburn, Lead Advisor, Kite Consulting

In shaping the balance of the venture 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.

Typically, tenancy agreements are drawn up by the owner or their agent and tend to favour their particular interests. A Joint Venture agreement encourages a more flexible use of agreements, tailoring contractual responsibilities to suit individual circumstances and the varying levels of control required by each party.

Jeremy Bowen-Rees

"It is really important when you discuss or do collaboration, partnering or pursue joint ventures that all parties are really clear on their specific roles and responsibilities and those of their fellow collaborators/partners. The perfect collaboration or joint venture is one that creates naturally a "win win", mutually beneficial situation. If any party cannot define the "win win" beforehand, don't collaborate. Everyone tends to be really positive at the outset and it is important that you fully detail what is entailed in writing. Clarifying this before formal collaboration starts will help prevent problems and issues later. Landsker always advises those thinking of collaborating to think through the key risks and worst things that could go wrong. Articulating them at the planning process will help avoid such risks happening."

Jeremy Bowen-Rees, Managing Director, Landsker

Defining the venture: things to consider

- 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 provider want to retain?
- What is the basis and frequency of payment and how often should it be reviewed?
- What degree of risk is each party prepared to take?

Providers 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
- Ensuring tax efficiency

Seekers could be keen on...

- Making a living
- Realising a dream
- Remaining in a locality
- Pursuing a passion
- Making a brilliant 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 younger generations
- Working alongside complementary businesses

Step 4: Selecting a legal framework

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

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

In broad terms, the legal options exist along a spectrum of control: from providers retaining full control at one end, to seekers taking progressively more control towards the other end, as illustrated below. An effective way of honing in on the sort of agreement that might work for you is to locate where you think the terms of your business relationship sit on this spectrum.

If you can get this far before briefing your lawyers, then you are more likely to get 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.

The spectrum of legal options

Various types of legal agreement are available, giving different degrees of control to the provider and seeker. At one extreme, the land would be farmed in-hand giving the owner total command over management and business decisions, performing most of the farming operations directly and carrying the full financial risk. At the other, the owner might sell the land, handing it over to someone else. Between these two lie a number of options that might suit different circumstances.

1 A self-employed contract for services is a model often used by young farmers as the first step before moving into further responsibility under another business model. It is used regularly by farming families as the first step before introducing the younger generation into the partnership. The self-employed farmer has his own business as a farm worker and is his own boss, and receives payment for his labour which is invoiced to the farming business. The self-employed farmer is responsible for his own Income Tax and National Insurance contributions and will have to complete his own annual returns, whereas the farming business will complete their own returns.

2 With an **Employee (PAYE)** model the Provider maintains control and employs the seeker to carry out a specific role on the farm, usually a general farm hand. The employee is paid a fixed wage and the employer would be responsible for things such as National Insurance contributions, a proportion of Income Tax and perhaps pension contributions. An employee has extra employment rights and responsibilities which don't apply to self-employed workers, such as the right to statutory sick pay, minimum notice periods for ending employment, statutory parental leave etc. (Please note that there is a minimum length of continuous employment requirement for some of the additional rights and responsibilities).

3 Contract farming is a model often used by owners or agricultural tenants who want to retain their involvement in farming but don't want to carry outday-to-dayoperations.Typically, the farmer will run the business and make key decisions but a contractor will carry out the practical farming operations as an agent for the farmer. The farmer cannot seek a guaranteed income under such an arrangement as, for tax purposes he/she must be seen to be taking a financial risk. They will also retain responsibility for legal and regulatory compliance.

4 Licences are routinely used to let grazing rights on a short-term, often seasonal, basis. Formal occupation of the land, for basic payment and cross-compliance purposes, remains with the Provider. In terms of Inheritance Tax, licences may allow the landowner to claim Agricultural Property Relief on death, although this is a grey area and is currently subject to scrutiny by HMRC. Licences can be useful for the seeker, often as a supplement to other land held under longer term agreements, for instance for grazing, forage-making, or to harvest a specialist crop. For the Provider they can offer a way of grazing pasture without the need to run a livestock enterprise, or to introduce new rotational options into an arable system, such as grass/clover leys.

5 Share farming is a way of enabling two parties to farm the same land jointly with each running their own separate business. Typically, the owner will provide the land, buildings and fixed equipment while the farmer provides labour, management expertise and mobile machinery and equipment. However, share farming agreements are flexible and are bespoke to the parties to take into account what they are able to provide. Livestock may be shared, with both parties owning an agreed proportion of each animal or one party owning all of them. Input costs are paid in agreed proportions and each party owns a pre-determined share of the produce.

6 Farming partnerships can be used to enable an owner to run a farming operation with others where they are all business partners. These are often used to involve family members and can be complex legally and in terms of taxation. They need to be very carefully set up and managed to avoid problems on the death or retirement of a partner. Provisions can be included to safeguard the land owning partner in terms of any land capital and the partnership agreement should clearly define working capital and land capital where appropriate.

7 A limited liability partnership (LLP) is an alternative legal entity that sits somewhere between a traditional partnership and a company. While the members of a LLP may effectively operate as partners, many of the administrative requirements of a LLP mirror those for a company, for example, having to file accounts at Companies House. The attraction of a LLP is that an individual partner's liability may be limited in a way that is not the case in a traditional partnership. The relationship between partners may be regulated by a partners' agreement, and between company shareholders by a shareholders' agreement. Other models that follow a corporate or similar structure exist and a number of these are referred to in our examples overleaf.

8 Limited companies have a separate legal identity. They can therefore own assets in their own right as well as things like enter into contract in their own name, sue for debts, enforce contracts etc. Limited companies are owned by shareholders, whose liability is limited depending on the share value they own. Limited companies are run by directors who are appointed by the shareholders, but shareholders' decisions will be required for certain decisions depending on the company's constitution. There are stringent rules as to how the limited company is to operate, with requirements for regular meetings, voting and proper minutes being kept. There are also strict rules as to company names that can be used. An advantage of a limited company however is that they pay corporation tax at a rate of 20% rather than income tax which could be at a rate of 40% if you are a higher rate tax payer.

9 Equity partnerships are very similar to partnerships, but equity partners are entitled to a proportion of the partnership's earnings rather than being a salaried partner. Equity partners make a capital contribution at the point of becoming an equity partner. They are also liable for the partnership's debts, which can be a disadvantage as if the partnership is unable to pay its debts, the equity partners are liable for any shortfall.

10 Trustees hold the land on trust for the beneficiaries under this model. The trustees have control over the land and how it is farmed, and they could do this either by farming in hand or using one of the other models depending on what powers the trust deed confers upon them. The trust capital must be maintained for the beneficiaries at all times. One disadvantage of using a trust mechanism is that it can complicate matters for the farmer as they will be restricted in what they can and can't do, such as being unlikely to be able to raise a mortgage over the farm. However, this may be appealing to some landowners.

11 Conventional Farm Business Tenancies (FBTs) are the most common model for new lettings of land. The owner is not directly involved in the farm business and simply offers land and/or buildings in return for an agreed rent. The rent is typically based on the market value of the holding and can be subject to review in accordance with the agreement or in accordance with legislation, where a review can take place every three years. As such it does not reflect annual fluctuation of farm business returns, which means that the tenant can carry a high level of risk. FBTs are, however, much more flexible than their Agricultural Holdings Act predecessors and landlord and tenant have much greater freedom to agree terms that suit their particular relationship. There is great scope to use FBTs imaginatively to replicate the benefits of other types of agreement in a more familiar form.

12 Long-term lets Owners who are content to hand over a high degree of control of their land but do not want to part with it completely can consider long-term lets. A long-term FBT is the most likely form for farming businesses or a business letting could suit, depending on the type of property. Longer term leases are subject to registration requirements which is something to consider when looking at this model. Stamp Duty Land Tax may also become payable on the rent value.

Make sure you tap into the knowledge and expertise provided through our **One-to-One Surgeries** and **Advisory Service** to select the best legal framework for you.

The spectrum of legal options available for farm-based Joint Ventures arranged according to the apportionment of control between the provider and seeker.

Long term lets A form of lease usually achieved through a FBT or business letting, but with longer terms.

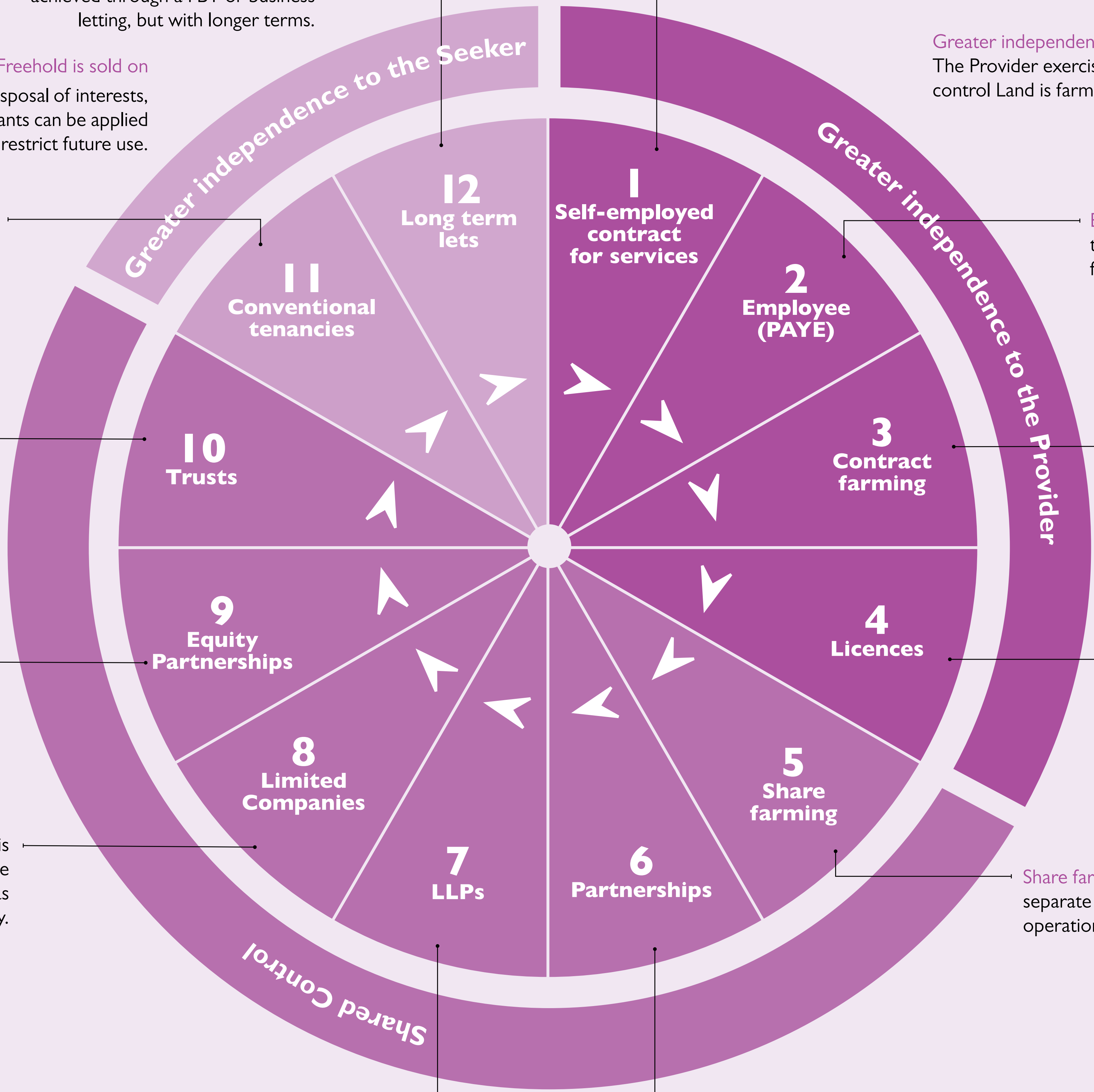
Freehold is sold on
A complete disposal of interests, though covenants can be applied to restrict future use.

Conventional tenancies The main use for Farm Business Tenancies. Though FBTs offer a wide rage of levels of engagement.

Trusts The trustees hold the land on behalf of the beneficiaries and have control of farming operations to ensure the farm capital is maintained for the beneficiaries.

Equity Partnerships Similar to a partnership but the parties will each introduce equity into the business and return will be based on the business' profit rather than a salary.

Limited Companies The business is owned by the shareholders who have a limited liability, and the company has its own legal entity.



Self-employed contract for services The farm is owned by the landowner and the seeker invoices the Provider for work carried out on the farm on an as and when basis.

Greater independence to the Provider
The Provider exercises full management control Land is farmed in-hand

Employee (PAYE) The farm is run by the Provider who pays the employee a fixed wage for his work on the farm.

Contract farming The farm business is run by the Provider, but practical operations are contracted out.

Licences The Provider retains close control of the land, with specific rights being granted on licence.

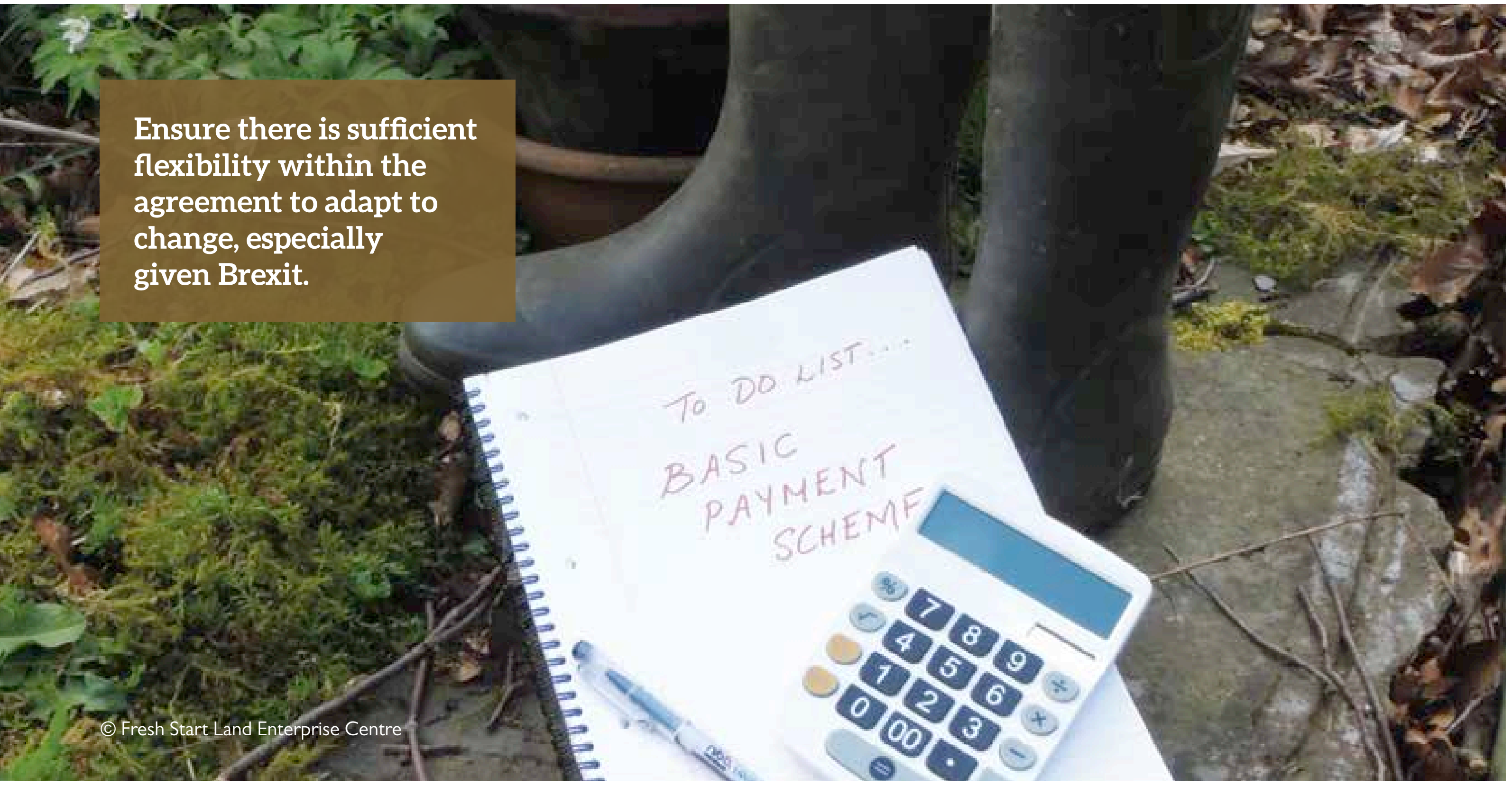
Share farming The parties remain as separate businesses, but collaborate operationally.

LLPs Similar to a partnership but the parties can limit their liability as with a limited company.

Partnerships Arrangements where separate parties come together to operate a single business.

CAP and Brexit

Dr Nerys Llywelyn Jones, Agri Advisor Solicitors.



Ensure there is sufficient flexibility within the agreement to adapt to change, especially given Brexit.

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Dr Nerys Llywelyn Jones

One factor which may influence the legal structure chosen for the venture is the availability of the Basic Payment Scheme. Subsidy payments form a significant part of a holding's income, and the parties will need to decide how the Basic Payment will be dealt with. In order to claim, the claimant must be an 'active farmer' and consideration therefore needs to be given to how the structure will work. If the land owner is retaining management control, then they are likely to be the claimant, or if the Seeker has greater control, they will likely be the claimant. However, if there is some sort of shared control, consideration needs to be given to who is in the best position to claim the payment. The provider may already own entitlements and may therefore wish to continue to claim, or perhaps the seeker would qualify for the National Reserve and therefore it may make sense for them to be the claimant or they may be a young farmer, who could qualify for the young farmer top-up if they were the claimant. The parties then need to decide how the Basic Payment is to be dealt with in terms of division of farm income. Guidance can be found on the Welsh Government website but it is always worth seeking advice in relation to this subject.

Brexit is of course of relevance when discussing the Basic Payment Scheme. The Basic Payment Scheme is the direct support which derives from the Common Agricultural Policy (CAP). The CAP is implemented at regional level, with each of the devolved administrations adopting their own interpretation and application of the EU CAP rules. The Treasury has announced that it will guarantee the current level of agricultural funding under Pillar I of the CAP until 2020 and the Welsh Government has said it will honour existing Glastir contracts. However, there are uncertainties at present as to what will follow thereafter in terms of the Basic Payment Scheme and Glastir. As a result, farmers need to think carefully about any agreements they enter into, for example determining a fair rent for a holding subject to a FBT is difficult at present due to not knowing what subsidy will be available to the holding. Therefore it is advisable to include rent review provisions in such tenancy agreements so that the rent can be reviewed once there is further indication as to what subsidy payments, if any, will look like post-Brexit. Similar provisions can be introduced into other types of agreement:

Legal Considerations:

- Ensure the terms of any venture are recorded in writing and put into a legal agreement. If no agreed terms are recorded, you may end up with rights and obligations implied by law which may not be what the parties intended.
- Ensure that the agreement deals with all eventualities including what is to happen if things don't work out. It is also important to include anything which is specific to this holding or to this venture.
- The agricultural industry is very fortunate in that it can presently claim Agricultural Property Relief and Business Property Relief to mitigate Inheritance Tax. However, certain conditions need to be met to claim the reliefs and it is therefore important, especially as a land owner, to ensure that the arrangement does not prejudice the availability of such reliefs.
- Consider any development which may be required in relation to the joint venture. If development is required, attention must be given to any planning permission required. The use of buildings may also have an effect on whether the tax reliefs mentioned above can be claimed.
- Consider any future developments and how these would affect an existing joint venture. Would the land owner require the land back in-hand if there was scope for development? How would the Seeker be protected?
- Consider how the venture affects your ability to claim the Basic Payment Scheme and Glastir and ensure that the new venture does not breach any scheme requirements.
- It is always a good idea to consult all the professionals involved in your business with regard to any joint venture agreements. Accountants, solicitors and business consultants all play a part in ensuring the agreement suits your business and its needs going forward.
- Ensure there is sufficient flexibility within the agreement to adapt to change, especially given Brexit, and enable both parties to take advantage of any opportunities which may become available going forward.
- Ensure that you have regular review meetings and regular discussions to consider the position and to discuss your management plan, thus ensuring that best practices are being undertaken. It is in both parties' interest to ensure maximum efficiency and profitability in the venture.

Step 5: Thinking long term

Allowing the partnership to adapt as the business evolves.

Setting up a new Joint Venture based on trust, openness and a balanced agreement that genuinely respects both parties' interests will immediately multiply the chances of success. But rural business operates in a dynamic environment – markets for products and services come and go, standards and consumer expectations change, technology moves on, experience grows and new skills are developed. All of this means that if the business and the Joint Venture arrangement are to be effective in the long term they have to be light-footed and prepared to adapt and change so that they can absorb pressures and grasp 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
- 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
- Discuss what is to happen if things go wrong – how are things to be resolved? By who?

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

Joint Venture agreements 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 follow on:

1. Landowner building a cluster of enterprises

Joint Venture 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

If developing a cluster of enterprises is the provider's prerogative. To make it work well will require them to take an active and strategic approach. In particular they will need to take care of two key functions: firstly, providing an efficient infrastructure, both practical and administrative; and, secondly, selecting the right combination of enterprises and getting them to work well together. In our experience the following ingredients can be invaluable:

- **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 about 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 but a regular forum for proposing and discussing ideas for businesses to work together can help ensure opportunities are not missed.

2. Seekers 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 seeker's business as a whole, maybe even involving several different Providers. 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 a Seeker 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? Is the potential new agreement partner informed 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 and overheads more efficiently and increase income and may not always involve land and farming!

Case study

Bright future for two young sheep farmers in North Wales thanks to a new joint trading venture with well known local landowner.

Two ambitious young farmers in North Wales are confident they face a bright future thanks to the foresight of a local landowner and a new share farming arrangement facilitated by Farming Connect's Venture programme.

Venture provides a 'matchmaking' service and/or support for farmers wanting to scale down or exit the industry and farmers who are finding it hard to break into running their own business.

Well known Abergele farmer and landowner Harry Fetherstonhaugh is now in a very successful joint farming arrangement with Rhys Williams (39), a farmer's son who is also a manager at Coleg Glynllifon and young shepherd Emyr Jones, son of a local North Wales farming family.

Mr. Fetherstonhaugh first entered the farming industry during the late seventies, as a tenant of Coed Coch, a 960 acre holding. As the owner, he steadily built up the farm business and also became a figurehead and rural leader in North Wales.

Mr. Fetherstonhaugh recognised that the enterprise had not been reaching its potential in recent years and knew that longer term, he risked having neither sufficient time nor energy to reverse its fortunes.

"Outputs were high. I needed two full time staff, plus two extra helpers during a lengthy indoor lambing period, as well as all the necessary infrastructure, machinery and vehicles you need to maintain a viable business. It was clearly time for a rethink on both grassland and stock management," said Mr. Fetherstonhaugh.

A fortuitous meeting with a friend who was aware that Rhys Williams could well be interested in a share farming agreement proved to be the catalyst that subsequently led Mr Fetherstonhaugh and Rhys to seek support from Farming Connect. In due course they also involved a knowledgeable young local shepherd, Emyr Jones, who had impressed Rhys during his student days at Coleg Glynllifon. It was to lead to a 'once in a lifetime' opportunity for both young farmers.

By applying as a group, the three farmers were eligible to apply for the fully funded, integrated package of mentoring, business support and specialist legal advice which was available to them through Farming Connect's Venture programme.

Over a period of about 14 months, they received support and guidance from two Farming Connect approved advisers. Wendy Jenkins, a director of rural consultancy Cara Wales was responsible for producing a new business model and specialist rural solicitors Agri Advisor drew up the necessary legal agreements.

Mr. Fetherstonhaugh sold up his Texel flock in September 2016. Just one month later, their new trading company was set up.

"We have restocked with 2,300 New Zealand Romney ewes which have low labour requirements and are better suited to the low cost, grass based system we aim to employ,"

said Rhys who now manages the enterprise and deals with all administrative tasks while Emyr undertakes all the day to day shepherding tasks.

All the ewes lambed outside during a four week block in April. The first year's lambing percentage is below the initial target but Emyr believes that with selective breeding, the results will be improved upon in the future.

Mr. Fetherstonhaugh is delighted with the success of the new limited company which is used to structure the share farming arrangement in which he has a 50% share, Rhys has a 45% share, and Emyr a 5% share. The three shareholders meet monthly for a board meeting with a set agenda where decisions are jointly made and Rhys communicates directly with Emyr two or three times a week over the phone and shares information through interactive technology.

"Rhys and Emyr are extremely knowledgeable, they are very hard working and they are very enthusiastic about the future. I'm delighted to have given them a helping hand to get onto the farming ladder. If all goes to plan, I hope to replicate this share farming arrangement on other parcels of land, which will provide further opportunities for the next generation of farmers."

Start your Venture journey

If you think Venture may provide a solution for you, but need some more information contact us for an informal chat to discuss your situation. To register for Venture, visit www.gov.wales/farmingconnect or click here if you're viewing this electronically.

Alternatively, contact:

Einir Haf Davies on 01970 636297
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contact your local Farming Connect Development Officer.

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