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Contract Farming Q&A

This Monitor Farm Scotland Q&A guide provides advice, help and learning from experts, including three farmers who have started and grown their own contract farming agreements (CFAs).



Contract Farming

Definitions in this guide:

Farmer – the person/party with the land

Contractor – the person/party who will provide the labour/management input

With farm tenancy legislation in a state of flux in Scotland, contract farming agreements are becoming ever-more popular with landowners. While it's a very different approach, it is giving both established contracting businesses and new entrants an opportunity to grow their businesses, while still allowing farmers (the party with the land) to retain their land and business taxation status, and to be as involved in the business as they would like to be.



“In the last 10 years, contract farming has really increased in Scotland. It used to be mainly arable, but it's now common in livestock too,” explains Jack Frater, who chaired a recent Monitor Farm Scotland meeting on the subject. “Now it's sometimes the only route available to expand a business.”

Finding, arranging and running a contract farming agreement can be straightforward, and depends on many factors. Communication, openness, a thorough knowledge of costings and a good handle on admin are key – as well as the technical ability to farm and make a margin.

Jack Frater

Agricultural consultant at Edwin Thompson



Jack is a member of the Monitor Farm management group at Cowbog in Roxburghshire and an agricultural consultant at Edwin Thompson. He is involved with all aspects of farm and estate management, including overseeing in-hand farming operations, management and administration of contract farming agreements, financial planning, and subsidy claim submissions. Jack grew up on the family farm near Alnwick in Northumberland and has a wealth of practical livestock and arable farming knowledge and experience.

Why is contract farming becoming so popular?

In the last 10 years, it has really increased – in Scotland, mainly due to changes in tenancy legislation which means there's no real benefit in letting out land. Contract farming means the landowner is still the farmer, and still retains the tax benefits of that.

For farmers who want to expand their business, CFAs are sometimes the only route available. They spread costs, offer efficiency of scale and allow people to have more stock or land when they don't have the capital to buy or rent land. They used to be predominantly arable, but we are seeing more livestock CFAs now.

How easy are these to achieve/do, given how scarce and expensive acres are?

CFAs are straightforward to set up. The main thing is to fully understand what is happening on both sides (farmer and contractor).

For instance, if it's a CFA involving sheep, the farmer might want to retain a high health status, but the contractor might want something different – it's important to know everyone's aims and to have agreed goals and full transparency at the start.

For landowners, there is a potential risk that if the CFA is not set out correctly at the start, you risk creating a tenancy or inadvertently making someone an employee.

It can all sound a bit frightening, but it's not if you have the right advice at the start. They should be simple to administer and set up properly at the beginning.



What's the best way to find someone who wants to contract farm?

Farmers (landowners) will often approach someone they know, such as a neighbour or neighbour's son or daughter, or someone locally who has been recommended. The other option is to advertise and put it out to tender, but that can often result in lots of people coming for a look and only about 10% of those actually apply!

Really, it depends on the situation. Where livestock are involved, it is often better to ask a neighbour or someone you know you will get on with as you're likely to see them more often, and things can go wrong more quickly in a livestock enterprise – there is often more chance to rectify problems in an arable situation, whereas a serious problem at lambing can have a huge impact on the whole year.



What are the main pros and cons for each of them?

For the farmer (the party with the land) the pros are the tax benefits, retaining ownership and control - and the financial benefits of contract farming are better than letting it. The cons, or red flags, for farmers, are that an agreement without advice can come unstuck, and that the agreement must reflect what they want to do and how they want to farm.

For contractors, the pros are more land, so increasing scale and returns, and the cons are generally the same as those for the farmer. However, there is also the fact that agreements aren't that long – some are only two years, and five at the most, so there is a risk that you might not be able to roll it on. But I do know of agreements that have been running for 25 years, and if you do a good job as the contractor, there is usually little issue with them rolling on. A few may change due to a clash of personalities, but that is rare.



How easy or difficult is it to match farmer and contractor for these agreements?

It's important to think about the personalities involved, and what each party wants from the agreement at the outset. As a contractor, you are going into someone's farm and taking on their livelihood, and you may need to be prepared for them telling you what you are doing wrong!

As an agent, I would find out what the farmer wants to achieve with the land – is it generating money, or environmental gain, or something else? Find out their aims, objectives and farming policy – if they have sheep, for instance, do they want a high health flock which is finishing more than 160% and really looking at enhancing the environment? Or do they want to generate money to pay off borrowings? It's important any CFA matches the contractor's mentality to the farmer's objectives.

For farmers, what's the best way to approach a CFA?

In most cases, farmers think about contract farming as a result of a major restructure or wanting to take a step back. It can also help with succession, where the next generation is not quite in the position to take the business on. Contract farming is a great option, but it is a big step, and farmers often haven't thought about what they want to do afterwards.

The best thing about contract farming is that it is very flexible and can be tailored to fit round any scenario – think about what you want to see out of your house window, and how involved you would like to be. As the farmer, do you want to use the skills you have, such as enjoying driving a tractor at harvest, or marketing grain or livestock, to help the business? You can be as involved as you want to be, and for a contract farming agreement to work, it has to be mutually beneficial.

Is contract farming a good option for new entrants?

Yes – especially with tenancy legislation the way it is at present in Scotland. It is a great way to build up a new business, particularly in livestock where someone could start contract shepherding 1,000 ewes with a low capital outlay – just a dog, an ATV and a trailer.

We are seeing more opportunities come up – and more people looking to expand their contract farming businesses too. It's a good idea to talk to agents if you are looking, as most will keep a list.



Once an agreement is up and running, what's your main advice?

Be open and honest, especially if you are the contractor. Anyone can do a budget, but you have got to have the ability to make it happen, and explain why you haven't made budget. If the farmer had made a loss when he was farming, it would be only his money, but a bad year on a CFA affects both parties, so you need to explain why things haven't gone well.

It's a big mindset shift for many – good contractors have the ability to explain what's gone wrong and why, and what they plan to do to fix it. You have to be adaptable, open and honest – a good contractor with those characteristics is worth their weight in gold. But I'd say both parties need to be honest and transparent from the outset – it's the biggest factor in making CFAs a success.



Annabel Hamilton

Bee Edge Farm



Annabel, along with her parents, manages 2,700 acres (1,093ha) on the East Berwickshire coast. They run a mixed farming enterprise finishing between 300-350 Limousin cross heifers and bullocks a year as well as the arable ground. The business mainly operates under contract farming agreements and relies on trust with landowners, as well as robust financial decisions.

When did you begin contract farming, and what made you decide it was the way forward for your business?

My father, Will, started his first CFA back in 2004 where he took on my uncle's farm only a few miles down the road. This agreement is still running 20 years on – a testament to my father's hard work and dedication to farm the land as if it were his own. Back in 2004, my father had a business review undertaken on the farm – the conclusion was to either begin contract farming or let someone else contract farm Bee Edge, from then on the business hasn't looked back and has continued to grow in size.

How have you managed to grow your contract farming business - it would be a good option for lots of people and so I imagine quite a competitive process to win one?

All of our contract farming agreements are slightly different, they allow flexibility to both the landowner and the contractor.

So in our agreements each land owner has a different level of involvement. More importantly, over many years, Dad has built up a level of trust with our landowners which only comes with being transparent and successfully making every field perform in each of the agreements.

We farm the land as is it is our own, something which we pride ourselves on. Open tenders are very competitive but most of our CFAs are now from being approached privately.



What makes a contract farming agreement successful? And you mention trust with landowners - how do you build and maintain that?

'Solving problems, not creating them' is an important saying in our business. We are the first port of call for any issues involving the landowners farming business. Accurate budgets are important for cash flow purposes in a CFA, this is important for both parties.

Trust is built up over time and is maintained by essentially making good margins for both parties along with full transparency and communication.

What are the things to watch out for, and that can/do go wrong?

In the first year, there are always hidden issues to be solved, burst drains being an example so year one is never the most profitable. It is vital that these agreements make money, rolling on a loss to the next year must be avoided so the land must be farmed well, have accurate budgeting and realistic yields which can be achieved on that particular land parcel. The 1st charges in an agreement need to be set up at realistic levels so there is a divisible surplus at the end of each year.

If CFAs are set up correctly then they shouldn't go wrong – this is where the trust between the two parties is vital along with budgeting.



Can you explain a bit more about 'robust financial decisions'?

The buying of inputs such as chemical and fertiliser and the selling of grains and oilseeds is vitally important in these agreements.

Understanding the markets and using a number of merchants allows accurate buying and selling – ensuring you are getting the best price you can for your landowners. The investment in machinery and equipment that the contractor makes contributes to efficient work and ensures we can cover ground quickly but also getting as much potential out of each and every field.

When investing in machinery it has to be the right decision for not just our farm but others too.



Looking back, what's the one bit of advice/knowledge you would have liked to know at the outset of getting into contract farming?

In the past we have underestimated the time spent travelling between units and the logistics of moving machinery and grain / oilseeds. This has improved with time but every new agreement brings its own challenges. And lastly, you may think you know someone's farm well enough but you don't really until you have farmed it!



Ali Freeland-Cook

Freeland-Cook Farming



Ali Freeland-Cook in partnership with his brother Daniel and parents oversees six farms with various CFAs and 5,200 lambing ewes plus 450 lambing ewe hoggs. Around 1,200 ewes lamb indoors in late Feb/March, with the remainder lambing outside on various grazing systems. About 140 Hereford x Salers suckler cows help to diversify the enterprise. Daniel also manages a machinery contracting business, involving woodland work, road building for harvest traffic, drainage, shed preparation, and silage contracting as well as grass and fodder crop establishment.

How does your contract farming business work?

We used to rent two farms from Roxburgh Estate but with tax and political changes, these have now become CFAs. We [as the contractor] own the stock, and it's the most complicated of our CFAs as we claim Basic Payment too.

When we started out initially, my brother and I were looking for opportunities. He got into the forestry and digger work, and I got into contract shepherding after coming back from spending time in New Zealand. We rented a farm on the other side of the village, plus another, and I contract shepherd on three other units. Now they are all on CFAs of various levels.

It's a bit more complicated when stock are involved in contract farming, as who owns the stock can provide complications.

What's the most important thing you have discovered about contract farming?

The key is that everyone has to be happy with the scenario. If someone isn't happy, things generally won't work.

The first couple of years can often be tricky but it usually becomes easier the further into it you go. Trust is a really big thing – trust in each other.

How do you get that trust?

After a discussion with the owners, I set out a farming policy for each CFA which includes stewardship, output and objectives to suit both parties and ensure I make a margin. It's pretty rigid once it's agreed so everyone knows what is happening.

In the first couple of years, communication has to be good, especially if it's not your own sheep that you're contract farming. You do need to be good at justifying what you are doing, especially if you are changing things or making financial decisions – and you have to discuss any issues.



How important is communication – and how do you become good at it?

I'd like to think I get on with people, and as a family business we have always discussed what we are planning so it's not that difficult for me. For instance, I had to explain to my parents and brother why I wanted to do more contract shepherding when I came back from New Zealand, and talk through the business opportunity. When you are contract farming you have to keep in mind that you are spending someone else's money so you need to be polite, keep them in the loop and discuss what you are planning in terms of vet and med spending or grazing. I'm always thinking about what I am doing next, and it's important to communicate that and to have quarterly meetings and regular catch ups. When you get to know people it gets easier to understand them, but managing people is an important part of contract farming.

Do you have a third party involved in your agreements?

Yes – every agreement has an agent involved so we have a third party and they do the legal stuff. If we have any real issues they are the third party and I have a good relationship with the management company we work with.

What about costing agreements initially?

Knowing your costs for everything, including machinery, is really important. Some agents can be on the landowner's side, so you do need to watch this and to be able to negotiate.

You need to know what you need out of the agreement to start with and know what you need to supply in terms of labour/staff, and machinery. It can also get complicated where issues such as maintenance crop up, like fixing fences, which are critical where livestock are involved. Now, I make sure the fences and water are right at the start of a CFA as they are really important for paddock or rotational grazing.



What would you have liked to have known when you set out on this path?

Where I have taken on a contract shepherding agreement with the landowner's stock, I would have liked to have valued the breeding stock at the start and then again at the end. Where my input has really improved the breeding stock, it would have been good to share the value of that improvement. But it's often difficult to think about that at the start as you don't want to be seen to be negative – and I guess the fact the offspring are better is my profit share.

What would you say to someone considering getting into contract farming?

It's a good opportunity, and it's something that's possible to do with just a quad and a dog in some scenarios. There will be farmers who want to still be involved in farming but not have the everyday need to wrestle with sheep, so contract farming is a great opportunity for both and allowing contractors to have management involvement and profit share – it's a good foot on the ladder.

How have you integrated all of the various agreements?

We have worked to incorporate them into our system. The CFAs mean we have been able to have our own stratified system as we have everything from heather moorland down to low ground red clover on a former arable unit.

We have one block where we provide the replacements, so I know we will sell 300 gimmers to that unit every year, and they will be of known breeding and health status.



Rob Playfair-Hannay

Scottish Borders



Rob Playfair-Hannay runs a beef, sheep, and arable enterprise in partnership with his parents in the Borders. The operation covers 4,300 acres (1,740ha), carrying 400 head of Aberdeen Angus, Angus crosses and Beef Shorthorn suckler cows, as well as 1,500 North Country Cheviot sheep and 600 acres of arable cropping. In addition, they own a 750 acre (304ha) arable unit in Fife, which is on a CFA with a contractor in place. It also houses bed and breakfast pigs. There are two full time employees and three to four seasonal staff. Robert and family act as both farmer (in Fife) and contractor (in the Borders) so have experience from both perspectives.

How did you get into contract farming?

Our first CFA was with a distant relative – we were the closest relatives who were farming, so we were asked and it has worked really well for both parties. The biggest thing we have found [with all agreements] is trust on both sides, and there has to be a certain amount of give and take for it to work. For instance, as the original CFA farm here is moving to the next generation, they're quite absent as they don't live locally, and on the one in Fife [where we are the farmer/landowner], we are quite absent. On the Fife farm, we found a good person [to be the contractor]. We have a quarterly meeting with them and they are good at making time for us. We've had the odd hiccup on either side, but we have worked through that. For contract farming to work, you need to have a level of respect for people, and know that the first year is about learning so it won't go perfectly – it's always the most stressful.



What's one of the biggest challenges you have found with CFAs?

The administration is challenging. There's extra admin for both parties, and each business has a number two bank account.

The year-end change has been an issue. We usually try to sell all the cattle before our year-end, but as it is changing, that has now become an accountancy issue. A good accountant is very important – ours is the 'middle man' and that has helped.

How do your CFAs work?

In our first agreement, the breeding stock belongs to the farmer, and the crop of livestock belongs to the contract agreement – so any profit is split between the farmer and us, the contractor. As the contractor, we supply everything that is needed to make the farm happen.

What about the initial set up?

Having good advice is key – being married to a land agent is very helpful! Getting the initial CFA set up in the right fashion is really important.

We haven't had to change any CFAs – we have been fortunate enough not to need that. But we do have regular, structured and minuted meetings, and they are very important. We pay Savills to facilitate these, and we have signed up for five years with them [for this purpose]. Having a third party administer is good, and means any grievances can be easily resolved, but we haven't generally had any issues.

What are the positives you've found with contract farming?

It has helped us expand our business and spread our costs over more land and stock, which has reduced our risk. It's also increased our influence in the marketplace as we are buying and selling in bigger quantities.

It has increased our skill set, as we have ended up with a wide diversity of people involved – for instance, some of our farm owners include a teacher and a doctor. It has also allowed them to achieve succession on a tenancy.

Communication can be a positive and a negative – things are much easier if everyone knows what's happening. There is lots of extra communication involved compared with farming on your own.

Are there any other drawbacks?

The time investment needed. You can't charge for all the time you need to invest, but hopefully that time can be reflected in the way your pricing structure is set up.

The duration of agreements can be quite short – we are on five year agreements which roll on, but some arable contract farming agreements might only be three years. On the livestock side, if it involves sucklers, a cow will be two before she calves, which means you are into year five before you know what your breeding policy is doing.

I'd say the level of administration is high. Everything has to be booked to the right account and reallocated. For instance, I had 15t of seed delivered to one farm, but half of it needs to go to another unit, so we will need to reinvoice the other unit for it.

What about finding opportunities?

If you make it known to land agents that you are looking for an opportunity, they will usually find you. There are a lot of people in agriculture who have been farming and are maybe getting older, a bit fed up and wanting to do a bit less - and there are always people who want to farm.

Any key bit of final advice?

Get on with it – and make sure you have a good agreement between parties. The devil is in the detail, and it is not until things go wrong that you realise that. If you have good, and regular communications everything will be much easier.



Checklist for success



Checklist for success - Farmers

Know what you want to achieve, eg income, environmental gain etc	
Think about what you want to see (and what you wouldn't want) on your farm – what is your farming policy?	
Consider the type of personality/farmer you might get on with best	
Think about how much you would like to be involved on-farm or in the business (if at all)	
Talk to an agent with experience in contract farming to ensure the legalities are correct	
Consider whether there is someone local you might approach to be the contractor	

Checklist for success – Contractors

Think about what you can offer, and what you would like to do	
Talk to local agents and others to ensure people know you are looking for opportunities	
Know your costs and ensure they are built in to any budgets – be accurate with budgets	
Be confident that you can practically deliver the budget you have set out	
Consider things such as mileage between units – does it affect profitability?	
Communicate well – let the farmer know what you are doing, don't just assume	
Be able to explain why things may have gone wrong, and what plans are to rectify that	
Be professional, organised and thorough with business admin	

Checklist for success – both parties

Ensure there is a formal, legally acceptable agreement between both parties	
Have trust in one another, and realise there has to be some give and take	
Communicate openly and ensure any issues are tackled promptly	
Consider having an independent third party (often a professional agent) involved to help with any issues	
Be realistic about the goals, aims and objectives from the beginning and fully transparent about them	
Be prepared for the additional business admin a CFA will entail	
Hold regular, minuted, business meetings to discuss progress and any concerns	
Be aware that year one is likely to be the trickiest of the CFA	



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