

Setting up a share farming arrangement – basic principles

Share farming arrangements are often based on the percentage of income received and the costs paid by each party (e.g. 50/50 share) and, importantly, the operating profit (bottom line) and the related return on assets to each party.

Discussing and developing a share farming arrangement is best done with the help of a consultant or dairy adviser. Once an agreement has been reached, then get the financial and legal aspects checked by an accountant and solicitor.

In the formulation of any share farming agreement, some basic principles should be followed:

- Make sure at the start that both parties share a common picture of the farm's future. The discussion that occurs between an owner and a share farmer in developing a share arrangement often tests the common understanding about the direction of the farm business and, hence, the potential success of the arrangement.
- Make sure that the income and cost splitting arrangement provides a fair and reasonable outcome for both parties. There must be a fair distribution of income and costs between the owner and share farmer so that they each obtain a fair and reasonable return on the resources they are providing and the risks they are taking. Other benefits such as the provision of a house, utilities, calves to rear for their own use etc should be valued in the agreement discussions.
- Calculate anticipated returns jointly. Having discussed a possible splitting of income and costs based on what is being provided by each, both parties need to calculate jointly the anticipated returns to each party (not just themselves) using long-term milk and supplement prices, and with an expectation of average seasonal conditions.
- Model the effect of extremes in price and seasonal variation. Once both parties have examined the potential average returns (if possible from actual historical data), it is important to model the effect of extremes in price and seasonal conditions to get an indication of variation in returns to each party. It is common for disputes regarding the 'fairness' of agreements to arise in difficult years due to the financial pressure on both parties; if the fairness is established at the start, it reduces the chance of disputes in difficult years.
- Ensure returns on labour and capital are fair.
- Calculate returns on each party's investment fairly.
- The return to a share farmer for labour should be higher than the amount the share farmer could receive as an employee - since this amount may include superannuation, holidays, personal leave and, in some cases, workers compensation. Some return may be in growth in equity, rather than cash return.
- Debt level and the annual debt servicing by either party have no relevance on the formulation of a fair share arrangement. It must be based on the total value and type of capital and labour value that each party provides in the arrangement.

Next steps: our *Share Dairy Farming in Australia - Model Code of Practice* includes a [fairness and affordability calculator](#). Use this to assess an arrangement that is currently under review or being proposed. Download the latest information at www.thepeopleindairy.org.au/sharefarming