dairy info

6. Share farming: offering dairy owners options

If a dairy owner's aim is either to get more out of the farm or to get out of the farm slowly, then a share farming arrangement can be a smart option. A need to accommodate a changing lifestyle, a succession pathway or a desire to increase the capital value of the dairy farm and maximise production are reasons that are motivating owners to consider share farming.

Given a ready supply of people desiring a share farming role, owners now have greater choice and can pick the best 'fit' option, according to the owner's needs, the size of the farm and the motivation to improve assets and output.

Assess the Enterprise

Before embarking into a share farming arrangement, it is important to first consider if the farm is large enough to provide two incomes and is there scope to expand? The share farmer will be keen to maximize the potential of the enterprise, and will want to know the minimum number of cows required to make the operation viable for both parties, under the expectation of average seasonal conditions.

In order to understand the cost of the share farming arrangement, consider: sharing direct feed costs based on an income sharing agreement ; apportioning cost of maintaining machinery and stock according to ownership; and ownership of existing livestock.

A clear idea on the type of share farming arrangement that best fits the dairy owner's objectives and personality will assist in setting the framework for the operation.

The Options

Share farming arrangements will more than likely fall into one of the following:

- Low level (25-40 percent) where the dairy owner retains a significant decision making role.
- High level (40-60 percent) where the dairy owner relinquishes control of the dairy operation and share farmers receive a more substantial portion of farm profits.

An arrangement where employees are given a small stake in the profits and no cost sharing exists is called a profit-sharing arrangement. The individual remains an employee, not a share farmer. Before seeking a suitable share farmer, consider your current employees or family members as potential share farmers and ask yourself what they could gain from the arrangement.

Example of a standard three year, 50/50 Income/Cost sharing model:

Income	Owner %	Sharefarmer %
Milk sales	50	50
Stock sales – culls & calves		100
Expenses		
Animal health		100
Calf rearing		100
Herd improvement		100
General herd costs		100
Agistment	50	50
Shed light, amp, power		100
Shed dairy supplies		100
Contractor – fertilizer, fodder	50	50
Fertilizer – N,K,P	50	50
Fodder conservation	50	50
Fuel, oil and grease	50	50
Hay purchase	50	50
Grain & concentrates	50	50
By-product feeds	50	50
Irrigation costs	50	50
Seed	50	50
Silage purchase	50	50
Weed & pest control	50	50
Labour – casual & permanent		100
Cartage	50	50
Consultancy fees	50	50
Irrigation	100	
On-farm improvements	100	
Vehicles and plant	100	
Accountancy	Own cost	Own cost
Administration	Own cost	Own cost
Bank borrowing fees	Own cost	Own cost
Insurance – fodder	50	50
Rates	100	
Registration & Insurance	Own cost	Own cost

Source: *National Share Dairy Farming Guidebook*

The Share Farming Agreement

A share farming agreement is not a partnership. It involves two businesses operating together to form a business relationship. A share farmer is neither an employee nor a tenant; the relationship must be based on mutual respect and good communication to ensure success.

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Tips for Success

- Sharing a common vision for the farm's future requires communication between the dairy owner and the share farmer. Discuss the potential share farmer's goals and set-up regular meeting times to discuss the day-to-day issues and plans for the future.
- Jointly calculate the anticipated returns to each party based on the agreed split of costs and income.
- Model the effects of extremes in milk and supplement prices under average seasonal conditions to gauge variations in returns to each party.
- Develop production targets, which rise as the share farmer's understanding of the business grows.
- Set up systems to ensure the share farmer is not excessively burdened in year one.
- Acknowledge the debt carried by the share farmer has no relevance in contract negotiations but will have an impact on the sustainability of the agreement – undertake a credit check on the share farmer.
- Acknowledge the share farmer's income should be greater than for an employee, as he/she is assuming a portion of the risk.
- Calculate returns on capital for plant, stock and equipment as higher than for land, due to the depreciation and high risk of owning stock and equipment.
- If possible time the commencement of the share farming agreement to coincide with a period where a majority of the herd is close to drying off. Cows purchased should be in-calf, reducing the risk of cash flow problems in year one.
- Determine responsibility for essential farm operations and if contractors are used, who is liable for these costs.
- Seek taxation advice on primary producer status and legal advice to draw up a contract.
- Draft a brief position report which includes an inventory of all fodder (quality/quantity), fuel, shed and animal health items, as well as an assessment of pasture cover; the condition of relevant structures and equipment; the number of livestock and their condition.

The Contract

A written and legally binding contract between the dairy owner and share farmer should be drawn up prior to commencement of share farming, with equal input from both parties. A professional facilitator/mediator can assist with achieving objectivity in the agreement, ensuring both parties have equal input and that all issues are covered from a management, financial and legal perspective.

The contract should include:

- The names of both parties;
- The start and finish dates, including a notification date on which both parties indicate their intentions beyond the end of the current contract period;
- Commercial arrangements such as the provision of assets;
- The duties and obligations of each party;
- Operational issues such as time commitments and farm management;
- Taxation and insurance obligations;
- Production issues and responsibility for disease and overstocking;
- Dairy owner's first option to buy dairy herd;
- Provision for natural disasters and subsequent lack of feed and water;
- Access by the owner;
- Land and water rights;
- Payment of milk cheques to the owner;
- Income and cost-sharing arrangements.

As the share farmer is not an employee, he/she should be recognised for accepting risk and control, as well as being responsible for their own sick/annual leave, Workcover insurance and superannuation.

In Conclusion

An agreed level of control must be given to the share farmer in order to make the relationship a true share farming agreement, particularly where the land owner is keen to step back from the day-to-day management. Understanding the share farmer's vision together with an open and communicative relationship can offer both parties a profitable and enjoyable experience.

Further information:

Local farm consultants are a recommended source of information.

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