



SUCCESSION PLANNING

# NO DIFFERENT TO OTHER PLANNING



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WHERE THE BUSINESS IS CURRENTLY SITUATED, ALONG WITH THE DESIRES AND FUTURE OBJECTIVES, OF THOSE WHO HOLD A STAKE IN THE OUTCOME, NEED TO BE THOROUGHLY INVESTIGATED AND DETERMINED EARLY.

*by Wayne Turner, Carrick Aland Managing Partner*

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**In our first article of this series we focused on recognising the need for and encouraging early engagement in the succession process. But where to start?**

## **What are the Wants?**

Within a structured framework we refer to this first step as “Establishing the Wants”. This highly important foundation step involves embarking on a series of individual and family “discovery meetings”. Designed and facilitated to identify what family members really and honestly want from the future, such meetings also seek to bring to the forefront, individual concerns, and expectations of the succession process.

Often there are surprises but, ultimately, once we know the “wants” of all stakeholders we can set about building a strategy for best addressing them.

Having established a list of “wants” and a commitment from all to the common goal of recognising and endeavouring to, where possible, meet those individual wants, an order of priority needs to be recognised.

## **For someone to step back or step out from the farm, they need to have the financial security to do so.**

First and foremost, establishing financial security for the exiting and, in many cases, the older generation, must be the top priority. A plan that is actioned without establishing “retirement” needs is not a succession plan but potentially a plan of financial sacrifice! Future financial independence and security is the goal to aim for, but what does that look like for the exiting parties and what will it take to achieve it.

It's all about determining their financial need! And with help from statistics around ageing and life expectancy, then sitting down to look at their living costs, discretionary spending, what they want to do with their new found time and what the natural progression of life events could potentially mean.

For most people, quantifying their future financial requirements, delivers a dollar amount much greater than ever expected, particularly when it comes to considering the ever-increasing probability of a need for some form of supported living or age care.

Having quantified the future income and capital requirements, the financial gap and how it can be bridged is the next priority. Such bridging strategies can take several forms and combinations thereof.

Whether it be the provision of a capital sum for income production independent of the family farm or a mechanism that provides some guarantee of a steady future income stream, all ideally have the objective of insulating exiting parties from the seasonality typically associated with farming operations. For their successors, the objective here is quantifying and “nailing down” for their own business sustainability the financial impact associated with securing a transition of the farming business and the assets so integral to its operation.

Back in the days where the older generation had no aspirations beyond a continuing on-farm presence, farms and farm assets were essentially gifted to the next generation in a loose exchange for a place to live other than the big house, day to day financial support and aged care; but the world has changed.

Exiting farmers recognise the operational and sometimes relationship enhancing advantages of living off-farm and want the financial security to do things and go places, independent of the business. Whilst successors want the ongoing operational security of knowing the integral assets are available to an ongoing farming business and the financial impact of the older generations wants are clearly defined and certainly not open ended.

## Leaving the next generation with a viable ongoing business

To achieve a level of comfort around accepting the financial position imposed by any proposed plan, farm successors need to know exactly how addressing the identified wants of an exiting generation will impact their future viability.

As accountants, how we look at the ongoing viability of a farming business is all about projections and financial modelling, looking at likely future farm production, funding required for family living, "inherited" debt levels and the potential for comfortably servicing that debt.

As well as the financial wants of the exiting generation, in this analysis we also need to recognise that the so called second generation must consider their own future retirement funding and the potential for the funding of their own succession. Accordingly, any plan under current consideration cannot leave the ongoing business with little or no capacity for future improvement in net financial position. Successive generations cannot viably continue taking on additional debt to fund subsequent successions.

This viability analysis needs to indicate, under any proposed succession arrangements, a future capacity to not just get by, but for ongoing operations to actually improve the financial position of the farming enterprise. The ability to build net assets either off-farm or alternatively through the acquisition of further farming assets, that are not integral to the core operation, and could ultimately be sold without a major financial impact, is a key ingredient if a next round of succession is to be attainable for subsequent generations.

Having financially quantified the wants of the exiting generation, identified the gap for bridging and established the possibility of an acceptable proposal to bridge that gap whilst upholding the future viability of farming operations, the next overlay of consideration must be the attainment of "Family Equity". In our next and final article, we will explore the different concepts surrounding "Family Equity" and its achievement. How it too must be factored into an analysis of on going viability by potential successors, along with the application of regulatory concessions in effective succession strategy development.

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By proactively planning for the handover of your farm business and related assets, contemplating the future needs of family group members, borrowings and appropriate entities, be prepared for the unexpected when it happens and gain certainty for the next generation wanting to take over the family business. Wayne Turner understands the difficulty in starting those conversations.

