The nature of farm succession planning in the Riverina Region

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Outline

• Background and Motivation
• Research Questions
• Survey and Results
• Concluding Comments
Background/Motivation

- 98% of Australian farms are family owned and operated.

- Importance of farming to the sustainability of rural and regional economies

- Family farming faces a number of (newer) economic and social challenges:
  - ageing agricultural workforce
  - climate change
  - alternative land uses
  - increasing FDI
  - job and career opportunities away from farming
  - the need for off-farm income

Farm succession is important because:
- it plays a significant role in the long-term viability of individual farms
Research Questions

What is the nature of farm succession planning in the Riverina region?

More specifically:

- What proportion of farm businesses have succession plans or potential successors in place?
  - Hypothesis: fewer farms have succession plans in place

- What are the common factors that influence succession planning?

- Do the survey responses reconcile perceptions that it is becoming increasingly difficult to find successors for family farms?
Key influences on succession

As noted by Wheeler et al. (2012) the literature identifies four broad influences on succession:

- Farm size (economies of scale, larger capital stocks, realisation of higher incomes, level of debt)
- Age (likelihood increases with age)
  - Average age of Australian farmers = 53. The average age has risen by 13 years in the last 25 years and is 12 years above the national average for other occupations. (AFI 2014)
  - In addition, farmers are more likely to continue working well beyond retirement age (ABS 2015).
- Farm type (related to the degree of income generated - includes location which depicts farm type and land value)
- Values towards farming (keeping the family farm as a whole unit)
Survey Population = 200

Sample Size = 55

Response Rate = 27.6%
(data collection period: 40 days, between July to September 2015)

Structure of Survey:
1. Descriptive Information
2. Information about a succession plan
3. Information about a potential successor
4. Information about retirement plans
5. Other information

Survey Area: Riverina, NSW
Key Results

Age of Respondent

Almost 2/3 of respondents were 50 years +

Type of Farming

93% of farms livestock/mixed farming
Key Results

Farm Size (ha)

50% between 500-2000 hectares

Gross Value of Agricultural Operations

1/3 greater than $1M
Key Results

Management Structure:
- Partnership (45%)
- Family Ownership (37%)

86% of farms have a debt equity ratio of less than 30%.
Key Results

Does your farm business have a succession plan and/or successor in place?

Yes 52%
No 48%

Would you like the farm to remain within your family?

Yes 91%
Do not mind 9%
Intergenerational Nature of the Business

Key Results

Percentage of Respondents (%)

Number of Generations

- One
- Two
- Three or more
- None
Key Results

Age of Potential Successor

<table>
<thead>
<tr>
<th>Age of Successor</th>
<th>Percentage of Respondents (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 20</td>
<td>30</td>
</tr>
<tr>
<td>21-30</td>
<td>40</td>
</tr>
<tr>
<td>31-40</td>
<td>15</td>
</tr>
<tr>
<td>41-50</td>
<td>5</td>
</tr>
<tr>
<td>Greater than 50</td>
<td>5</td>
</tr>
</tbody>
</table>
Chi-Square Tests of Independence

<table>
<thead>
<tr>
<th>Factor</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age and the presence of a succession plan</td>
<td>No</td>
</tr>
<tr>
<td>Size of the farm and the presence of a succession plan</td>
<td>No</td>
</tr>
<tr>
<td>Gross value of agricultural operations and the presence of a succession plan</td>
<td>Yes</td>
</tr>
<tr>
<td>Level of debt and the presence of a succession plan</td>
<td>No</td>
</tr>
<tr>
<td>Management structure and the presence of a succession plan</td>
<td>Yes</td>
</tr>
</tbody>
</table>
The intergenerational nature of the business and the presence of a succession plan.

Wish for the farm to remain within the family and the presence of a succession plan.

Intentions to eventually sell the farm and the existence of successors.

Preference to sell the business if offered an attractive sale price for alternative land use, and the presence of a succession plan?
Key Results

Reasons for not having a succession plan in place

- Do not have enough time to create one
- Cannot find a fair way to benefit all heirs
- Do not have the skills/resources to complete a plan
- Do not have a suitable successor
- Do not want to think about a succession plan and retirement
- Do not want to create a succession plan
- Prefer not to say
- Other*

Percentage of Responses (%)

Do not have enough time to create one: 10%
Cannot find a fair way to benefit all heirs: 20%
Do not have the skills/resources to complete a plan: 30%
Do not have a suitable successor: 40%
Do not want to think about a succession plan and retirement: 50%
Do not want to create a succession plan: 60%
Prefer not to say: 70%
Other*: 80%
Common reasons for not having a succession plan in place

‘I do not intend to pass the farm on but to sell it when it becomes too much’.

‘At this stage I do not expect any of the children will want to take over the farm’.

‘I have one daughter and one son, they have indicated to me neither are interested in farming, all I need to do is create a comfortable retirement package for myself’.

‘Am trying to get it organised but slow to be addressed by senior family members’ and ‘parents don’t want to talk about it’.
Key Results

Retirement Plans of Respondents

- I am already fully retired
- I am already semi-retired
- I will eventually fully retire from farming
- I will eventually semi-retire from farming
- I will retire from farming once a suitable successor is in place
- I never want to retire from farming
- Other

Percentage of Respondents (%)

- I am already fully retired: 0%
- I am already semi-retired: 5%
- I will eventually fully retire from farming: 10%
- I will eventually semi-retire from farming: 20%
- I will retire from farming once a suitable successor is in place: 30%
- I never want to retire from farming: 15%
- Other: 10%
Do you believe it is becoming increasingly difficult to find successors for family farms?
Key Results

Reasons offered by respondents as to why it is becoming increasingly hard to find successors

- Lack of education about agriculture
- Lack of viable income
- Financial constraints associated with succession
- Attractiveness of alternative employment opportunities
- Attractiveness of alternative lifestyle opportunities
- Other

Percentage (%) - Reason

- Lack of education about agriculture: 10%
- Lack of viable income: 80%
- Financial constraints associated with succession: 60%
- Attractiveness of alternative employment opportunities: 80%
- Attractiveness of alternative lifestyle opportunities: 60%
- Other: 10%
Conclusions

• Approximately 2/3 of respondents were aged 50 years +

• Just over 50% of respondents have a succession plan in place

• 86% of farms have a debt equity ratio of less than 30%.

• Statistically significant relationships between gross value of operations, level of debt, desire to maintain the family farm and farm succession planning

• One-third of the reasons for not having a succession plan in place were related to difficulties in finding an equitable way to benefit all heirs and lack of a suitable successor.

• Over 50% of respondents indicated they would never retire or only semi retire from farming

• 70% of respondents believed it was becoming increasingly hard to find suitable successors
Thank you