



Rural Financial Counselling Service  
NSW - Central West Inc

# Succession Planning



## Dear client

It is a widely accepted fact that succession planning is a critical factor in effective business planning and by completing a succession plan your business lowers its financial risk.

Succession planning involves (amongst other things) determining what the existing generation wants to do; the identification of the needs and expectations of each family member for the future of the farm enterprise; and building, maintaining and possibly even repairing relationships between family members. It also identifies and allows for the orderly transfer of management, responsibility, ownership, assets and control of a farm enterprise over a planned timeframe.

You may have already started or even completed a succession plan for your enterprise; however it is well known that many farming families and small business owners do not have a succession plan.

Rural Financial Counselling Service NSW – Central West employs counsellors to provide *free and confidential financial counselling* to eligible primary producers and small rural businesses. Our counsellor can work with you to start the process of succession planning preparation so that a professional succession planner can eventually carry on what has been started and review options that may be of assistance.

This brochure outlines the steps for development of a succession plan, and also explains the process you can undertake with the assistance of a rural financial counsellor and a succession planner.

If you would like assistance with your succession plan please contact RFCS NSW – Central West on 02 6884 7841

**Jeff Caldbeck**  
CEO

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## What is succession planning?

Succession means different things to different business owners. Each owner faces their own particular issues surrounding their business, their family and their future. Succession management and planning addresses the complexities involved in transitioning the ownership of a business, usually from one generation to the next. The succession plan outlines the way a business should be owned and managed after the retirement of the current owners and provides for the smooth continuation of the business.

### What is the purpose of succession planning?

The most important aim of the succession planning process is to bring about a smooth transfer of the family farm and at the same time, improve business confidence and maintain family harmony. The succession plan evaluates business and personal circumstances in light of current and possible future options, so as to develop a preferred course of action from a range of alternatives, while the business owners are still in a position of control.

### What are the elements of a successful succession plan?

A succession plan is supported by all the stakeholders and documents the following elements:

- Ownership succession
- Management succession
- Valuation
- Wealth management
- Estate planning
- Tax
- Future business direction

## Why do we need succession planning?

- 67% of all businesses in Australia are family-owned business (even higher in rural areas)
- 68% are facing generational change during the next 10 years
- 82% of business owners regard succession and retirement planning as important
- Only 25% of these owners have sought professional succession advice and of these
  - only 24% report having a documented succession plan, and of these
  - only 27% indicate that ownership succession has been implemented.

### Common problems with some succession plans

- Succession plan not clearly documented
- Agreements do not have consensus of all family members
- Family conflict prevents resolution
- Unclear goals, needs and wants by family members
- Formal transfers do not take place
- It is left until the last minute to start planning
- Not facilitated by an impartial, qualified professional
- It is not reviewed as situations change
- No clear future for the business
- Families defer opening discussions for fear of conflict
- Incorrect advice leads to tax and stamp duty problems
- Retirement funding of previous owners not adequate

## Business transition options

While the following options are not limited, some business transitions rural financial counsellors could identify for clients could include:

- **Sell the business and move on.** If the business has become too much of a burden, it may be a good time to sell.
- **Prepare to transition the business to the next generation.** A succession plan will outline the way your business will be managed and owned after the retirement of the current owners.
- **Review debt and banking arrangements.** Perhaps debt and banking facilities can be better structured to meet your needs.
- **Have a partial release of ownership/management.** A partial release of ownership and/or management can have a number of beneficial effects.
- **Lease the property to the next generation or an outside party.** There are several types of leasing arrangements. Obtain professional advice as to the best option for your circumstances.
- **Agisting livestock.** In general a short-term arrangement that provides a risk management option.
- **Share farming.** Share farming agreements should be in writing. Both sides must be satisfied they are getting a fair share of the income and the cost sharing arrangements are appropriate for the amount of capital invested.
- **Other ways of transitioning.** If you would like to sell the farm business, but stay involved in the industry, it may be possible to manage a farm for someone else.

# How a rural financial counsellor can assist a business transition and formulate an effective succession plan

The most important thing a rural financial counsellor can do is help alleviate the confusion, and sometimes fear, a family has in dealing with the issues of succession by simplifying the process and providing support to achieve the desired outcomes.

Sometimes too many advisors make the situation more confusing, so a rural financial counsellor can provide independent and impartial support to put you on the right path and alleviate confusion.

A rural financial counsellor will focus on how to structure a succession plan and the processes required that will lead to an effective outcome.

A rural financial counsellor cannot:

- Represent clients in legal processes or act as a mediator (a rural financial counsellor can however, call a family meeting as a precursor to the legal/mediation process). A rural financial counsellor can also support the family in the mediation process.
- Provide advice on any financial, accounting or taxation aspect of your enterprise, or in any way influence your decision on a particular financial product.
- Provide social or family counselling.
- Recommend particular best options (this is to be done by accountants, legal advisers etc).
- Complete tax returns or business activity statements.
- Provide technical or agronomic advice.
- Complete the sections of succession plans where legal, financial, accounting or taxation advice is required.

# What constitutes the key process?

Rural financial counsellors can assist farming families through a six-step succession planning process. These steps do not need to be undertaken sequentially, and if found unnecessary, some stages can be removed:

- Stage 1 – conduct a family meeting (e.g. to agree to the need for succession planning)
- Stage 2 – make the decisions
- Structure the plan
- Implement the plan
- Check the progress
- Define the future business direction

## Stage 1

### The Family Meeting

- Consider the various options relating to the future direction of the business.
- Obtain a common commitment from all family members to the process and the achievement of a positive outcome.
- Give the rural financial counsellor a better understanding of the history of the property, the family legacy and the needs and expectations of all the participants.
- Collect legal, accounting and financial information necessary to prepare the draft plan.
- Identify any potential impediments to a successful outcome.
- Ensure the process is undertaken in a manner that maintains the family harmony and business prosperity.

## Stage 2

### Make the Decisions

- A rural financial counsellor cannot structure the plan for you. However, with the help of professional advisors, they can assist you to understand and manage the process.
- The information gathered during the family meeting will assist both the rural financial counsellor and professional advisor to establish the needs of each of the participants.
- When structuring the plan, it is important to keep in mind that each participant may have a different expectation.

**The current business owners** will want a graceful exit. If the business is to be transitioned to the next generation, they will want to know it is in good hands and they have also established a sound retirement or semi-retirement income.

**The future owners/managers** will want a succession plan to ensure their future is secure and not burdened by too much debt.

**Other members of the family** not involved in the business, will want to know that a succession plan values their position appropriately.

**The whole family will** want a smooth transition without creating tensions and acrimony.

In essence the plan must deal with sometimes conflicting needs and aspirations of:

- The business owners (both current and future)
- The family
- The business itself

## Stage 3

### Structure the Plan

It is important to develop a systematic way of structuring your succession plan. The following are some, but by no means not all, of the key elements of a successful plan:

- Remuneration
- Equity ownership by family members
- Expectations of those working on and off the farm
- Accounting and legal structures
- Retirement and estate planning

## Stage 4

### Implement the plan

Following the structuring of the plan, the key objective is to formulate a “Heads of Agreement” between all key stakeholders. This agreement can be a formal legal document or simply a written creed adopted by the family. In either case, it can be worthwhile to have all parties sign the document to avoid confusion and dispute at a later date.

The Heads of Agreement should document all major decisions. This may include issues such as:

- The current business structure and land/property ownership
- The business/property restructure
- The restructure of existing debt and capital accounts
- The transfer of the farm including such items as:
  - water entitlements
  - valuation and market appraisals
  - value of improvements
  - adjustments

## Stage 4 cont...

- The consideration of items such as:
  - Payments to the current owners
  - What expenses incurred by the previous owners will continue to be met, such as telephone, rent, motor vehicle, insurances etc
  - What housing arrangements will be made for the previous owners
  - How will the income be distributed
- The security to be provided to ensure future transition payments
- Estate planning issues including review of wills
- Capital gains tax issues and consequences

## Stage 5

### Check the Progress

- When you have completed and implemented your succession plan, review its progress on a regular basis. A rural financial counsellor can help you stay on track, however, you may also need the help of a professional advisor.
- The primary purpose of monitoring is to ensure the original objectives of family members are realised. In addition, this process will ensure any potential for conflict during the transition term is minimised. Monitoring the plan closely assists the new owners with cash flow management and the meeting of financial obligations. For the current owners, it provides the comfort and security of knowing the original intent of the succession plan will be fulfilled and the funding of their retirement plans stay on track.

## Stage 6

### Define the future business direction

To ensure the ongoing development of the business, a focus must be maintained on its key elements:

**Innovation** – are you using the latest production techniques and machinery?

**Markets** – are your commodities suited to a changing and demanding marketplace?

**Diversification** – have you spread your risk in terms of production such as prices and competition?

**Business risks** – is there adequate insurance against all risks? Have you had an occupational health and safety assessment?

**Skills and knowledge** – is your knowledge sufficient and up-to-date?

**Financial Management** – are the right structures in place? Are reporting systems adequate? Have you effectively forecast profit and loss projections and capital requirements?

**Planning and Strategy** – is the business “professional?” Do you have a strategic plan that clearly determines:

- Where the business is now
- Where is it going
- How will it get there

## What is the role of the client in the succession planning process?

- To be aware of the succession planning service rural financial counsellors can provide and that it is free of charge. You should not offer to pay rural financial counsellors, nor request them to provide services in a private capacity.
- To provide, to the best of your knowledge, full disclosure of your financial position and/or full disclosure of the financial position of the enterprise, including the other partner(s) you represent.
- To have full authority to represent and act on behalf of other partner(s) in the enterprise and to involve them in any decisions made as a result of information provided by a rural financial counsellor.
- To agree that the other partner(s) is permitted access to any information disclosed or provided to the counsellor for the purposes of seeking support or information that is provided to you by a rural financial counsellor in relation to the support being sought.
- To provide consent (and, if relevant, consent on behalf of the other partner(s)) to the collection and storage of all financial information relevant to the rural financial counselling service (RFCS-CW) program in a secure database.
- To understand that rural financial counsellors will seek permission before disclosing your circumstances and/or personal/financial details to any specific third parties that may need to be involved in participation in the rural financial counselling program.

- To respond promptly to letters or telephone calls from the allocated service provider.
- To understand that the service provider may assign another rural financial counsellor to assist you if the first rural financial counsellor is unavailable.
- To understand that your file will be disposed of appropriately seven years after the last transaction with the service provider.
- To agree to participate in confidential surveys aimed at maintaining the quality and effectiveness of the rural financial counselling program.

## What is the role of the rural financial counsellor in succession planning?

- To identify your needs to consider succession planning matters.
- To assist you and your family members to discuss what you want to achieve out of the succession planning process (without facilitating a final decision – this can be done in conjunction with a mediator).
- To identify the issues you should raise with succession planning advisors.
- To present you and other family members options (goals, strategies and timeframes) for completing the succession planning process (without identifying preferred options).
- To identify sources of succession planning information (e.g. websites, books, government agencies).
- To identify the type of succession planning advisors you can visit.

- To provide referrals to pro bono service providers where necessary (some financial and legal advisors provide free services to RFCS clients).
- To assist you to identify and gather the documents required to visit a succession planning advisor (e.g. wills/testaments, title (ownership) documents, loan documents etc.).
- To attend meetings with the succession planning advisors to communicate your goals and to assist you to understand the advice provided by the succession planning advisors.
- To assist you to fill in parts of a succession plan (reflecting outcomes from legal and financial processes where required).
- To help achieve the goals and strategies in your succession plan.

## Summary

- A rural financial counsellor can play a vital role in helping you formulate a succession plan. They cannot however, provide advice.
- Succession planning does not have to be a drawn out and complicated process.
- A rural financial counsellor will assist you throughout the process and help you to a successful conclusion.



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