

Improving the Welsh Dairy Supply Chain



# Contract Stock Rearing



**Dairy Development Centre**

Gelli Aur

Carmarthen

Carmarthenshire

SA32 8NJ

Telephone: 01554 748570

E-mail: [ddc@colegsirgar.ac.uk](mailto:ddc@colegsirgar.ac.uk)

[www.ddc-wales.co.uk](http://www.ddc-wales.co.uk)

July 2011

The Dairy Development Centre (DDC) acknowledges the contribution made by  
The Andersons Centre to the technical content of this booklet.

This project has received funding through the Rural Development Plan for Wales 2007-2013 which  
is funded by the Welsh Government and the European Agricultural Fund for Rural Development.

No part of this publication may be reproduced or transmitted in any form by any means without the prior  
written consent of the Dairy Development Centre.

Whilst all reasonable care has been taken in its preparation, no warranty is given as to its accuracy, no liability  
accepted for any loss or damage caused by reliance upon any statement in or omission from this publication.

Introduction to Collaborative Farm Ventures	4
Collaborative Farm Ventures Decision Tree	5
Contract Heifer Rearing / Dry Stock Rearing	6
Background	
Definition of Contract Rearing	
Objectives	
Suitability in the Welsh Dairy Industry	
Dairy farmers perspective	9
Strengths	
Weaknesses	
Contract rearers perspective	9
Strengths	
Weaknesses	
Reasons for Success	10
Reasons for Failure	10
Other points	11
Types of Contracts Available	12
The Contract	15
Contract - Legal	16
Contract - Taxation	16
Case Study - Contract Heifer Rearing	17
Previously	
Now	
The Benefits	
Heads of terms	18

# Introduction to Collaborative Farm Ventures

Put simply, farmer collaboration consists of two or more farm businesses getting together, sharing resources to reduce cost and or increase profitability. They are relatively common throughout other sectors of UK agriculture, however they are relatively new to dairying.

There are a number of reasons for collaboration, these include:

- Improving profitability
- Economies of scale and synergies – cost control
- Personal benefits – quality of life
- Allows succession
- Efficient use of capital

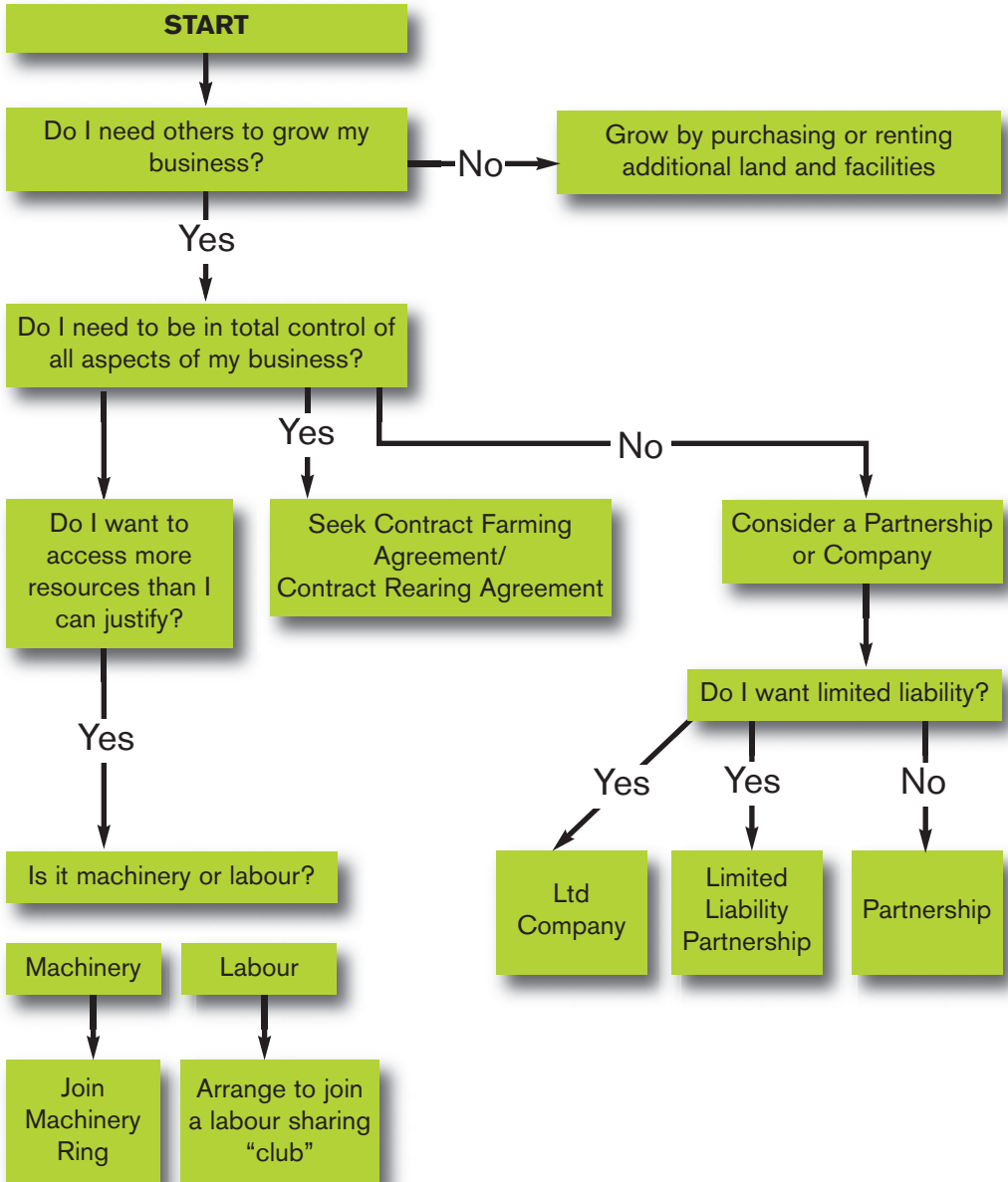
It is essential that a budget is always considered before the agreement commences to ensure viability and delivery of all parties' expectations. It is important though that each individual business considering a collaborative venture seeks professional advice from a knowledgeable business and legal advisor. However, there is a shortage of such persons who have adequate knowledge of the subject. Consequently, a farming business could suffer unnecessary delay and cost in the establishment of their agreement, hence the use of checklists and templates provided via the Dairy Development Centre (DDC).

The following information can be used by farming businesses and/or their professional advisors to assist in highlighting potential solutions and provide guidance regarding the points to consider in preparation of the agreed venture being entered into.

This is one booklet in a series and is specific to one type of collaborative venture. To view the Collaborative Ventures report or the other information booklets visit the website [www.ddc-wales.co.uk](http://www.ddc-wales.co.uk) or contact the DDC. For a copy of DairyCo's Joint Venture templates that provide guidance to dairy farmers who are considering a joint venture with other dairy businesses, or bringing others into the business structure, contact DairyCo publications on 02476 478702.



# Collaborative Farm Ventures Decision Tree



# Contract Heifer Rearing / Dry Stock Rearing

## Introduction

Dairy heifers are the next generation in a dairy unit—they are essential but expensive and can often be in conflict with the dairy herd. They compete for housing, time and cost and can often be the poor “relative”.

Well grown and managed heifers can be an asset to the dairy unit whilst poorly grown heifers that have suffered from competition for resources will be expensive and a liability.

Focussed attention on heifers will result in competitive costs of production without compromise and improve longevity with a profitable result for the dairy business owner.

## Background

The financial challenges associated with the growth in dairy farm size and the increasing average age of dairy farmers mean that some milk producers may be discouraged from further investment in the dairy industry. However one option for farmers who wish to remain resident on their farms, but no longer wish to milk, is stock rearing.



## Definition of Contract Rearing

Young stock or dry cows (owned by the dairy farmer) are reared on a second farmer's holding (the contract rearer).

All variable and overhead costs associated with rearing are incurred by the contract rearer e.g. housing, bedding, feed, fertiliser for grazing and winter cropping land etc. Sometimes the dairy farmer will cover the extra costs of specific vaccinations and breeding.

The rearing system and target growth rates should be agreed and documented by both parties in advance.

The rearing costs must be agreed in advance. These cover the costs and profit for the contract rearer. They can be on one of the following basis:

- amount/head/day
- amount/per KG of live weight gain

Invoices are normally issued on a monthly basis.



## Objectives

Contract heifer rearing allows the dairy farmer to focus his skills and resources (land/buildings/capital) on producing milk and the contract rearer on rearing quality stock.

Allows both businesses to achieve manageable change:

- The dairy farmer's business can grow.
- The contract rearer (former dairy farmer) reduces his/her workload by no longer having the daily duties associated with milking and managing cows.

## Suitability in the Welsh Dairy Industry

- Allows those nearing retirement to remain in business and on farms but reduces workloads.
- Can provide an economic solution for farms that grow grass more profitably than combinable crops.
- The lowest costs are attainable, and management simplified, when the venture is applied to block calving herds.
- Also suitable for those with stock housing facilities to take in heifers or dry cows for winter feeding.
- Alterations in stocking rates on either farm could help with NVZ compliance.





## Dairy farmers perspective

### Strengths

- Can release land/cow housing that would otherwise be used for stock rearing. This allows herd expansion and simplification.
- Allows areas of expertise to be developed.
- Reduces the risk of heifers becoming a 'sideline' priority or the 'poor relatives' on the existing dairy farm.
- The scale benefits of a 'flying herd' but with control of price, breeding and health status of replacements.

### Weaknesses

- Reduced control over the rearing of stock.
- Future productivity of herd can be partially influenced by the abilities of the stock rearer.

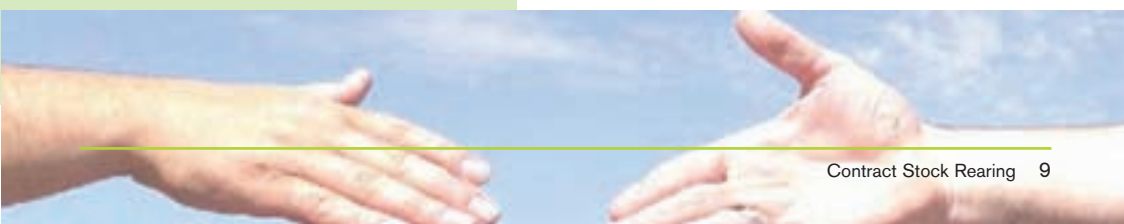
## Contract rearer's perspective

### Strengths

- Allows those who want to reduce their workloads to exit dairying but remain a 'farmer' through stock rearing. Lifestyle improvements are therefore accessible.
- Allows areas of expertise to continue to be used.
- Allows the farmer (landowner or tenant) that would otherwise cease farming to continue trading as a farming business, therefore qualifying for all relevant tax reliefs.
- Can enable a tenant to remain on the farm and living in the house where there is no successor to the previous dairy business.
- Rather than invest in new milking parlour/bulk tank a farmer has a viable alternative that utilises all other assets.
- Can release capital out of the business if needed as herd is sold.

### Weaknesses

- Beware of disease control if livestock from more than one business are kept on one holding. In this case strict animal health and vaccination protocols are essential.
- Requires frequent communication and management.
- The rearer must have excellent stockmanship skills.

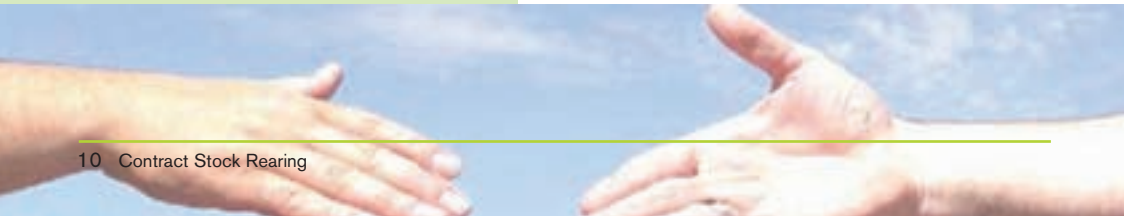


## Reasons for success

- Allows both units to focus their capital and skills base. The dairy unit focuses on milk production and the contract rearer focuses on heifer / dry stock rearing.
- Achieves the joint objectives of two separate businesses.
- Clear Heifer Rearing Agreement should be established and monitored.

## Reasons for failure

- Poor selection of stock rearer. Those with experience of rearing beef stores or finishing cattle may not be of the required mentality to rear dairy heifers or dry cows.
- The dairy farmer's facilities that were used for rearing heifers (cow housing/grazing) may not be suitable for milking extra cows, or too much pressure on milking facilities.
- Poor technical ability of stock rearer with lack of management and monitoring by the core dairy unit.
- Location of heifers and the chance of being 'locked up' with TB and other contagious cattle diseases and movement restrictions.
- The contract rearer must only expect payment for the labour he actually puts in. If he pays an employee to do the rearing the farm owner can not expect a salary for his time as well.



- **Organic Heifer Rearing**

Contract Rearing is possible with organic herds but takes more planning and commitment from both parties.

- **Ceasing Milk Production**

If the contract rearer is ceasing milk production, then rather than sell his herd he could hire his cows to the dairy farmer (who will probably be looking to increase his herd as the youngstock/dry cows leave the farm).

- **Compatibility**

Try to match systems so heifers arrived trained:

- Cubicles/straw yards
- Self feed/paddock grazing/ out wintering

- **Insurance**

Insurance should be taken out by the rearer for public liability and third party claims made against the rearer for injury, damage or accident caused by the owner's cattle while on the rearer's farm. The rearer should provide a copy of the insurance policy and the receipt for the premium to the owner upon request. All other insurance in respect of damage or loss to the cattle can only be taken out by the owner.

- **Linked Holdings**

If the contract rearer is a neighbouring farmer or within a 25 mile radius and only takes heifers from one source, then it is possible to set the youngstock unit up as a 'linked' holding. This allows the movement of cattle between the 'home' dairy unit and the rearer unit without having to report movements to the Cattle Tracing System. However, it is necessary to renew the link annually by completing the approved Single Occupancy Licence (SOA) with the local Animal Health Department. Records of movements still have to be kept on farm, plus both holdings will be locked up in the case of movement restrictions.

- **Contract Rearing on a tenanted holding**

It is essential that any tenant who is considering establishing a Contract Rearing business consults their tenancy agreement to ensure they are not in contravention. It may be constructive to inform the landlord if there are any concerns or at least seek professional advice about the agreement.



## Types of Contracts available

Heifer rearing contracts usually apply to heifers delivered to a contract heifer rearer between 2-6 months old and leaving 4-6 weeks prior to calving. The main types of contract available are:

- **Per Animal per Day** - a flat rate fee per animal per day based on actual rearing costs.

**Example:** the heifer is on the rearer's unit for 625 days and the rearing costs are £635, then the fee is £1.01 per heifer per day.

- **Per kg of Weight Gain** - This can be based on a simple delivery weight to the rearer and return weight to the farmer so growth rate per day is calculated and the appropriate cost per kg liveweight allocated. Care must be taken that this system does not produce overfat heifers at calving as the incentive for the grower is to maintain high growth rates to increase returns.

**Example:** assume a heifer weighs 100 kg when delivered to the rearer and 560kg when returned, the estimated costs per kg for rearing the heifer are rearing costs divided by 460 kgs. Heifers would be weighed once per month on this contract. If they do not achieve key target weights e.g. service weights then supplements will have to be fed.



- **Sell/Buy back Contract** - The farmer sells the heifer calves to the contract heifer rearer with the principal right to purchase back the same animal 4-6 weeks pre calving. The contract rearer has full control of the rearing system. He pays all the costs and suffers all the losses associated with the rearing period.
- **Full Contract** - The farmer provides the contract heifer rearer with feed, semen and medicines. The contract rearer supplies labour and facilities. The farmer sets the rearing policy and the rearer follows the policy. Any deaths in the heifers are borne by the farmer.

The rearing costs must be pre-determined prior to entering into Contract 1, 2 or 3 listed above so the fee rates can be agreed by both parties.



The division of responsibilities within each contract option is illustrated in Table 1 below.

**Table 1. Who is responsible for costs under each type of contract?**

<b>Type of contract</b>				
<b>Who pays for:</b>	<b>Per Day</b>	<b>Per Kg LWT</b>	<b>Sell/Buy back</b>	<b>Full Contract</b>
Calf	Farmer	Farmer	Rearer	Farmer
Feed	Rearer	Rearer	Rearer	Farmer
Veterinary Routine* Emergency**	Farmer Rearer	Farmer Rearer	Rearer Rearer	Farmer
Artificial Insemination	Farmer	Farmer	Rearer	Farmer
Utilities	Rearer	Rearer	Rearer	Rearer
Bedding	Rearer	Rearer	Rearer	Rearer
Building	Rearer	Rearer	Rearer	Rearer
Labour	Rearer	Rearer	Rearer	Rearer

\*This includes vaccinations, parasite control and any other preventative health measures.

\*\*This includes costs applicable to treat injuries or illness.

The main terms that should be covered within the contract include the following:

- **Payment:** to the grower; direct debit, monthly or quarterly plus the arrangement for dealing with late payments.
- **Performance:** There must be clarification of performance targets expected; growth rates, body condition score, breeding age, % of mature body size at service.
- **Health Protocols** required during rearing, vaccination, worming and parasite control.
- **Artificial Insemination:** who selects service sires? Who carries out service? Who pays for semen? Provision of Sweeper Bulls?
- **Bio-Security;** if heifers are received by the rearer from more than one source there be quarantine areas on arrival? Will each farmer's heifers be kept separate during the rearing period? They should be, the best solution is to only have heifers from one owner.
- **Transport:** who is responsible for transport to and from the rearer unit? Confirmation of arrival and departure dates for stock.
- **Length of contract, renewal and termination:** every contract should include definite terms for each of these issues.
- **Animal Identification:** who is responsible for replacement ID?
- **Records & Reporting:** these should describe what level of detail is required for heifer records to comply with the contract and with legislation.
- **Death Loss & Liability:** will depend on the contract adopted but the contract should specify a maximum accepted level before the losses incurred are split between the farmer and the contract rearer.
- **Communication:** good communication is key to the success of any joint venture. Both parties must be clear how they communicate with each other.
- **Arbitration:** every contract should include terms which cover any disputes between the farmer and the rearer during the course of the contract.
- **Conditions for Termination of an Agreement:** the contract must be specific over time periods for termination of an agreement so that both parties are able to find replacement stock in the case of the rearer and another rearer or land in the case of the farmer to keep youngstock on.



## Contract - Legal

The establishment of the Heifer Rearing Contract will be legally binding upon both the owner of the heifers and the rearer once they have signed the documentation under the Law of Contract.

It is essential that such an agreement is documented and signed to protect both parties whilst at the same time providing clarity over areas that could be misunderstood or that cover areas that happen rarely.

A good contract rearing agreement which produces quality heifers to return to the owner in the correct condition at the agreed time and leaves the rearer with an adequate profit will leave both parties happy. However, there may be occasional problems such as mortality or failure to maintain numbers on the rearing unit which may result in reference being required to the 'official' document which can provide clarity to the issue and, as a result, minimise any risk of conflict or confusion.

## Contract - Taxation

The Contract Rearer will continue to trade as a farmer and enjoy the same tax benefits as he may have done if he was previously farming dairy cows, as will the heifer owner.

Value Added Tax (VAT) should be added to the invoice from the rearer to the owner if the rearer's business is VAT registered at the existing VAT rate.

Should the rearer have been a dairy farmer before commencing heifer rearing he may be in a position to benefit from the sale of his dairy herd with Herd Basis Election and tax relief.

It is recommended that any farmer wishing to sell his dairy herd should consult his accountant for the correct timing and actions to be advised.





# Case Study - Contract Heifer Rearing

## Previously

Farmer A = early 40's (year of age) – owner occupier farmer (220 cows / 450 acres)  
Farmer B = early 60's (years of age) – tenant farmer (100 cows / 150 acres)

Both farmers used to own and milk cows to supply the same dairy co-operative. Both used the same consultant.

Farmer A was keen to grow his business whilst Farmer B was not making profits (after drawings) because he was employing a cowman due to own poor health.



## Now

Farmer A has built a new dairy unit and contract milks Farmer B's cows whilst Farmer B contract rears Farmer A's heifers.

## The Benefits

Improved profit for Farmer A who pays a return on capital sum to Farmer B for milking his cows and also pays him a proportion of the milk price. He now focuses on milk production.

Farmer B is now heifer rearing and has a sustainable business to stay in farming as a tenant farmer.

## The Result

Farmer A	-	a growing, focussed business.
Farmer B	-	a sustainable, profitable run towards retirement.

# Heads of Terms

Please find below the minimum requirements that should be included in an agreement.

## COW HIRE / CONTRACT REARING AGREEMENT

### 1. Farmer Details

1.1 Name of Farmer \_\_\_\_\_

1.2 Trading Title of Farmers Business \_\_\_\_\_

Please tick

- Sole Trader
- Partnership
- Limited Liability Partnership
- Company

1.3 Address of Farmer \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

### 2. Hirer/Rearer Details

2.1 Name of Hirer/Rearer \_\_\_\_\_

2.2 Trading Title of Hirer/Rearer's Business \_\_\_\_\_

2.3 Address of Hirer/Rearer \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**3. Farm Details**

3.1 Address of Farm on which cattle will be reared \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

3.2 Farmable area of land (if appropriate) \_\_\_\_\_

3.3 Please provide field schedule on separate sheet (if appropriate)

**4. Agreement Length**

4.1 Date of commencement of agreement \_\_\_\_\_

4.2 Year end of agreement \_\_\_\_\_

4.3 Length of agreement and/or termination date \_\_\_\_\_

4.4 Will compensation be available to the Hirer/Rearer for early determination? \_\_\_\_\_  
If so how much and at what interval \_\_\_\_\_  
\_\_\_\_\_

**5. Farming Details**

5.1 Farming System – please provide a brief description \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

5.2 Will the farmer provide any: Please tick if yes

Fixed equipment

Capital

Improvements

If yes please specify: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

## 6. Payment Details

6.1 Provide outline budget

	£/ha	£/ac
Gross Output:		
Variable Costs:		
Gross Margin:		
Hirer/Rearers First Charge:		
Farmers First Charge:		
Divisible Surplus:		

6.2 What rate will divisible surplus be divided between parties?

90 : 10

80 : 20

Other – please state \_\_\_\_\_

## 7. Other Information

7.1 Name of Farmers Bank \_\_\_\_\_