



# Farm succession

## Getting started

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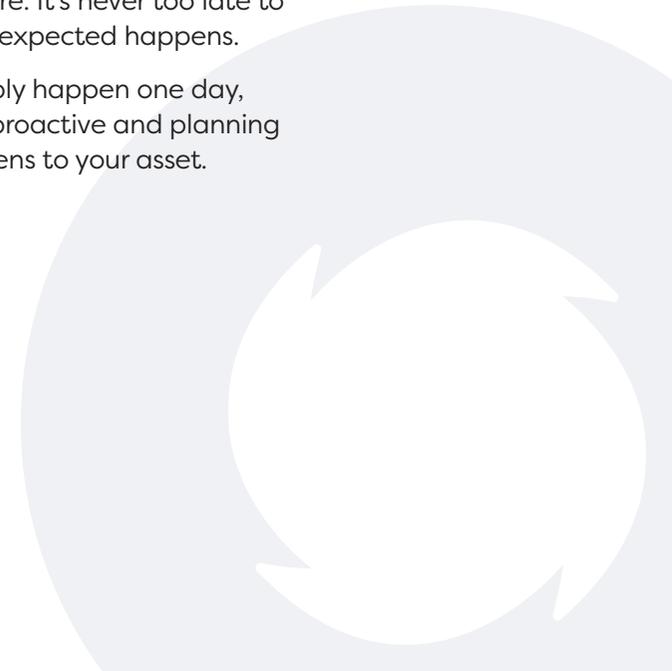
# Farm succession Why so important?

Chances are your farm is your biggest asset. Many farmers have spent years building up and improving their property, in the hope it will stay in the family and be passed down to the next generation.

Keeping the farm in the family is an important issue for many farmers and farm succession can be a smooth process, if it is tackled early and communication lines are open between all family members, including those who don't plan to go farming.

The most important step in succession planning is to start, as early as possible, and well before you retire. It's never too late to start, but it's best not to wait until the unexpected happens.

If you own a farm, succession will inevitably happen one day, whether you plan for it or not. By being proactive and planning early, you can take control of what happens to your asset.



# When should I start?

Wairarapa property consultants rural valuer and farm management consultant, Phil Guscott, has 25 years experience helping farming families through the succession process.

Though farm succession can seem like a minefield at times and often ends up in the too hard basket, Phil says there is always a solution.

“The reality is that there is no farm succession that is unsolvable, it’s just a question of the choices.”

He recommends starting the process in your 30s, rather than your 50s or 60s, and involving both husband and wife.

“The day you buy the farm, or have your first child, is when you should look at your big picture plan. What do you need to achieve to have a succession plan

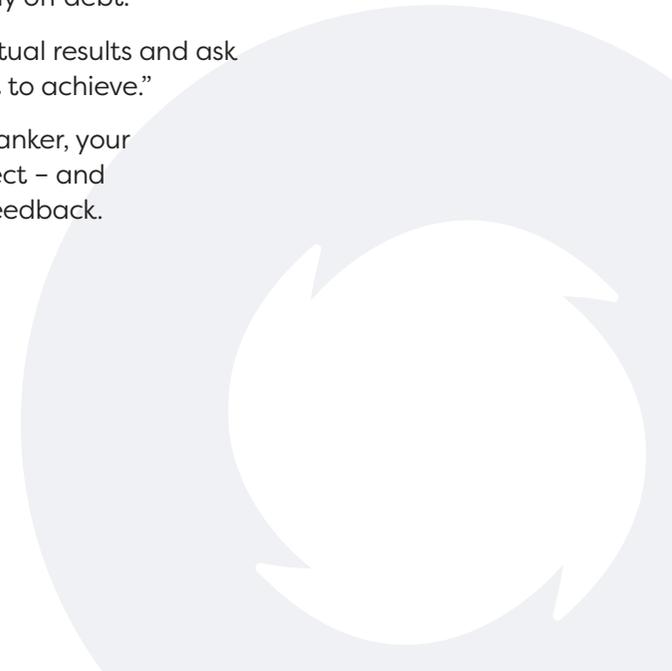
that allows you to have a decent retirement?”

Work out what you need to do to achieve that goal – it could be improving the income of the farm to service more debt or saving some pennies to pay off debt.

“Every year look at the plan and your actual results and ask if you’re still on target for what you want to achieve.”

Get a trusted team around you – your banker, your consultant or perhaps a friend you respect – and share your numbers with them. Ask for feedback.

***“Plan and plan early. Have a big picture plan about how your farm will work and put some numbers around it.” Phil Guscott***



# The principles of farm succession



## RETIRING GENERATION

It must be economic for the retiring generation



## FARMING GENERATION

It must be economic for the farming generation



## NON-FARMING

There must be a plan for the non-farming family members



## AGREEMENT

Everyone needs to be able to live with the result



# The process

The issue for many farmers is they don't know where to start. If you're having trouble, consider bringing in an independent third party.

This third party should be someone you respect and who has the knowledge to help you through the process. Set aside time specifically for farm succession planning – but don't expect to get it all sorted in one meeting.

## Ready to make a plan? Here's how to get started



### DEFINE YOUR GOALS

Determine what you want for yourself, your farm and your family



### THE FAMILY EXPECTATIONS

Find out what other members of the family want



### EXPLORE THE NUMBERS

Explore what the numbers will allow you to do, realistically



### CONSIDER YOUR OPTIONS

Work through your options e.g. sell the farm, settle one family member, equity share

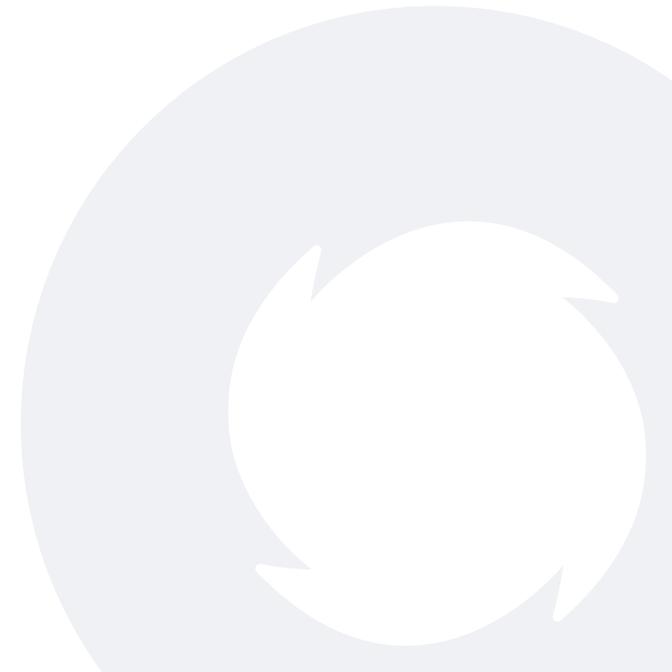
The major decision is whether to keep the farm or not. Is this a succession plan or an exit plan? And, if you're keeping the farm, is there a viable business to pass on? It has to be a real opportunity, not a life sentence.

These steps will enable you to prepare a plan that takes into account everyone's views.

All parties must be involved and all the issues on the table. Sometimes this means asking the hard questions and that's where an independent person, who is not emotionally attached, is valuable.

Ultimately, your plan needs to be the view that the parents (or retiring generation) judgment is best, given it's their business.

**Equal is fair, but fair  
is not equal in farming.**



# Why is it important to know your numbers?

Understanding your numbers, and what they will allow you to do, is a really important part of farm succession. Farm Focus is a great tool to help you get a grip on the numbers.

Chartered Accountant Rodney McKenzie, of Barraclough and Associates in Hamilton, often helps clients with succession planning.

He likens farm succession to peeling an onion, as there are often many layers and family members involved, and says there is no 'one size fits all' solution.

Your accountant can assist with looking at the numbers, understanding how big the pie is and what you have to work with.

"Sometimes selling is the only option. Sometimes it's about doubling the asset base as a family so mum and dad can have a retirement as well as keeping the farm in the family," McKenzie says.

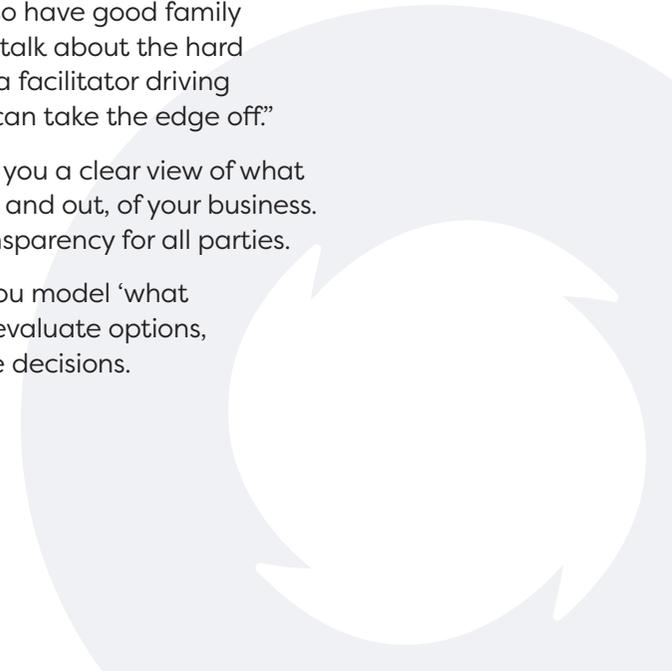
You also need to address things like where mum and dad want to live if they're not on the farm, and what will they want to do if they're not fulltime on the farm?

"The key thing is don't let the accountant, bank manager or lawyer stand in the way of what you want to do. It's about choices.

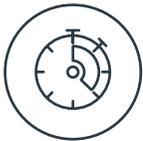
"No amount of money can fix a family once it's broken, so have good family discussions early, talk about the hard stuff and having a facilitator driving those discussion can take the edge off."

Farm Focus gives you a clear view of what cash is flowing in, and out, of your business. This provides transparency for all parties.

It can also help you model 'what if' scenarios and evaluate options, helping you make decisions.



# Good documentation is vital



## ADDRESS

How long the next generation get to buy their siblings out



## DECIDE

How the farm will be valued and set rules around that process

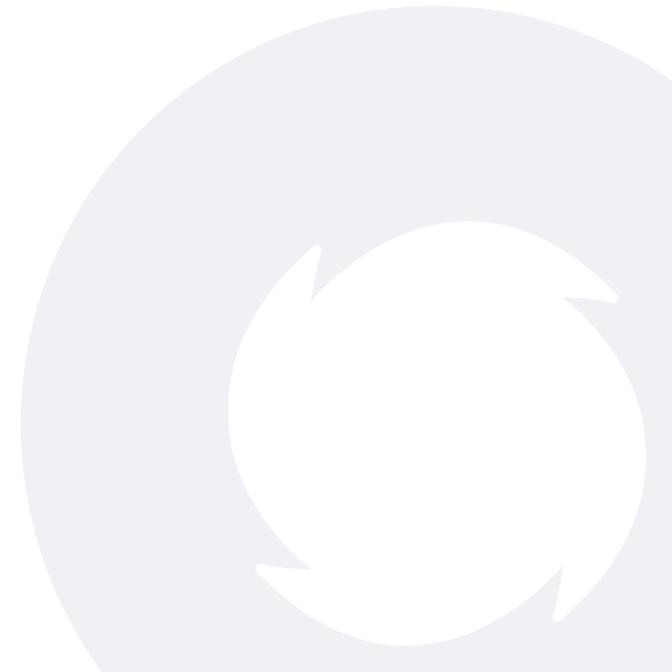


## DOCUMENT

It's all very well to make promises to family members, but you need to actually document your wishes

*Juliette Allen says that Farm Focus is helping her family with their discussions around succession.*

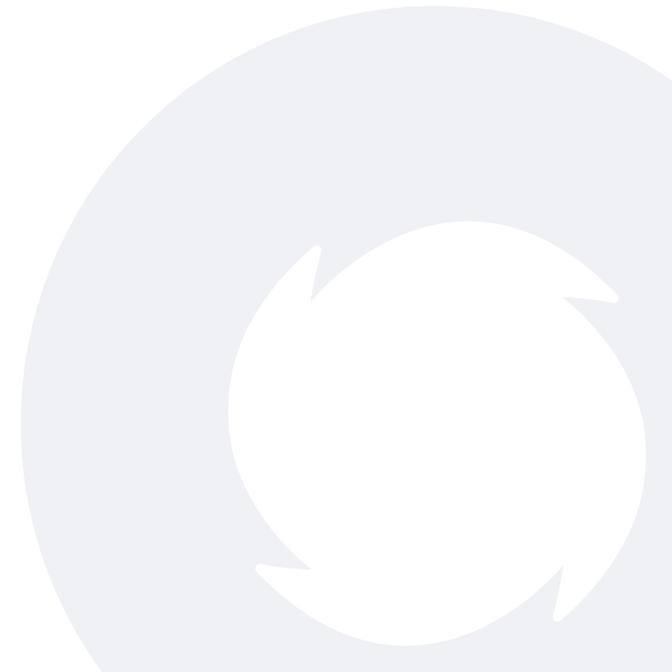
*“We have a farm consultant helping with decision-making for the younger generation. Having everything in Farm Focus provides a complete view of the farm business for everyone involved and ensures that we are up to date and on the same page.”*



# How often should I review my plan?

McKenzie says it's important not to set and forget. Review your plan once a year, even if it's just to check that nothing has changed.

*"You need to review if anything major changes, like the next generation getting married or divorced, the purchase of a major asset, or if someone dies."*



# John and Margaret Shearer

Ashburton farmers John and Margaret Shearer are in the process of handing over the reins of their two dairy farms to their children.

The Shearers are working through the challenge of transitioning to the next generation and equipping their children with the financial management skills to understand and run a profitable business, helping keep the assets they worked so hard to build in the family for years to come.

John is keen to pass on financial skills as well as practical ones. “You can always employ someone to milk the cows or get expertise about fertiliser, but the basic thing is understanding the business – and that’s not something you can buy. You can ask the bank manager or accountant for help, but you need to do your own planning and figures.”

