



Agriculture & Rural Development

FACTSHEET



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FARM SUCCESSION:

Planning for the future

A unique characteristic of most agricultural systems as opposed to other economic sectors is the ageing working population and the way business ownership is traditionally transferred within the family. A rapidly changing political and economic climate presents challenges not least in terms of business planning for future generations. A limited understanding of the factors affecting succession decisions and limited scope for policy to intervene on this issue can compound the situation.

In Scotland, an ageing population of farmers demands a clear understanding of the issues surrounding farm succession in order to encourage young entrants into the sector and to ensure sustainability of farming. This point is recognised in the Scottish Governments Forward Strategy for Scottish Agriculture: Next Steps, where emphasis is placed on retaining talented young people in the industry and attracting enterprising new entrants; the development and publication of guidance on farm succession planning is one action that aims to meet this end.

This study contributes to the evidence base for farm succession and helps to inform the development of succession planning guidance by addressing the following objectives:

1. Summarise existing evidence on retirement and succession in the Scottish farming sector.
2. Summarise influential factors affecting succession in farm household businesses.
3. Identify policy options to encourage succession planning in farm household businesses.

In Scotland, statistics suggest that over half of working occupiers are aged 55 and over, with almost a quarter aged 65 plus - this is often presented as an acute problem. There is, however, a need to be mindful that there 'may' be a younger influence present in the business (for example, in family partnership arrangements) that is not recognised by the survey system (which focuses on the official head of the holding). Nonetheless, even in these instances the full transfer of managerial control has not yet been realised,

which not only ages the farming population but also calls into question the succession planning arrangements in the business. Whilst patterns of farm entry and farm exit are flexible, the evidence suggests that the greater the time a young person is away from the farm, the less likely he/she is to return.

From the perspective of the potential successor, the combination of a number of trends in UK agriculture: a period of exceptionally low profitability, a tendency for capital to replace labour, the high value of agricultural land and property, (related) high costs of entry to the industry, and the competition presented by more lucrative career opportunities in other sectors - deter young entrants. Some industry figures suggest that nearly half of farm businesses do not have a successor in place. With entry rates (of younger farmers) far lower than exit rates (of older farmers), there is a net decline in the number of farms and an increase in the age structure of farmers.

In the current political and economic environment, the ability of farmers to adjust and plan for the longer term becomes more pressing, yet succession planning is an issue often underrated by farmers and one that has received little or no attention in many farm businesses. Failure to plan for succession can prove costly to the farm business and the farming family. Specific examples include: a breakdown in family relations, increased tax liability, the sale of assets to settle the Estate, the break-up of the farm, and a successor ill-equipped in terms of knowledge and experience to run the farm.

Inter-generational transfer of the family farm is a multifaceted process that encompasses succession, inheritance and retirement, decisions relating to which are inseparable. Given the complexity of the process and the vast array of factors that affect succession decisions, patterns of succession vary considerably; there is no single approach. Influential factors can be considered from the perspective of the existing farmer, the would-be successor and the farm business. The diagram on the following page highlights a number of issues pertaining to each of these categories and demonstrates which aspect of the succession decision is likely to be affected. As can be seen from the diagram the objective needs of the farm business can easily become entangled with the more emotive interests of family members, thus the need for effective communication and planning is heightened.

A review of international (Canada, USA, Australia, New Zealand) examples of policy and practice to support succession planning found that the various forms of intervention sought to:

- Raise awareness of succession planning as a key component of farm business planning.
- Provide information on options, processes and available support.
- Signpost to technical advice.
- Encourage uptake of professional advice e.g. from banks, solicitors, accountants.

A copy of the full report is available at www.sac.ac.uk

Topical tips

1. Think of farm succession as a process rather than an event, take action now with a view to the longer term.
2. Integrate succession and retirement planning alongside wider business drivers of market orientation, efficiency, sustainability and competitiveness.
3. Understand that the business involves the interaction of people in the household, who make the decisions that affect the business – raise the issue of succession and communicate between generations.
4. Each generation should outline their objectives and goals, for themselves, their family and the business, and then honestly assess the compatibility of each other's interests.
5. Seek expert or professional advice and generate options in terms of: ownership transfer, housing, financing, business organisation/structure, legal considerations (e.g. will), tax strategies and implications.
6. Agree a 'succession plan' – to incorporate decisions reached, an outline of how best to achieve what family members want for the farm business, and an implementation timetable. Revisit, revise and discuss.

