## 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

### Income Crop sales, Straw Milk income, cattle sales, cull sales Basic Payment Environmental Scheme income. Likely to be included long-term as affects farming productivity e.g. ELMS. Less, Variable Costs Feed, Vet/Med, Livestock Sundries, Fertiliser, Seed, Sprays, Lime, agronomy etc Less, Overheads Water, Electricity, Property Repairs, Office Costs, Bank Interest Less, Contractors Basic Fee Contractor's Basic Fee (for providing all labour and machinery costs) Less, ROC & Depreciation Charges Depreciation on any new fixed infrastructure Return On Capital Charges on capital employed in livestock, machinery, and new investment/infrastructure Net Return Less, Farmer's Basic Return Divisible Return xx% to Farmer xx% to Contractor (Minority share) (majority share)

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

# 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 vison 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