Getting a start in dairying

Collaborative farming options such as partnership and share-farming offer the kind of opportunities a generation of educated, experienced and highly motivated young people have been waiting for

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John Sexton is 18 months into one of Ireland's newest share-farming arrangements on the 34ha, Gurteen, farm near Bandon which is owned by Shinagh Estates Ltd – a company owned by the West Cork Co-ops. Shinagh Estates Limited is managed by Gus O'Brien. In 2015, Shinagh Estates invested €250,000 to convert what was then an out-farm into a 100-cow dairy unit.

"The aim was to demonstrate how a share-farming model could provide a good income for the farm's owners but also enable a person with some capital to start a dairy farming business," says John.

"The farm shouldn't be confused with either the agricultural college in Tipperary or the nearby Shinagh Dairy Farm which was set up by Shinagh Estates and Teagasc in 2011 to show how leasing land can facilitate profitable expansion."

The Shinagh Dairy Farm is a great success but it required very substantial startup capital and other models, like the one at Gurteen, are needed to help people make a start in dairying.

Opportunity

After a lengthy selection process, which took into account his education, energy, enthusiasm and experience, John Sexton was selected. Share-farming arrangements can last any period of time but typically contracts are signed for a minimum of three years.

In this case, the contract is seven years' long, which was the timeframe John required to secure the debt on his 93 cows. "In theory, I could move on before the end of the agreement in which case I must give at least six months' notice," says John.

John's homeplace is a fragmented 28ha farm in Donoughmore, Co Cork, where he has 36 heifer calves from 2017 and 30 in-calf heifers born in spring 2016. This amounts to €52,000 worth of young stock (depending on market values) to go with the equity he has in the herd at Gurteen.

"The aim is to build equity and potentially move to another opportunity at the end of the current agreement," says John. His departure would generate an opportunity for someone else.

Share-farming

The principle of share-farming is that the land owner provides the land and infrastructure (milking parlour, wintering facilities, roadways, etc) for dairying and the share farmer will provide some or all of the livestock, all the labour and management of the farm. Machinery can be provided by either party.

Each party gets a percentage of the milk cheque. In this case, the split is 60/40 to John. Stock sales are his, as he owns the cows, and all of the Basic Payment goes to Shinagh Estates.

Shinagh Estates cover costs relating to their assets, e.g. roadway repairs, while John covers costs relating to his assets, e.g. animal health costs. Costs associated with producing milk from the farm, e.g. feed and fertiliser costs, are split in the same ratio as the milk cheque.

All of these splits are described in the legally binding share-farming agreement; templates which are available on the Teagasc website.

Teagasc developed this template specifically for dairy share-farming in Ireland. "It is vital that both parties complete a business plan and seek the advice of a Teagasc advisor, solicitor and tax accountant during the formation of the arrangement," says Tom Curran of Teagasc.

Splitting expenses

In some share-farming arrangements income and costs are split at source, e.g. for milk sales the milk processor will issue a milk statement to both the share farmer and farm owner with their percentage of the milk for

OPEN DAY

There will be an open day on the farm on 6 September at 11am where all aspects of the share-farming arrangement, farm development and farm performance will be discussed in detail.

Key messages

- A new 100-cow share-farming arrangement has been set up by Teagasc and Shinagh Estates in Bandon, Co Cork.
- John Sexton is the share farmer and after years of being an employee on a dairy farm, he now owns his own cows.
- A good working relationship is fundamental to a successful share-farming arrangement.

John Sexton pictured with his Teagasc advisor Grainne Hurley.

that month. The financial expenses are monitored using a specially modified version of the Teagasc cost control planner programme. For inputs, the supplier may invoice each party for their share, e.g. if ordering six tonnes of fertiliser, three tonnes will be invoiced to each party.

Alternatively, income and expenses can be split at farm level, e.g. where the milk cheque is paid to the farm owner and they then pass this on to the share farmer recording the transaction with a short invoice and receipt. Or the fertiliser is charged to one account and at the end of the month, the farm owner and share farmer meet up to keep accounts up to date. This is how the Gurteen share-farming is operated with Shinagh Estates being the initial point of contact for suppliers.

John's career path to date

- Level 6 certificate in dairy herd management, Clonakilty (two years)
- Farm assistant with William Kingston, Skibbereen – 220 cows (six months).
- Farm assistant with Alastair and Sharon Rayne, New Zealand – 700 cows (one year).
- Herd manager for Grasslands, New Zealand – 800 cows (one year).
- Farm manager for Ed Dale, England – 450 cows (three years).

"I always chose to work for excellent farmers and in different countries to improve my farming and business skills," says John.

Relationship

"On top of the legal agreement between the two parties, there are other principles of how share-farming works which need to be adhered to for a good working relationship," says John McNamara of Teagasc in Clonakilty:

- Respect from John to look after the farm as if it were his own.
- Respect from Shinagh Estates to give John freedom to manage the farm, within reason, once certain key performance indicators are met.

To ensure a good working relationship it is advisable to have a third party, e.g. a consultant/advisor as an independent party who will monitor how the farm is performing relative to targets and how well both parties are meeting their obligations. In this case, John McNamara fulfils the role and he facilitates a monthly meeting with both parties to review performance.

Performance to date

"2016 was a difficult year for established farmers never mind a new start up," says John's local Teagasc advisor Grainne Hurley.

John had put a herd together at the end of 2015 which comprised 50% first lactation heifers – average age of the herd last year was 1.9 lactations. Last year, 342kgMS/cow was sold after feeding 460kg of meal per cow.

This year John is hoping to sell 380kgMS/cow and has only fed 200kg of meal per cow to date.

A total of 11% of the herd was empty after 12 weeks' breeding last year so only 10 first-lactation heifers were bought in this year. Cash was tight last year with the poor milk price and John went to interest-only repayments.

"The lift in milk price means the outlook is much better this year," says John. "I'm hoping to achieve a return on investment of 10% in 2017." As the herd matures, performance will continue to improve as will John's return on investment and net worth. "After a difficult start, I'm confident of making significant progress over the next few years on the Gurteen farm," he concludes.