Stock ownership pathway preamble

This option allows the opportunity for dairy entrants to grow wealth and for owners to attract and retain good people without the risks commonly associated with share farming.

This pathway has appeal for a number of reasons:

- Many prospective share farming candidates are relatively inexperienced and to journey down the path of risk associated with share farming (both income and expense) in addition to debt, is too risky and unwise at this point
- There is a direct reward for looking after stock
- The owner is not risking the financial repercussions of operational decisions until after a probation period of working together (through this stock build up phase)
- The exit strategy is straightforward
- It is tax advantageous for both parties
- There is a golden hand cuff that diminishes poaching
- It is an attractive **interim** step for both parties

Principles of an employment engagement with a stock bonus

1. The engagement is viewed as a long term agreement that allows a win-win from all perspectives including, business profitability, wealth creation, reward for effort, skills development, work-life balance, support, trust and respect.
2. A % of the heifers raised will be offered as a bonus annually. This % may be set at a lower rate for initial years or have a minimum engagement period before the employee is able to effect it, as protection to the owner in case the tenure does not last beyond an agreed term of employment. After a set induction period, the % of heifers raised in the early years can be increased as reward for tenure.
3. If such an agreement is being considered after there has already been a significant period of engagement then there may not be a need to consider a lower % in the event of early departure.
4. No rearing costs, lease, cull value or losses are considered. These cattle are only available on termination of employment.
5. It is assumed that the salary will be compliant with the Pastoral Award given that such employees are classified as FLH5 or FLH7 and all hours are recorded and rewarded.
6. A home will be supplied in most situations at a nominal rent
7. Individual cattle are not owned but rather a percentage of each of the age groups is owned as demonstrated on the spreadsheet.
8. When the agreement settles, as a default, cows are selected based on percentages and allocated on a pro rata basis. For example, every third cow numerically selected from lowest to highest. Any changes to this methodology would be negotiable.
9. The ownership of the cattle can be reflected in the balance sheets of both parties and tax will be payable on the change in stock value annually (usually assigned a low value)

A worked example

Andy and Lisa have taken on managing a 400 cow farm for Tony and Brenda, who are no longer wanting to be involved in the day to day operations. They have built up a substantial asset in their dairy farm and neither of their two daughters are interested in farming. Tony has great pride in his cows and is very keen to give Andy and Lisa a chance to get ahead, whilst still being involved in the business. Andy and Lisa have been in the industry for 6 years, the last 12 months with Tony and Brenda. They are keen to own stock but don't want to borrow money to do so. Tony does not feel comfortable about handing over the risk of farming to them as he feels he would rather them have a guaranteed income until they are able to invest in the farm and are more advanced in decision making skills.

Andy and Lisa both work on the farm and a relief milker comes in to milk for them when they have time off. They are paid for all the hours they do as per the Pastoral Award 2010. They are categorised as FLH5 and FLH7 employees under the award. The stock bonus that they have agreed on, will only be activated if they stay on the farm beyond three years from their start of employment.

It is initially 25% of all the heifers reared on the farm since they started, so in three years they will have approximately 25 first calvers, 25 rising 2 year old heifers and 25 yearling calves. This percentage will increase over time to allow for culls. At the end of five years, the market value of the stock will be around $200,000. They will not pay any costs of these cattle or receive income of cull value from any of them until they take possession. This will occur if they leave the farm or if they commence share farming or enter into a shared equity arrangement with Tony and Brenda. None of the cattle are individually owned, and come the time to take them away, they are selected by splitting on a numerical basis. If Andy and Lisa choose not to continue on beyond 3 years, they are only eligible for half the bonus. Once they reach 5 years, the bonus is fully payable.

If Lisa and Andy can save some money over the next 4 years, hopefully they will have enough savings to purchase more of the herd prior to a business arrangement with Tony and Brenda. At the moment, it suits Tony to have a keen couple in the business, growing their wealth but not exposed to the financial risks of the industry. He is also happy to know that the major operational decisions are ultimately his responsibility while he builds up trust and confidence in their decision making.

Tony realises that for Andy and Lisa to have enough cows behind them to have a reasonable start when they are ready, he and Brenda need to share some of their profit in these forming years through a stock accumulation bonus. That way, they may well have a long term farm transition process in place. This would be a dream come true, compared to having to manage a constant turnover of young people, as they move on looking for unrealised opportunities.

It could ultimately result in wealth preservation if Andy and Lisa take the farm business to the next level, rather than struggle as he and Brenda become less enthusiastic.