

# STRUCTURE OF CFA

Farmer: **Bisterne Farms**

Contractor: **GTB Farming**

## Provides

- Land
- Housing
- Dairy Facilities
- % of Livestock
- Milk Contract
- Working Capital

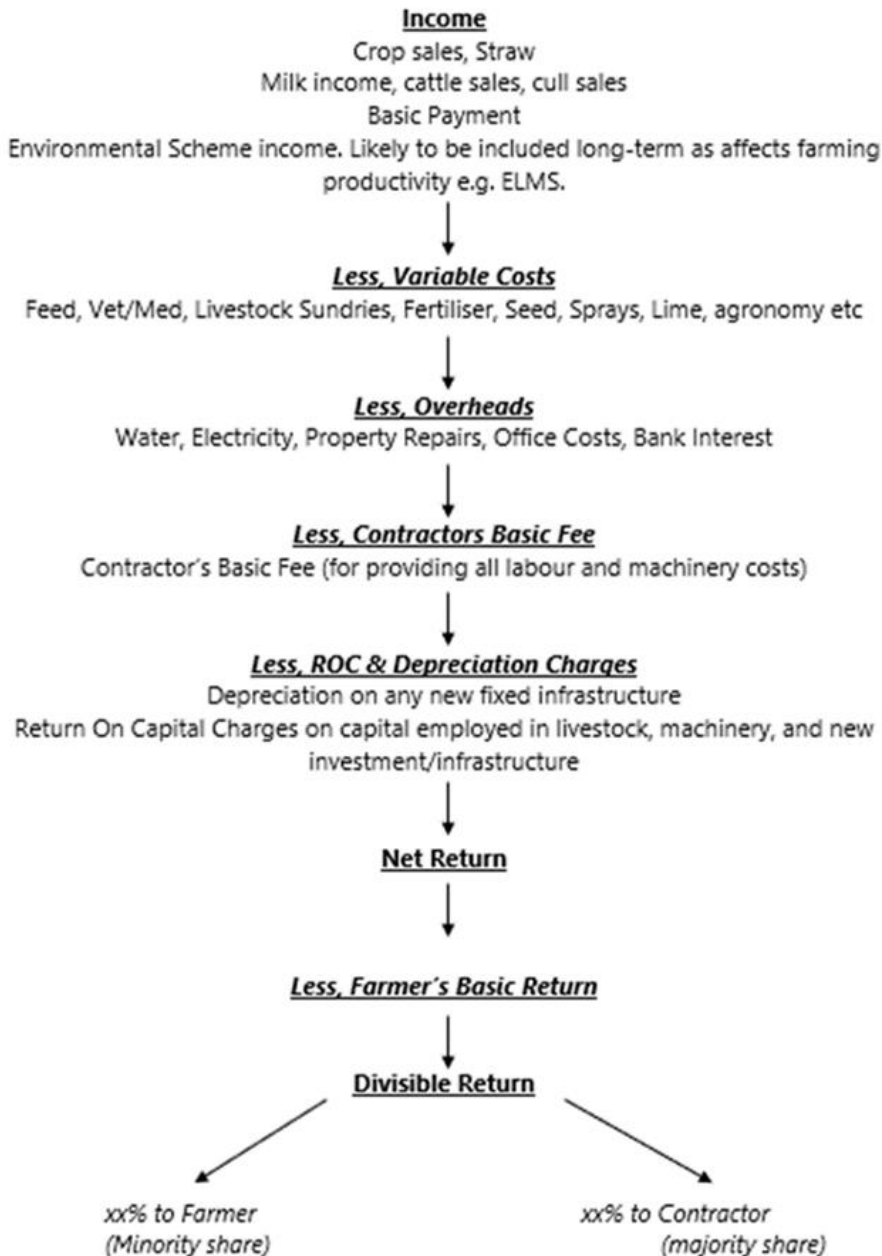
## Provides

- % of Livestock
- Machinery
- Labour & Contractors
- Management

## Returns

- Land provision – Farmer's Basic Return
- Capital provision (Livestock, Infrastructure & Machinery)
  - Depreciation – recovery of capital
  - Return On Capital – opportunity cost of investment

# STRUCTURE OF A CFA



<b>PPL</b>	
<b>Output</b>	<b>46.0</b>
<b>Variable Costs</b>	<b>18.0</b>
<b>Overheads</b>	<b>4.0</b>
<b>Contractors Fee</b>	<b>12.0</b>
<b>Total Costs</b>	<b>34.0</b>
<b>CFP Profit</b>	<b>12.0</b>
<b>ROC, B Returns</b>	<b>7.4</b>
<b>Div Return</b>	<b>4.6</b>

# FARMER CONSIDERATIONS

- Possible higher incomes than FBT equivalent
- Solution to succession / retirement
- Tax – IHT (BPR vs APR reliance under FBT) and trading tax (annual benefits and VAT)
- Access skills, knowledge, management expertise from operator with proven track record
- Capital release / less capital demand than own operation
- Do the returns from the agreement meet your profit demands of;
  - Drawings
  - Tax
  - Loan Repayments or return expectations

# CONTRACTOR CONSIDERATIONS

- Do you have all the skills to run a profitable dairy farm enterprise ?
- Are you prepared to be the self-employed owner of a business ?
- Could a contract farming enterprise be a good extension of your existing dairy farming business ?
- Do you have the people and communication skills to be a good contract farmer ?
- Lower risk than a rented farm with less working capital required
- Magnify returns on equity through good performance of a larger joint enterprise and other people's capital
- How does running a CFA fit within your longer-term objectives?

# WHY THEY SUCCEED

## Common vision of direction

- Aligned goals for the purpose of the CFA
- Understand what's important to each other
- System of farming

## Communication

- Correct at all levels
- Respect for each other
- When things go wrong!
- All aligned parties to the business- Suppliers, Family members, other enterprises/neighbours.

## Competence

- H&S
- Farm compliance
- People management
- Farm appearance

## Commercial Success

- Top performing returns for system
- Understand ROC% and make good investment decisions

# WHY THEY FAIL

- Choice of contractor – did you know the track record of this person/company to deliver ?
- Due diligence on the farmer – Quality of farm assets, trading history, compliance on farm, balance sheet.
- Working capital provision/planning/poor budgeting
- Objectives not aligned
  - Pursuit of profit
  - Repairs / maintenance
  - Farm appearance
  - Long-term soil health
  - Capital investment
- Communication – poor, irregular, un-structured, never assume !
- Poor performance or too high profit demand on agreement
- Livestock ownership clarity and plan if herd increasing in size