DIVERSIFICATION REPORT

Latest trends, insights and analysis to help UK farmers explore opportunities and challenges after Brexit

NFU Mutual
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INTRODUCTION

NFU Mutual has spoken to over 200 farmers from across the UK who have already taken the leap and set up a diversification business, or are considering their future business direction. In this report, we have collected, analysed and presented their experiences and individual insights to guide potential diversifiers.

This report then examines each of the main diversification sectors that farmers regularly consider. It identifies the key opportunities and challenges in setting up, and successfully running, a diversification business.

We have also looked at ways to integrate a diversification venture within the existing farm business and involve family members who have the passion and skills to make it work.

Funding, insurance and health and safety, are also key considerations for farmers. NFU Mutual has consulted internal experts and leading figures in the industry to ensure this report also features a technical perspective. This includes the impact of diversification on a farm's structure and tax status too.

WHAT DO WE MEAN BY 'DIVERSIFICATION'?

We're talking about using your farm's assets, such as its land, buildings or machinery, to develop a new business activity beyond farming your land.

This venture usually sets out to provide additional income, and can complement the agricultural activity or over time replace it. In this report we haven't explored start-ups which involve setting up a business that doesn't make use of a farm's existing resources.

Over 60%
of UK farms have diversified*

* Defra's Farm Business Survey 2016-17

THE CHALLENGE FACING THE UK'S FARMERS

With direct farm subsidy payments set to fall after 2021, farmers are looking at ways to boost their incomes and make their farms sustainable.

There are five courses of action that a farm business could take:

1. **Maintain –** continue with the current business model
2. **Moderate –** reduce costs and input
3. **Specialise –** develop focused production for specialist, quality markets
4. **Intensify –** maximise profitable production
5. **Diversify –** develop a new revenue stream from a non-farming enterprise

FOREWORD

Jim McLaren is an NFU Mutual Board Director and runs a mixed beef and arable farm. He was previously President of NFU Scotland and Chairman of Quality Meat Scotland.

Resilience and adaptability have always been a part of farming, with many agricultural businesses embracing other sectors as part of their operation. Long before renewables as we know them today, farmers were producing fuel in the form of oats for horses.

One of the major challenges for farmers is to find ways to generate extra income streams to keep farms sustainable and pass them on in a better and stronger condition. In more recent times of adversity, such as the Foot and Mouth outbreak of 2001, diversification helped many farms to recover from the devastating impact of the outbreak.

So with the uncertainty of Brexit, how can diversification help the future of the UK's farms?

With declining direct support for many farms on the horizon, it's essential to examine the opportunities available from diversified income streams. These will obviously be very varied, depending on factors such as location, access to customers, availability of redundant or adaptable buildings and probably most importantly, the interests, readiness and skills available within the family or the workforce.

With activities such as holiday lets, farm shops and function venues bringing people onto the farm, it is clear to see that robust insurance and risk management is a must. It needs careful planning to protect your customers and your business, whilst still offering the farm experience.

Started by farmers, for farmers, in 1910, NFU Mutual has also diversified since it was founded. We now provide a diverse range of insurance covers to suit the demands of the ever changing landscape.

We hope this report will help your diversification journey and whichever direction you take, we will continue to offer first-class customer service that is personal, expert and accessible, every step of the way.

BREXIT: A DIVERSIFICATION GAME-CHANGER

Journalist and agricultural consultant, Cedric Porter is the editor of the monthly Brexit Food & Farming briefing.

The question that farmers are asking is not IF Brexit will change their businesses, but HOW it will change their businesses.

An altered relationship with the European Union could provide opportunities to sell more British food in UK and global markets, but there are no guarantees that will happen.

Meanwhile, the Government has set in motion the most radical reform of agricultural support and policy for 45 years. At the heart of the new policy is the move away from direct and regular annual payments to farmers, to payments for 'public goods'. That won't happen immediately, but from 2021 support will reduce by at least 14% a year and by more for larger farms. Minimising the impact of that decline in income will be vital for the survival of farm businesses and diversification is bound to play a major part in that process.

The NFU Mutual survey demonstrates how willing farms featured in this report are to diversify their business and, in many cases, how successful they have been in doing so.

This willingness to embrace diversification opportunities will be even more important in coming years. Expect uncertain but exciting times ahead.

Defra has said that the remaining direct payments during the seven-year transition period will not be dependent on whether the recipient is farming, so the support can be used to invest in a diversification or to fund retirement.

CEDRIC'S QUESTIONS TO ASK AS YOUR BUSINESS UNDERGOES FUNDAMENTAL CHANGE

- How productive is my core farming business?
- Could I differentiate what I sell to capture new markets?
- Could I be selling what I produce directly to consumers, especially if I process it myself?
- What assets are there on the farm and are they being used as effectively as possible? Assets include land, buildings, landscape, habitats, location, labour, skills (including non-agricultural skills)
- Direct farm payments will be gradually replaced by Environmental Land Management schemes, so what environmental assets are there on the farm that could be enhanced?
- Public access and engagement are viewed as 'public goods.' What business opportunities are there from greater engagement from the public? This could involve providing educational or recreational experiences and services to the public.
- Digital technology continues to develop; how can it benefit your farm or create diversification opportunities?
- Finally, what are the unique advantages and challenges on your farm and how can you maximise the first, while minimising the second?

KEY SURVEY FINDINGS

NFU MUTUAL 2018 FARM DIVERSIFICATION SURVEY

We asked farmers who have already diversified how their enterprises have fared – and their tips for other farmers now considering diversification to support their farms.

We also talked to farmers about their plans to adapt their farming activities or diversify to make their farms sustainable in a post-Brexit landscape without direct subsidy payments.

Almost two thirds of farmers have already diversified according to Defra. We think the figure could be higher as many farmers we work with do not consider agri-contracting and other enterprises closely linked to farming as 'diversification'.

DIVERSIFIED FARMS – KEY SURVEY FINDINGS

19%
received a grant when setting up a diversification

63%
see their diversification to be either 'vital' or 'significant' to the financial viability of the farm

Over
90%
claim their diversification has been financially successful

30%
took Inheritance Tax implications into consideration

2%
used a pension fund to purchase land

62%
of UK farms have diversified*

*Defra's Farm Business Survey 2016-17

ALREADY DIVERSIFIED FARMS – SURVEY ANALYSIS

WHAT SORT OF DIVERSIFICATION ACTIVITIES DO YOU OPERATE?

29% renewables

15% property letting

12% other holiday lets

8% other

6% livery stables

5% outdoor leisure/ recreational

3% farm shop

Most common diversifications listed above.

CHALLENGES TO RUNNING A DIVERSIFIED FARM:

One in five farmers have found that finding time to run a diversification enterprise alongside a busy farm is a major challenge.

22% lack of time

18% red-tape

17% juggling diversification business with farm work

15% unreliable broadband

15% cash flow

Five biggest challenges listed above.

Respondents were able to select more than one answer.

WHY DID YOU DIVERSIFY?

Boosting income is the obvious reason to diversify – but for many farms it provides opportunities for partners and children to develop a business themselves. This is particularly valuable for farms which can't support several children, but have resources suitable for repurposing.

62% earn extra income

26% provide business opportunity for partner/family member

24% future-proof farm for future generations

20% utilise redundant farm buildings/unproductive land

9% provide income for short term

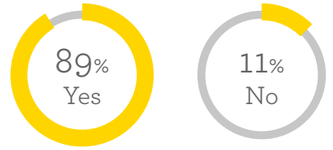
7% planning to wind down farming activity.*

It is great to see that the vast majority of diversified farmers' ventures have been positive for the farm and are returning profits. Set up times vary hugely – going into contracting can be done in months but a business involving planning permission and building is likely to take a year or two to get going.

* Respondents were able to select more than one answer

DO YOU SEE DIVERSIFICATION AS A POSITIVE CHANGE FOR YOUR FARM?

Almost nine out of ten farmers see their diversification as a positive step for their farm's future.



89% Yes

11% No

HOW LONG DID IT TAKE TO RETURN A PROFIT ON YOUR DIVERSIFICATION SCHEME?

35% 0 – 1 years

31% 2 – 5 years

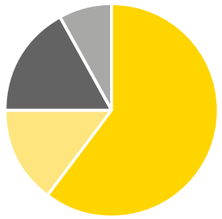
14% 6 – 10 years

1% 10+ years

19% Not yet returned profit

WHO RUNS YOUR DIVERSIFIED BUSINESS?

The results show that most diversification is firmly within family structures, with farmers, partners and other family members managing and working their enterprises. Most involve employing one or two extra employees – with more seasonal and occasional staff needed. Access to reliable staff can be an issue in remote areas.



61% farmer

17% other family member

14% partner

8% employee

DO YOU REQUIRE ADDITIONAL STAFFING TO RUN YOUR DIVERSIFICATION ENTERPRISE?

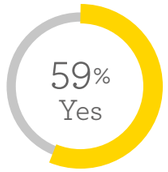
72% require permanent staff

31% require occasional staff

25% require seasonal staff

Respondents were able to select more than one answer

DOES YOUR DIVERSIFICATION HAVE A POSITIVE IMPACT ON THE LOCAL COMMUNITY?



TIPS FROM DIVERSIFIED FARMERS TO THOSE CONTEMPLATING THEIR FIRST ALTERNATIVE ENTERPRISE

20% say do research, planning and preparation well

18% say do it and be brave!

10% say don't do it!/go in carefully with your eyes open

3% say talk to others who have diversified first

3% say look after your farm – don't let that business slip

3% say seek professional advice

3% say it's not easy – be prepared for hard work

Top 7 tips listed above

PLANNING, PREPARATION AND INTENTIONS:

With the Government's Agriculture Bill signalling the phasing out of Basic Payment Scheme payments to farmers over the coming years, farmers are currently making plans to make their farms sustainable. Some 25% of existing diversifiers expect to further develop their non-farming business post Brexit.

DO YOU EXPECT THE PROPORTION OF NON-FARMING COMMERCIAL ACTIVITY ON YOUR FARM TO CHANGE OVER THE NEXT FIVE YEARS?

62% stay the same

27% increase

3% decrease

8% don't know

NON-DIVERSIFIED FARMS

46% of non-diversified farms have not diversified because they believe farming provides the best potential for their holdings.

Other reasons include lack of access to finance, age, lack of interest from family, and poor broadband.

Top choices for farmers now planning to diversify are:

- **27%** caravan/camping site
- **20%** other holiday accommodation
- **20%** renewable energy

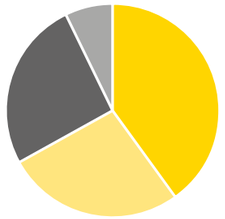
19% of non-diversified farms will definitely or probably diversify in the future.

80% of farmers expect their planned diversification scheme will create one or two permanent jobs.

ALL FARMS

FUTURE PLANS

Of those planning to diversify for the first time, 66% plan to do so in the next three years, with the vast majority considering holiday accommodation, followed by renewables.



WHO WILL MANAGE PLANNED DIVERSIFICATION?

40% farmer

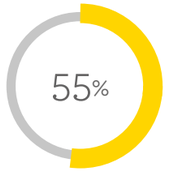
27% partner

26% another family member

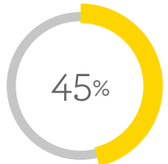
7% non-family employee

FARM SUCCESSION

Of those planning to diversify:



say it is to provide an income, when they have handed down the farm



say it is to provide opportunities for son/daughter

If direct farm subsidies are substantially cut post-Brexit, over half of farmers will adapt their farming business to make it financially viable or seek to increase diversification income.

RURAL ISOLATION

Today's farmers often work alone with little human contact. It can be a lonely job – and diversification can offer opportunities to have more human contact.

of farmers think a diversification project would make them feel less isolated

Source: NFU Mutual's Diversification Survey of 201 farms running business of over 50ha, was conducted in July 2018

DIVERSIFICATION IN ACTION – CONTRACTING

CONTRACTING HELPS MAKE FARM A FAMILY AFFAIR

Simon Smith, Lyndon Farms, Leicestershire.

Situated in the mixed farming countryside of Leicestershire, Lyndon Farms is a 3,000 acre arable farm, buzzing with activity from morning until night.

It also has a well-established agri-contracting business covering over 2,000 acres, and a successful plant hire operation.

It's very much a family business. It involves Simon Smith, wife Anna and their three children. Daughters Becky, 22, and Penny, 20, are passionate about contracting and drive a matching pair of JCB Fastracs. Eighteen-year-old James has now joined the business full-time. Making up the Lyndon Farms team is a total of six full time staff and a further half dozen seasonal workers.

Simon is always on the look-out for new opportunities for Lyndon Farms and is actively exploring share and contract farming options.

What made you decide to diversify?

Back in the eighties we were a 150 acre dairy farm under the quota regime. I couldn't see a future for our farm as it was.

How does the contracting business sit alongside your own farm – does it create conflict when the weather means you and your customers need work doing at the same time?

When we take on contracting work we're very careful to make sure we can fit it in with our other customers' needs AND get our own work done. If you can't make that work, you're in the wrong game.

Did you get professional advice – finance, planning, business management, insurance for instance – when you set it up?

Not really – I was always keen on the machinery side of farming so it was relatively straightforward for me to turn my ideas into a working business plan.

Has diversifying worked out as you expected?

Pretty much – I was clear what I wanted to do and we have been fortunate that our plans and timings have worked out well for us.

How does running a diversification enterprise alongside the farm affect family relationships?

That's the key issue for any family business. I think it works well for us because the way we work enables each of us to concentrate on doing what we like best.

Do you need a different mindset to run a diversification business than pure farming?

I don't think so – but for both to succeed you need to be ready to adapt to changing conditions and meet new challenges.

What tips would you give to other farmers thinking of diversifying?

Have a goal – you've got to know where you're heading or you will never get there!

Diversify into something you and your family like doing.

Also, don't put all your money in shiny new machinery – you need a diversification business which supports you, not one that means you are working every hour just to pay off the bank loan.

Finally, set out to build up a contracting business that farmers value because you turn up on time and do a good job.

53% of farms involved in agri-contracting said that it was vital to the financial viability of their farms.

NFU Mutual agri contracting survey, 2018.

DIVERSIFICATION IN ACTION – COMMERCIAL LETTING

CONVERTING OUTDATED BUILDINGS INTO ADDITIONAL INCOME

Jeremy is a director of Chamberlayne Farms Ltd, developers and owners of Steadings Business Centre.

The Chamberlayne family has been farming since the 1920s and has diversified their operations near Gloucester considerably over the last 25 years, running the Steadings Business Centre and three pubs, as well as generating renewable energy. The family has worked hard to make the most of the land that has been in the family for four generations and continue to run their arable and livestock farming business.

15% of diversified farmers opted for a property letting enterprise.

Property letting makes good sense on farms with suitable buildings for conversion, and are located where people want to work, live or holiday.

What made you decide to diversify?

In 1990 we started to research the possibility of turning our 1860 Victorian model farm buildings into premium office space. The attractive buildings were no longer fit for purpose as farm buildings and likely to become derelict if we didn't come up with an alternative plan.

Income was the driving force. We decided to not only secure the future of the farm buildings by turning them into the business centre, but also take the opportunity to heat them using farm sources. It was a risky decision at the time as the interest rates were very high.

We installed a Farm 2,000 big bale boiler that would also take scrap wood, pallets and any organic material from around the farm, so the actual material costs were nothing. We replaced it a few years ago when there was Renewable Heat Incentive funding available to get the job done. It worked really well , providing all of the heating for the offices as well as three houses. The solar panels provide a third of annual electricity requirement. We don't export during week days, only at weekends.

Did you get professional advice – finance, planning, business management, insurance for instance when you set it up?

Our high street bank declined to support the project, but another bank agreed after we commissioned a positive and professional feasibility study and it went ahead, despite the very high interest rates at the time. NFU Mutual has made a lot of difference to us too, they were also one of the first tenants and have given us lots of encouragement.

Our letting agent is one of our tenants, so we see him every day. My son is a director of the farm business and my second son is a financial advisor and specialises in renewable energy investment, solar farms, plastic to oil, and new battery storage development. This is a very exciting sector for us to be involved in.

Has diversifying worked out as you expected?

It got to the point that just as we were starting the construction work, interest rates were 10-13% and went up to 15% and then came Black Wednesday and interest rates fell right away. I had a feeling that we were confronting so many farming issues, mainly on grade three land, so it has overwhelmingly exceeded expectations in terms of asset value and income.

What is the paperwork like – rather a burden or not too different from the form-filling you have to do as a farmer?

Compared with farming I would say there is less paperwork. My brother has taken on the job of administration. My disabled son is able to do the crop management on computers and my grandson helps with IT wrinkles, so it is a team effort.

How does running a diversification enterprise alongside the farm affect family relationships?

We work on the formula that each family member needs a part to manage, whether that's the farm, the business centre, the pubs or the renewable energy. Everybody has a role to play. It all works well and now our eldest grandson helps too.

What tips would you give to other farmers thinking of diversifying?

Think very hard about the sustainability of it economically, because it isn't that easy to find returns and is very competitive. I would be looking for an 8% return on the money.

Seek out good advice and personalities you can get along with. As long as you do your homework, you should not be afraid of change. Farming is going to change anyway, so you should not have, as they say, all your eggs in one basket.

By farming you are not going to get a significant return in the future, but at the same time, you are always mindful that you are long-term custodians of the land. To reduce the amount of security that the bank retains, they were able to free up assets that gave us money to invest elsewhere.

DIVERSIFICATION IN ACTION – HOLIDAY ACCOMMODATION AND EVENTS

Olivia Hatch, joint owner of Talton Lodge and Talton House, Warwickshire.

Talton Lodge and Talton House are set amongst 34 acres of parkland, woodland, orchard and gardens in South Warwickshire, 10 minutes from the Cotswolds and Stratford-upon-Avon. Brimming with quirky places to stay, activities and great hospitality, the venue is unusual in that it combines a private festival offering alongside a country manor house offering. It can cater for business events, parties, hen nights, weddings, holidays, school trips. It even offers sausage making or cookery courses.

It is also home to Olivia and Barney and six other family members. The enterprise represents the family's desire for quality time together, and the opportunity to run a business that has a low impact on the environment and supports local food producers.

What made you decide to diversify?

It was the opportunity to create a business that we would both enjoy and that would give us a much better work/life balance.

I used to be a chef so the starting point was that we wanted to do something where people came here and we would cater for them. We did it on a small scale to start with, using produce from our kitchen garden and a small number of pigs.

Was the diversification enterprise something that slowly emerged from your farming activities – or did you take a conscious decision to set it up?

With 34 acres and lots of buildings it is a different prospect to a typical farm. Historically, the parkland belonged to a larger estate that included Talton Farm, but Talton House and Lodge were later split off from the rest of the farmland.

We keep a kitchen garden, pigs and have planted 5 acres of woodland as we wanted a setting where people could enjoy nature. We aim to be as environmentally sustainable as possible, recycling and sourcing everything locally, using rooftop solar and generally being as energy efficient as possible. Our natural setting appeals to businesses and private parties.

We did it quite organically, starting with one yurt and one tepee and now we can sleep over 20 guests in the kitchen garden and over 20 in the manor house. We took over the big house five years ago so it has been a gradual process over 10 years.

Do you find working with other people rewarding now that farming has become a pretty solitary occupation?

We like the social aspect of working in a hospitality-based business and also have seven people working for us, two full time and five part-time.

What is the paperwork like – rather a burden or not too different from the form-filling you have to do as a farmer?

We now have someone helping us with paperwork which makes it less of a burden.

How does running a diversification enterprise alongside the farm affect family relationships?

It provides us a living and has delivered everything we need it to.

The main thing is having our parents here, close by. It is a real bonus that we can all be together but that there is enough space for everyone to live independently as well. Leaving the business intact for the next generation would be amazing.

What tips would you give to other farmers thinking of diversifying?

If you are thinking of going into glamping, do a lot of research, as it is quite a saturated market. You have to think about what people are going to do when they come to stay. You need to lay on food and activities, so think about the whole package and what you can do to make it better than other places so that people want to keep coming back.

For farmers planning to diversify, holiday accommodation is in top place followed by renewables.

DIVERSIFICATION IN ACTION – RETAIL AND CATERING

Jimmy Doherty took on 100 acres of run-down land in Suffolk and over a decade has developed a successful diversified farm which includes an award-winning restaurant, a nature trail, and a butterfly house. He also holds numerous science and food festivals throughout the year and is a well-known farmer appearing on national television.

Here's Jimmy's advice for farmers considering setting up a public-facing diversification business:

Take inspiration from the high street

Have a look at other people, see what they're doing and what works. Have a look at the experts – the big supermarkets – how they diversify and the different brands they attract.

Don't be scared of failure

Tried and tested is always good, but also being a bit unique and adding your own flavour is very, very important. Try to be different, and don't be scared of failure. If I had always worried about it not working, I would still be standing on a derelict farm.

Think like a customer

Would I be happy coming here? Is it a good day out? I ask myself questions all the time, as if I was a customer – it helps me spot opportunities to make their experience of visiting the farm even better.

Appreciate what you have

It's important to stop and appreciate what you have achieved sometimes. You can be a busy fool rushing around, but just stop, look around and think: 'Do you know what? We've achieved quite a lot here.'

Make the most of your varied skill set

Don't forget about your own capabilities; farmers are already equipped with fantastic skills, which will allow you to confidently approach any farm diversification.

Manage seasonal downtime

When things are a bit slow in January in the restaurant, for example, people still come out for a walk in the farm park. The farm itself, the agricultural side of it, keeps going all year round, but it's really important to have these diverse elements, because if you've got a very seasonal business, it helps to even it out a bit.

Jimmy's diversification videos

In this series of videos, Jimmy shares his experience on different aspects of planning and running a diversification enterprise.

The videos can be found on the NFU Mutual website.

DIVERSIFICATION IN ACTION – WINE AND EVENTS

Aldwick Estate (née Aldwick Court Farm) has been home to five generations of the Watts family and over that time has continuously reinvented itself to adapt to new opportunities, carefully balancing respect for tradition with the drive for innovation. Managing director Sandy Luck took over the business in 2011.

What made you decide to diversify?

The farm was inherited by my brother, Chris Watts, in 1991 after my father passed away. Chris had already started to diversify with an events business introducing activities like quad biking and clay pigeon shooting for corporate clients. The old milking parlour had been converted into a small function room for meetings and presentations.

In 2009 Defra supported us with a 50% grant to develop an old grain store and create a new function room and visitor centre adjacent to the existing conversion.

Two thousand vines were planted in 2008 and an additional 9,000 vines in 2010 creating our two vineyards. Tragically in 2011 Chris died in an accident and overnight I found myself faced with an unfinished function room, large vineyard and 300 acres of working farm. Thankfully I had a great team of loyal staff, dedicated to helping me continue with the business and all the changes that lay ahead.

A great friend, Elizabeth, came in 2011 to help look after the vineyard. Now as Vineyard Manager, she has been instrumental in the growth and development of this part of the business. We are now winning not only regional, national but international awards for our wine.

In October 2012 we stopped farming pigs and a few years later I converted the redundant buildings into stables, these are now privately rented. The venue was finally completed in 2013 to host weddings, conferences and vineyard tours. It is now very much the bread and butter of the business and allows me to continually develop the rest of the farm.

We added a tasting room onto the venue in 2016 which gives people the option to drop in and buy wine direct from us at the Cellar Door. I recently tempted my sister and her husband, to come back to the UK after 25 years working and living in Spain. Carole ran her own successful business as a chef for most of that time and I saw her as a great asset.

This year we have now been able to offer lunches with vineyard tours meaning that visitors stay longer and enjoy the surrounding area. They often will book local accommodation, so the whole community benefits.

In the last six months, I secured LEADER grant funding to help refurbish our old kitchen and develop a redundant building into accommodation. We now have five rooms to offer guests.

How does the business sit alongside your own farm?

We still have the 300 acres of farmland which is leased to a local sheep farmer who maintains the land. Visitors love to see the animals in the fields and the land really benefits from the good husbandry. The farming enhances what we do here, it works really well together.

Did you get professional advice – finance, planning, business management, insurance for instance when you set it up?

I have had a lot of good advice from experienced business heads from the farming community and a business advisor who helped secure funding from the Leader grants, he was great at understanding the business. The NFU have always been supportive as well, it's great to have a local branch so close and to be able to talk to people face to face.

How does running a diversification enterprise alongside the farm affect family relationships?

Being a single mum and running a busy business has made my kids massively independent. Yes, we don't do as much together as maybe I'd like but the benefits of living here on the farm really outweigh all of this, they have so many more opportunities and freedom. They are 18, 15 and 14, and often help out in the venue and they enjoy being part of the team.

My mum will often pop in, she lived at Aldwick for 50 years, and has seen massive changes over that time. At 81 she's not hands on anymore but still is massively supportive. Our very popular rosé wine, Mary's Rose, was named in her honour. Now that I have my sister and brother-in-law back and involved, it is even more of a family business. The extra support I get from them is invaluable. It's a way of life, not a nine-to-five job.

What's the best thing about running your business?

There is nothing more rewarding than people telling you what an amazing place you've got, great staff and great wine.

My priority is to ensure the future of Aldwick for the next generation. It's been tough but has really brought the family closer together. I am very excited about what lies ahead.

DIVERSIFICATION IN ACTION – RENEWABLES

Photo of James Fairlie
©Angus Findlay Photography

Our survey of already diversified farms shows that 29% of respondents chose renewable energy schemes, making them the top choice.

Arable farmer and Farmers' Weekly 2017 Young Farmer of the Year winner James Fairlie decided to diversify after taking over his father's arable farm in 2013 and invested in a 500 kW AD plant.

What made you decide to diversify?

The main reason for diversifying is because relying on income based purely on agriculture made us too vulnerable so I wanted to spread the risk and bring some financial stability.

Arable farming can be very weather dependent. There are good years and bad years where you might not break even and the costs for chemicals, machinery and labour just keep going up. In 1976, my grandfather sold six tonnes of potatoes and with that earned enough to buy a new Range Rover, now you would have to sell 1,000 tonnes of potatoes to get a new Range Rover. A new potato harvester is £450,000 so it is a lot of investment and you don't get a lot back.

Was the diversification enterprise something that slowly emerged from your farming activities – or did you take a conscious decision to set it up?

The main reason we went down the renewable route is that we had access to low-cost feedstock through our own and our neighbour's vegetable and food crop waste streams and we could see what the potential income could be.

Anaerobic digestion (AD) is possibly the hardest route, harder than solar or wind, because you have to spend time and effort understanding the process and how bacteria work. Getting the conditions right is important. It made me wish I had paid more attention in biology at school!

Getting planning permission and finance were also important factors in deciding on AD. We also did our research into the equipment, AD plants can be like cars, if you want them to run well and for a long time you need to invest more, you shouldn't always go for the cheapest option.

Did you get professional advice – finance, planning, business management, insurance for instance when you set it up?

A friend of mine in Aberdeenshire already had an AD plant. His project was 15 months ahead and we used the same company so already knew the pros and cons, so that helped a lot. We also had help from specialist agricultural and renewables advisors.

Has diversifying worked out as you expected?

Yes, it is going the way we expected and the farm is running very smoothly. It has taken longer to get where we needed to be but I have learned that that's what happens when you're dealing with bacteria.

What's the paperwork burden like?

The paperwork is a doddle compared to the farming side, as there are not so many invoices and fewer payments going out.

How does running a diversification enterprise alongside the farm affect family relationships?

My father and his brother used to farm together as a partnership and then decided to split the business to help me to set up on my own. It has worked very well as I don't have to rely on anyone else to make the decisions. I am quite strong minded, and it means that I can do my own thing without getting everyone's agreement.

Does diversification mean you are at risk of neglecting your own farm sometimes?

I'm at the biogas plant once or twice a week as I have someone to manage it, so it doesn't really need me there full-time. I am still very hands-on in the farming and am not going to let standards slip after all the family's hard work that has gone into the business. Also, farming is what I enjoy. If you get the right people in, it should work well.

What's the best thing about running your business?

It spreads the risk. I would probably say that it is to shield ourselves from bad agricultural years, no other reason.

What tips would you give to other farmers thinking of diversifying?

I would say if you have been thinking about it for a while, do it and don't hang around and let the next-door neighbour do it first. Don't be afraid of change or the unknown, just speak to people who know what they are doing, and you'll learn a lot.

DIVERSIFICATION IN ACTION – DAIRY PRODUCE

Ian Buxton, Director of Yorvale, Yorkshire

Husband and wife team Ian and Lesley Buxton took over Fossfield Farm in the 1980s and have turned it into the home of York's only real dairy ice cream, Yorvale. Using traditional methods and the finest natural ingredients from their own herd of dairy cows, the couple now employ 18 people in their solar-powered manufacturing plant on site, producing award-winning ice cream, real fruit sorbets, kefir drinking yogurt and frozen kefir yogurt.

What made you decide to diversify?

After I graduated from Askham Bryan Agricultural College, we got married and got a county council farming tenancy in 1984. We started to look at tenancies for a large farm, but at the time milk quotas were very expensive so it just wasn't financially viable to run a dairy farm. We had to diversify.

Was the diversification enterprise something that slowly emerged from your farming activities – or did you take a conscious decision to set it up?

We decided to make ice cream and got planning permission for manufacturing but not for retailing it from the farm. We started out with six ice cream vans, going to shows, local events, drag racing, you name it, just to get our name out there.

Then in 1998 the farm came up for sale, so we bought it and expanded the ice cream manufacturing and got British Retail Consortium accreditation, which meant we could sell to wholesalers and into supermarkets. We joined the local council-run food group, the Yorkshire Pantry and did quite a few trade shows with them as we needed to go further afield and get our name known outside of Yorkshire.

Now we have diversified, we make the products and have been making Kefir for two years. It has been so popular that we have invested in a new Kefir plant that will double production. We have won a Great Taste award for the Kefir, as well as awards from the Ice Cream Alliance and a Cream award. We also won the Waitrose Small Business Award about 10 years ago.

How does the business sit alongside your own farm?

We still do the farming and milk for the ice cream comes from our 52 cows. It's an integral part of the business so there is no conflict.

Did you get professional advice – finance, planning, business management, insurance for instance when you set it up?

We had a grant through Yorkshire Forward and another from Yorks and Leeds Local Enterprise Partnership. When we were in Yorkshire Pantry we went to various events and it was useful to talk to other people. We have used NFU Mutual from day one and they have always been able to adapt to our business needs.

Do you find working with other people rewarding now that farming has become a pretty solitary occupation?

I find it just as enjoyable and rewarding now as I did working as a small team at the start.

Has diversifying worked out as you expected?

It's grown a lot bigger than we expected. Originally, when we couldn't retail on the farm, we weren't sure how far we could go with our idea, but when we look back, we think that it was quite lucky that we didn't have the retail unit on site.

What is the paperwork like – rather a burden or not too different from the form-filling you have to do as a farmer?

I think it's just the same. Traceability is everything in food production, so it is on a par with farming.

How does running a diversification enterprise alongside the farm affect family relationships?

Lesley is on the marketing and sales side and I am on the manufacturing and production, so it has worked well. We used to take our children to shows and they thought it was hard work. Now, our daughter's a doctor and my son's gone into his Grandad's profession of joinery, so I don't think they will be taking over the business.

What's the best thing about running your business?

If it's a lovely morning, I still love milking the cows.

What tips would you give to other farmers thinking of diversifying?

You will get a better margin if you can retail your product on site, but you should keep your retail side separate from the rest of the farm if you can as it could have a lot of visitors.

I think it is important to be part of groups and networks. Talk to and learn from other people and see what they are doing so that you can find your niche.

DIVERSIFICATION IN ACTION – AGRI-FOOD

66%
of diversifiers returned a profit within 5 years

William Gilpin, Director of Gilfresh Produce, agri-food business and vegetable processing, Northern Ireland.

Gilfresh Produce based in Loughgall in Northern Ireland, was established by the Gilpin Family over 50 years ago. By the early to mid-1980s Thomas Gilpin started to supply supermarkets, delivering to their distribution centres throughout Northern Ireland.

Gilfresh Produce now grows and manages the growing of over 2,500 acres of field vegetables and salad crops ranging from traditional root vegetables, salad crops and brassica vegetables to more unusual vegetables like pak choi and celeriac, some through contract growers in Europe.

The company's pack house in Co.Armagh has achieved British Retail Consortium Global Food Standard Accreditation. This standard extends to the vegetable preparation facility, operational from July 2013, which supplies a growing range of prepared vegetables supplied to stores throughout the UK.

What made you decide to diversify?

We recognised that we had a waste stream from the food processing side of the business and had the feedstocks for anaerobic digestion, so invested in a 500KW AD digester that supplies all of the electricity we need on site, making us self-sufficient in energy. We can also use the digestate as fertilizer for the crops. We use the energy during the day and export it to the grid at night.

Was the diversification enterprise something that slowly emerged from your farming activities – or did you take a conscious decision to set it up?

We went to other farms in the UK, Germany, Denmark and Austria to see how they were doing it and that gave us the confidence to go ahead and talk to the technology providers in the UK and get things up and running.

How does the business sit alongside your own farm?

It has allowed us to close the loop in recycling all of our food waste and turn it into much needed energy on site.

Did you get professional advice – finance, planning, business management, insurance for instance when you set it up?

It was good to see what other people were doing and we have a good team in the core business.

Do you find working with other people rewarding now that farming has become a pretty solitary occupation?

There are now more than 100 people working here with the packing and processing side of the businesses, so it has been good to be able to create jobs on the manufacturing side and the farming side has a good little team that works well together.

Has diversifying worked out as you expected?

It has worked out well. It's a good fit with all aspects of the wider business.

What is the paperwork like – rather a burden or not too different from the form-filling you have to do as a farmer?

No not really a burden, we utilised the team we have and there haven't been any problems.

How does running a diversification enterprise alongside the farm affect family relationships?

My father and uncle have the farming heritage, but as a family we have always looked for opportunities to diversify and grow.

Do you need a different mind-set to run a diversification business than pure farming?

No, not really as long as you understand business.

What's the best thing about running your diversification business?

Every day is a different challenge and different things come into play, weather is a huge factor on crops and can make jobs easier or harder.

What tips would you give to other farmers thinking of diversifying?

Definitely look at what others are doing and speak to the other farmers, not just in the UK.

PERSPECTIVES FROM AROUND THE UK

Minette Batters, NFU President, runs a tenanted mixed farm in Wiltshire and has diversified into an events venue and horse liveries.

Farm diversification is rarely straightforward because it means something different to every farm business. For some, it is an opportunity to flex their entrepreneurial skills into new areas, expand their financial horizons and secure greater resilience. For others, it's an inaccessible distraction from their core business of farming, and a poor use of their skills. Trends over time show however, that an increasing number of farmers are engaging in farm diversification activities. Two thirds of those questioned in a recent NFU Mutual survey are engaged in such activities - with earning extra income being their primary motivation.

Today, just under a third of farm business income is derived through diversification. The Agriculture Bill is set to change all this and dramatically shift the farm income mix. With direct payments declining and farm commodity prices continuing to be volatile, diversification is set to play an increasingly important role as a stable income source as farmers navigate the fast evolving economic environment.

As President of the NFU, I see diversification as an important complementary means to provide resilience to support the core business of farming. It also helps to showcase British produce through shops, recreation and tourism as well as highlight the environmental credentials of our sector through renewables.

Furthermore, as highlighted in the NFU Mutual report, is the potential of diversification to engage family members in the farm business, laying the groundwork for succession and in turn providing a different form of long-term resilience which will span far beyond Brexit. In this respect, whilst diversification opportunities may not be suitable for all, for an increasing proportion of our sector it's a key component on the path to resilience.

John Davies, NFU Cymru President, farms suckler cattle and sheep near Brecon and runs a silage contracting business and holiday accommodation.

Whether it is adding value to primary produce, developing tourism opportunities, renewable energy or diversifying into other off-farm enterprises or providing opportunities for the next generation, farmers' ability to diversify has played an important role in opening up new opportunities to boost their income and secure their businesses. With the uncertainty our industry faces in the coming months and years, the importance of having these options available will only increase.

On our own family farm, Pentre, near Brecon, we have developed our business through a range of projects. My first foray into diversification was through cattle software development. This was followed by developing a contracting business, also comprising of harvesting and haulage, together with one of my brothers. We later divided the family farming business and I continue to develop the conventional agri-contracting side.

We have also undertaken work to renovate the old farmhouse, barn and stable where my 86-year-old father was born. The site had fallen into disrepair but an ambitious project, carried out over a number of years with help from local building contractors and utilising our own oak milled on farm, has resulted in a number of holiday cottages that can accommodate up to 21 guests, together with a games room and a couple of hot tubs for their use. This year we have given a warm Welsh welcome to over 1,000 guests visiting the stunning Welsh countryside.

For projects to be possible we need to ensure that there are planning and regulatory frameworks that support farmers to diversify.

Andrew McCornick, NFU Scotland President, farms sheep, a suckler cow herd and pedigree Charolais cattle in Dumfries. His farm has diversified into renewables and property letting.

There is an ever-increasing need for farmers to look at new and novel ways to improve their businesses. This would deliver a more resilient business by having alternate sources of income and would help address the volatility of income in their agricultural enterprise. It could also be an opportunity to unleash your entrepreneurial self.

I am finding myself saying "sweat the assets." Every one of our collective businesses has different assets – it may be the people, land, buildings or location. If a younger member of the family wants to come into the business this may be the opportunity to think differently from "I've always done it this way." Today in these uncertain times standing still is not an option, you are holding yourself, and the industry back.

In our own business we have done renewables, solar and heat pumps primarily. Our attempt to get wind turbines was thwarted by planning. We use the surplus housing to draw in some steady money. We have one on a term tenancy and are considering a holiday cottage on the other when available.

These were easy wins. If I reflect on what my near neighbours are doing then we are short on imagination.

A farm park, with thousands visiting every year. Ice cream making from their own milk (adding value), wood processing, biomass, contracting – it's endless.

Thinking right out of the box, but being in at the beginning of insects for protein or even algae for the same purpose, by using by-products and waste might be winners.

Christine Kennedy, NFU Mutual Board Director, is a partner in her family's cereals and beef farm business in County Down which includes a diversification project focusing on buying and letting mainly rural property. Christine is a former Director of Commodities and Food at the Ulster Farmers Union.

Diversification is about including more different activities into our farm businesses to mitigate against the risks of uncertainty and the volatility experienced in the prices of our commodities.

Against a background of reduced direct farm support, diversification offers some fellow farmers the opportunity to complement and supplement their farm incomes from other less traditional farming activities.

While farming remains the cornerstone of our rural communities, maintaining and enhancing farm profitability is critical to ensuring we have a vibrant rural community which welcomes and offers opportunities to our younger generations with their diverse skill sets.

In Northern Ireland there are many farmers who have successfully diversified on and off the farm into, for example, leisure, tourism, hospitality, farm shops, children's nurseries and many agri-food activities. The entrepreneurial skills and resilience required in more traditional farming activities have been harnessed very successfully and used in diversification projects where the transferability of skills is evident.

Creating alternative labour opportunities on our farms not only assists the economy of our rural community but also has the potential to reduce social isolation and improve the mental health and wellbeing of our farmers and their families.

Fellow farmers are assisting in reducing the carbon footprint by offering our excellent produce in farm shops or in the local retail and hospitality sector.

Like most farmers we want to be able to build up sustainable, profitable family farm businesses so that younger family members will want to be part of the farming landscape of the future. On our farm we have taken steps towards long-term sustainability by changing our farming strategy and diversified into buying and letting property in our rural community and elsewhere, while maintaining our cereal and beef enterprises.

Whether diversification is the right route for individual farms depends on a wide range of variable factors – but one thing is for sure: successful enterprises need full commitment from family members, good management skills and a clear vision for the farm's future.

INSURANCE AND RISK MANAGEMENT FOR FARM DIVERSIFICATIONS

Chris Walsh, Farm Insurance Specialist, NFU Mutual.

Diversification creates both new opportunities and risks for a farming business. Good insurance and risk management are vital considerations to protect it from liability claims – and enable it to stay afloat in the event of serious damage, such as a fire, to your property.

Insurers can work with owners to support their growth plans and provide protection if things go wrong. The following guide highlights the main insurance and risk considerations when setting up a diversification enterprise.

Involve insurers at the planning stage

Farmers face a new set of risks and responsibilities when they diversify - particularly if their scheme involves bringing the public on to the farm. For this reason, involving insurers at the planning stage helps farmers understand the potential risks of their plans, and provides some assurance on costs and safety features before the first concrete is poured.

SUPPORTING YOUR WORKFORCE

Your workforce is the most important part of the business – make sure they are protected.

Employers' liability insurance is a legal requirement for most businesses, regardless of whether it just involves family members or employs permanent and seasonal workers. It protects a business and its employees if they are injured or become ill due to their work. Insurers typically provide up to £10m of cover, but check the amount meets your needs, and that it does cover any family and friends working for you.

Group Personal Accident Insurance provides a cash payment in the accidental event of you, or an employee, suffering a specified injury or death. The policy can pay either an employee or their family, or a business can use it to hire temporary staff. This can build your reputation as a good employer, and potentially prevent smaller employers' liability claims.

An unsafe working environment poses risks to your workforce, notwithstanding the fact that your diversification may be located on a busy, working farm. Providers of risk management services can review safety processes and train employees to ensure compliance with health and safety regulations. Maintaining property in a good condition and installing clear signage is a must, and will be noted by insurers when they assess the quality, and associated premium rate, of your risk.

For more information, please talk to an Agent or visit **nfumutual.co.uk/business/risk-management**

WELCOMING AND SELLING TO THE PUBLIC

Serious accidents involving the public can lead to high value claims, running to millions of pounds.

Many farm diversifications rely on visitors in order to make money. However, attracting the public to the countryside can increase the risk of insurance claims for slips and trips. This can also apply to your farmland, as you remain legally responsible for accidents involving trespassers who may just be looking for a public right of way, or find themselves lost on a day out.

Public and product liability insurance protects your business if it is held responsible for accidental injury to customers or the wider public. It should be a key consideration for diversifications involving the production or sale of products and food items that could potentially cause damage to a person or property.

If you plan to start attending shows or events, most event organisers will ask you to provide evidence of your public liability insurance, in addition to the cover the venue has already. This will demonstrate you are a responsible business and make it easier to get in front of your target customers and network with others in the industry.

Some farm insurance policies provide public liability cover as standard for popular diversifications such as small caravan sites and farm shops that sell only the farmer's produce. Always check with your insurer to understand if you are already paying to cover such activities.

PROTECTING YOUR PROPERTY

NFU Mutual theft claims rose 13.4% in 2017 – make security your priority.

Farm diversifications can require a significant investment in new stock, equipment and even buildings. Discuss plans with your installer and insurer, to ensure the rough costs of both establishing, and insuring, your new venture are understood up-front.

As your business grows, your property will change over time, and without the correct valuation advice, this can increase your risk of underinsurance. This means that if you do not have the correct amount of insurance in place, the amount you are paid if you make a claim could be reduced. Remember, policies generally require you to regularly assess how much insurance you need, and inform the insurer if any changes are required.

In 2018, changes made to permitted development rights (PDRs) enabled farmers to undertake certain building works without making a full planning application, including the creation of up to five new homes by converting existing agricultural buildings. Whilst this enables further diversification, be aware that using a building for non-agricultural purposes will require a change to your existing farm insurance policy as its use partly determines the premium you pay.

Some farms provide accommodation for seasonal workers or employees who work for the diversified business. Occasionally, issues such as a tenant not complying with an arrangement in the lease, or failing to leave following the termination of their employment, can arise. Commercial legal expenses insurance policies often provide cover for these scenarios that are not always considered, helping you with costs and expenses incurred in recovering possession of premises.

Diversifications that involve cash sales on your property will increase the amount of money you keep on site. Warranty conditions under an insurance policy require you to take measures to ensure money is secure, i.e. being kept in a locked safe, and transported to the bank under the correct supervision. Failure to comply could affect any loss or damage of money claims being paid. A diversification may also attract thieves looking for sellable goods or cash, so consider security measures e.g. alarms, CCTV etc. that may slightly reduce your premium, and the threat of rural crime.

PROTECTING BUSINESS INCOME

Loss of income after an event can be a bigger threat to a business than the cost of repair.

Most diversifications seek to increase a farm's income, so protecting it is a serious consideration. Business Interruption (or 'Loss of Income') insurance will pay out for income lost as a result of an insured event, such as a fire or flood. For a large farm shop or commercial unit, cover will often help with temporary relocation costs, loss of rental income, and produce that has been damaged or needs to be sold quickly.

When arranging Loss of Income cover, ask yourself the following questions:

- Is my current or projected income from the venture accurately captured on my policy?
- Is my indemnity period realistic? Am I certain on how long it will take to rebuild or restock?
- Are my buildings and contents insured? This enables a business to get back up and running more quickly as the premises and equipment can be repaired or replaced by an insurer
- Am I covered for the right events – fire, flood, or machinery breakdown?

SAFEGUARDING CUSTOMER DATA

The cost and reputational damage of a cyber attack is a threat to businesses.

All businesses, including farm diversification enterprises, that collect personal data from customers or suppliers, face an increasing threat from cyber attacks. A 2017 UK Government-commissioned survey found that the average cost of a cyber security breach to a business is £1,570. However, the long-term reputational damage to a business can be far greater.

Whether you are opening a small B&B or a large-scale events venue, you should consider protection against any attacks to your booking and payment systems. Cyber insurance policies usually provide for defence costs and damages, costs of notifying people affected by any breach and public relations consultancy to contain reputational damage.

If you plan to install chip and pin, or contactless card payment machines, talk to providers to understand their inbuilt security technology and processes, including any amounts they may pay you in the event of their systems being breached.

MANAGING EQUIPMENT

Pressurised and lifting equipment on your premises requires regular inspection.

Ensuring you have safe, efficient appliances, and machinery that provides value-for-money is essential. Pressurised and lifting equipment requires mandatory inspection under the Pressure Systems Safety Regulations (2000) and Lifting Operations and Lifting Equipment Regulations (1998), so if you do not have experience of managing them, seek expert advice.

Providers of engineering inspection services can inspect equipment from café steam boilers through to crucial lifts for customers or commercial deliveries.

Inspections can be carried out on existing equipment, or even before you purchase, providing you with additional peace of mind before you invest. Additional services include thermographic inspections of composite panels and electrical wiring, which can identify potential fire risks before customers and employees access your new diversification.

For more information, please talk to an NFU Mutual Agent or visit **vulcaninspectionservices.co.uk.**

REMEMBER THE FARM!

Whilst diversifying into larger-scale agricultural contracting may be seen as simply farming for someone else, the risk of spray drift and third party property damage is increased. Loss of income and public liability covers provided under a standard farm policy will need to be extended.

Always check your existing farm insurance cover before diversifying – even contracting.

A huge amount of time and energy goes in to making a diversification successful, so it is important to maintain a focus on the agricultural side of your business too. Although the hazards may be different, many of the insurance covers and risk management measures mentioned above are just as important to protect your farm's staff, buildings and equipment.

Reducing cover only makes sense if you are undertaking fewer farming activities following diversification, so regularly seek advice on how policies could meet your changing needs, and avoid underinsurance.

INSURANCE CHECKLIST

- Involve insurers at the planning stage to understand the rough costs you will face
- Make sure buildings, tools and equipment are insured during the construction work
- Work with insurers' risk management consultants to reduce the risk of accidents
- Make sure you have the right level of public liability insurance in place to meet your needs
- Take out business interruption cover to protect future income in the event of an incident
- Get pressurised or lifting equipment inspected regularly to ensure legal compliance
- Regularly review your sums insured for the diversification and farm to avoid underinsurance

CHECK THE FINANCIAL IMPLICATIONS TO AVOID BEING HIT BY THE TAX MAN

Sean McCann, Chartered Financial Planner at NFU Mutual.

Diversification can open up new sources of income for farmers and landowners, but it can also significantly alter the tax treatment of land and buildings.

So whatever type of diversification you're considering, from converting buildings into workshops, opening a farm shop or renting out land for a wind turbine it's important that you don't miss out on the tax benefits that are available.

Taking professional financial advice can help you avoid many of the traps and ensure that you and your family don't pay any more tax than you need to.

INHERITANCE TAX (IHT)

Agricultural Property Relief (APR) and Business Property Relief (BPR) can help reduce or even eliminate IHT on farming and other qualifying business assets.

A key requirement in securing APR is that the land or buildings must be occupied for agriculture, so converting farm buildings and letting them out for non-agricultural use such as workshops, storage units or residential letting will normally mean that APR is lost.

In order to get BPR the land or buildings must normally be used for 'trading' rather than 'investment' purposes. Diversifications that involve collecting rent with minimal management or provision of services are likely to be treated as 'investments' and so less likely to qualify for BPR. For example, many farmers have diversified into holiday lets which are normally deemed to be 'investments' rather than 'trading assets'.

GETTING THE RIGHT STRUCTURE

Getting the structure of the diversified business right can help preserve valuable IHT reliefs.

It's important to establish how the new diversified business will be run. As an example if the parents own a building that is converted into a farm shop, which their children run as a separate business this will not qualify for BPR as their parents are not using it for business purposes.

In farming families, it isn't always clear whether individual pieces of land or buildings are partnership assets or owned by individual partners and used by the partnership. This can make a big difference to whether IHT is payable. Where assets that qualify for BPR are owned by individual partners outside the business only 50% BPR will be available, rather than 100% if deemed to be a partnership asset.

Where there is a mix of 'trading' and 'non-trading' activities within one business, it's important to take advice to maximise the reliefs available.

OTHER TAX IMPLICATIONS

Depending on the nature and scale of the diversification there could be other tax implications including a potential risk to Capital Gains Tax reliefs, potential loss of farmer's averaging and impacts on VAT. Getting the right advice can help you weigh up the pros and cons.

SELF-INVESTED PENSIONS

When it comes to financing a diversification, pensions held by family members could offer another option.

A growing number of farmers now set up self-invested pension plans (commonly referred to as SIPPs) which give more choice over where to invest than a traditional pension plan and can include farm land and commercial property.

It may be possible for the younger generation to use their pension to buy land or commercial property from the older generation as part of a farm succession plan. This could provide capital for the older generation to help invest in a diversification.

The land or property would be owned by the younger generation's pension plan, with the farming business paying a commercial rent.

Using retirement funds to invest directly in land or commercial property is a riskier option than a more widely invested portfolio. From the older generation's perspective selling land or property can also trigger a Capital Gains Tax liability. Getting the right financial advice is vital.

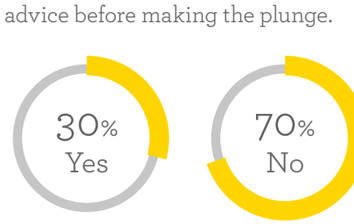
RISK WARNINGS:

- The value of pensions and investments can fall and you may get back less than invested.
- The tax treatment of pensions and investments depends on individual circumstances and may change in the future.
- Self-invested pensions require active management and investment expertise. Charges may be higher than for other types of pension plans.
- Farmland and commercial property may be difficult to sell.

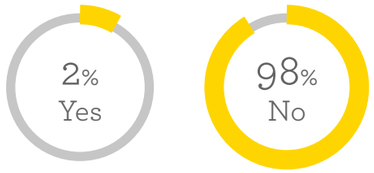
Financial advice is provided by NFU Mutual Select Investments Ltd. NFU Mutual Financial Advisers advise on NFU Mutual products and selected products from specialist providers. We'll explain our services and charges.

DID YOU TAKE INTO ACCOUNT THE POSSIBLE EFFECTS OF DIVERSIFICATION ON YOUR POTENTIAL INHERITANCE TAX LIABILITY?

Diversification can significantly change how farm land and buildings are treated for IHT purposes – so it's important to take expert financial advice before making the plunge.



HAVE YOU USED A PENSION FUND TO PURCHASE LAND/ BUILDINGS AS PART OF YOUR DIVERSIFICATION ENTERPRISE?



NEARLY 2 IN 10 FARMERS RECEIVED GRANT ASSISTANCE FOR THEIR DIVERSIFICATION

Simon Haley, Rural Business Advisor and Managing Director SRH Agribusiness.

Grant funding for farms and rural businesses secured from now until the end of 2020 has been guaranteed by the UK government. This provides certainty that those projects meeting national and local priorities for funding will continue to be supported, underwritten by the European Agricultural Fund for Rural Development (EAFRD). This guarantee means that successful funding bids will receive their full financial allocation and will continue to receive funding over the project's lifetime.

However grants are not awarded automatically to an applicant just because funds are available. The overarching aim of the Rural Development Programme for England (RDPE), among its various schemes administered by the Rural Payments Agency (RPA), is to create jobs and growth in the rural economy, to encourage innovation and the use of technology, and to support investment that enhances productivity. And so meeting these strategic objectives and offering good value for money are core principles for all applications.

Whether your project is based around farming or forestry productivity, micro-enterprise or rural diversification, aimed at tourism or is local community based, there are some common factors to consider when submitting your application. It has to be competitive and fulfilling a demand or meeting a gap in the marketplace, so you will need to explain clearly and succinctly what your project does and how it will benefit the economy, by identifying outputs clearly.

Three years of previous accounts will need to be provided, along with cashflow forecasts for the project throughout its planning, construction and implementation phases. You will need to demonstrate the source of match funding i.e. if the grant rate is offered at 40%, will the other remaining 60% of the project costs be from private funds or a bank loan for example. Having letters of support from customers, contacts or organisations within your supply chain will also be useful and a great show of support towards the project validity. Being able to demonstrate collaborative impacts is much more positive than having to identify any negative displacement effects.

It is essential to have three separate quotes for all items of expenditure that must be comparable, detailed and made out to the applicant business, with invitations to tender needed if the quotes are for over a certain amount. Also, if planning permission is needed, this must have been approved before the full application is submitted.

Other supporting documentation that will add context and strength to the application include pictures, risk analyses, alternative project comparisons, location plans, certificates and awards, marketing plans, feasibility studies and wider market research reports. Include an analysis of strengths, weaknesses, opportunities and threats also, to show that full consideration of benefits and risks has been taken into account.

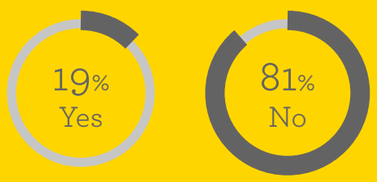
There are still plenty of grant funding opportunities on offer, whether that is to the Countryside Stewardship Scheme, the Countryside Productivity Scheme, or to the LEADER programme.

Every application and project is different, and so the type of grant and the location of the project mean that personalised advice can offer competitive advantage.

The different schemes do have application deadlines however, and often applications can take up to six months in some circumstances depending on the nature and scale of the project. Thinking ahead in good time and considering various factors such as planning, professional fees, and market research will help to ensure that all the time and effort concentrated on the application is not wasted.

DID YOU RECEIVE ANY GRANT FUNDING TO HELP SET UP YOUR DIVERSIFICATION?

Grant funding is harder to get than it used to be – but there may be opportunities making it worthwhile to seek professional advice at planning stage.



22% of those receiving grant funding had over half of their costs covered.

BRINGING YOUR DIVERSIFICATION PLANS TO LIFE

James Del Mar is a director at Rural Solutions – the specialist nationwide advisory practice on rural planning, development and diversification.

Following the decision to leave the EU, it is more important than ever before that farm and land owners sharpen their commerciality. Over 60% of UK farmers have diversified to some extent to enhance income and make better use of assets, and this number is likely to increase post-Brexit, following significant changes to agricultural support. According to gov.uk, the average additional revenue per UK farm from diversification, is approximately £10,400 per annum; that is roughly equal to 40% of the current average farm subsidy.

WHY DIVERSIFY?

At a cursory glance, venturing beyond your traditional farming activities may seem to put a strain on your core business by consuming both time and money, however, the most successful forms of diversification are those which complement existing operations by increasing the cashflow and decreasing exposure to volatility. Exploring the idea of generating further income from different markets may allow farmers more security for their future and that of subsequent generations.

HOW TO DIVERSIFY

Initially, focus energies on strengthening your existing core business. Once this is resilient, then embark on the most important first steps in diversification – the research and planning:

- **Resources –** what physical, financial and skill assets do you have? How can you enhance the farm's characteristics?
- **Market opportunity –** what is the demand profile for possible diversification ventures?
- **Location –** accessibility, legal requirements, planning designations
- **Implications** – on you, farm staff and others
- **Advertising and marketing –** word of mouth is not enough – look at ways in which you can advertise both online and offline.
- **Appetite and aptitude –** risk profiling, enthusiasm and abilities – it helps to have a passion for the venture.

NEXT STEPS

Turning an idea into a functioning business requires research, planning, project management, finance, taxation, business, property and

marketing expertise. Frequently it involves new concepts and skills. It is highly unusual for any one person to have all the answers – success in such projects is normally the result of hard work from a good team and accessing specialist advice.

We tend to suggest starting with research into the opportunities provided by the relevant market place, supply and demand, competition and socio-economic demographics. From there the genuine opportunities can be narrowed down and the potential for planning and development explored and understood.

Thereafter a business plan should be produced, and the investment, income and expenditure analysed and risk profile modelled. In our experience initial diversification investment is hugely varied; some will prefer a "soft start" approach, trialling a specific venture with an investment of say £25,000 to £100,000 to assess demand, management input, operational costs and resultant profit. Others may derive sufficient comfort from a detailed business plan and personal knowledge of the intended market such that they are prepared to take a much bigger leap. Multi-million-pound investments into diversification are not uncommon. In all cases clients want to understand likely returns, risk and yields – these are of course hugely varied, but most well-thought-out diversification operations can deliver excess double-digit returns if properly prepared for launch and market.

Glamping is often held out as capable of delivering 100% plus year-one returns – as it probably ought to, bearing in mind the annual reinvention/reinvestment required, recommendable sinking fund and weather-dependant nature of the bookings. Returns are intrinsically related to risk levels – and the unpredictability of the British weather will affect outdoor tourism and leisure. Ensuring that there is an indoor element de-risks the project and allows for a lower yield – at a lesser risk profile.

Establishing the latest attraction (for example for children) is potentially equally risky – unless continued investment is made to ensure the attraction remains the ultimate experience, it runs the risk of becoming outdated. This is all rather different to the typical business streams with which farmers and landowners have become accustomed, where tradition and long-established practices have become the very essence of place and key components of character – there is a balance to be struck between evolution and history.

OPPORTUNITIES FOR RENEWABLE ENERGY

Jon Swain, Senior Consultant at NFU Energy Service.

From farms to schools, and banks to insurance companies, everybody is interested in the world of energy at the moment. Knowing quite what to do can be a much more difficult question to answer however.

In the last 10 years many agricultural businesses have invested in renewable energy systems and these remain the important technology to consider. Employing renewable technology to assist in your own energy requirements helps protect you from the changes in energy price and allows productivity to increase. This therefore remains an important consideration, even with the reduction in the Renewable Heat Incentive (RHI) support for biomass boilers and imminent removal of Feed in Tariffs (FiTs) for electricity producing technologies. Heat pumps of all sizes are still supported well by the RHI and modern versions are efficient and available to meet a range of temperature requirements.

Using renewable energy to diversify the business outside of traditional agriculture has also been important in the last five years, many businesses have been set up to produce goods and services that were previously considered less viable. These opportunities exist in all facets of industry, however the repurposing of lower value resources into higher value, safer and more desirable products is well within the reach of modern agricultural business.

We are pledged to get 15% of our energy in the UK from renewable sources by 2020, broken down into 30% of electricity, 12% of heat and 10% of our transport requirements. Whilst we are pretty close and likely to exceed our electricity target we have quite some way to go with the heat and transport requirements. It is not inconceivable therefore that short to medium term policy and legislative drivers will aim on improving our current poor performance in this area, almost certainly at large scale, where agriculture will play a role in its land availability and location.

I couldn't write this article without considering the role of battery technology. The coming two or three years will present opportunity for 'behind the meter' electricity storage as a reasonable investment, largely as a result of the funding committed at government level to improving efficiency and reducing cost. Whilst the investment case is currently unattractive, expect to review this as energy prices increase and technology cheapens.

MORE INFORMATION

For more information about diversification visit:
nfumutual.co.uk/farming/farming-diversification

NFU Mutual has launched a series of podcasts featuring different customers who have diversified, and offer tips and advice. To find our podcasts and subscribe, search for "NFU Mutual" in your smartphone podcast app.

For more information about the organisations featured in this report visit:

DAERA **daera-ni.gov.uk**

Defra **gov.uk/government/organisations/department-for-environment-food-rural-affairs**

FEC Energy **fec-energy.co.uk**

Gov UK – Diversifying Farming Business **gov.uk/guidance/diversifying-farming-businesses**

LEADER **gov.uk/guidance/rural-development-programme-for-england-leader-funding**

NFU Cymru **nfu-cymru.org.uk/home**

NFU Energy Services **nfuonline.com/membership/your-nfu-member-services/nfu-farm-energy-service**

NFU England **nfuonline.com/home**

NFU Scotland **nfus.org.uk**

Prince's Countryside Fund Farm Resilience Programme **princescountrysidefund.org.uk/how-we-help-the-princes-farm-resilience-programme/take-part**

Rural Solutions **ruralsolutions.co.uk**

SRH Agribusiness **srhagribusiness.co.uk**

Ulster Farmers' Union **ufuni.org**

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