

ANDERSONS

THE ANDERSONS CENTRE

FEBRUARY 2016

THE ANDERSONS CENTRE E-NEWSLETTER

Old Bell House,
2 Nottingham Street,
Melton Mowbray,
Leicestershire,
LE13 1NW

01664 503 200

enquiries@theandersonscentre.co.uk

Contents

Introduction

- by Tony Evans

Beef and Sheep Budgets For 2016

- by David Thomas

Farming Connect - Making The Most Of The Support

- by Kerry Jerman

Positive Farmers Conference 2016

- by Blaise TerHaar

New Zealand Dairying Update

- by Gaynor Wellwood

Cross Compliance - Be Prepared To Be Inspected

- by George Cook

What Are Your Business Goals?

- by Karolina Klaskova

Arable Cash Flow Planning

- by Joe Scarratt

The Pitfalls of Assured Shorthold Tenancy Agreements

- by Caroline Ingamells

Introduction

Tony Evans



There is no getting away from it — 2016 will be a very challenging environment for primary food production farming businesses be that meat, milk or cereals.

A few key things to remember include:

1. For most farm businesses the previous years have been reasonably profitable and the best businesses will have banked some cash. Sadly, you may need to eat into this.
2. Remember many commodity based businesses are cyclical with highs and lows and it is the great businesses that don't get carried away in the highs.
3. The biggest challenge for many is the speed at which incomes have dropped and the ability to manage this by reducing costs and/or increasing debt to cover any shortfall.
4. Never has forward planning been so important as now. Many Bank Managers (be they external or in-house!) will be supportive and understanding if they are kept informed and request for support is logical and measured.
5. Do not also lose sight of the fact that inputs are coming down.

	2015	2016	Change
Fuel (p/litre):	42.5	31.7	25%
Fertiliser (£/tonne):	267	220	21%
Feed (£/tonne):	210	190	10%
Electricity (p/kw):	8	7	12.5%

This does NOT make up for the drop in income but over the period of 12 months could recover up to ⅓ of the drop in meat and milk prices.

6. Actions To Take:

1. Budget ahead — not just numbers but the details behind the numbers (e.g. how much feed will I buy and what price do I expect to pay?)
2. Quantify the gap between income and expenditure.
3. Challenge All items of spend: essential or choice?
4. Target 10% less usage of all inputs to see where the break point is:
Remember most recommendations from manufacturers carry a health and safety margin.
5. Challenge All purchases—not one input should be more than last year and again remember most manufacturers/traders carry a healthy profit margin — time for you to have some of it as their cost of goods have come down plus their delivery!

If you stay in business so will they but, they also need to reduce their costs of production and route to market.

Farming will recover and opportunities will occur again so make sure you stay fit and ready.

Andersons Consultants are loaded with ideas of how to help your businesses and the fact that these people almost all farm as well can demonstrate what real changes can be made to protect your cash and future.

Beef And Sheep Budgets For 2016

David Thomas



Beef

Until last Autumn beef was one of few farm commodities that was relatively stable price wise. The New Year has shown a continuation of a pattern for the last two years, where prices have fallen in the first 4 to 5 months of the calendar year.

Beef margins are notoriously slim but attitudes are confused by feel good factors of high sales prices but, margins and profits matter. Preparing a budget is a good discipline of bringing some reality and assessment of profitability to the table.

Important questions:

- What are physical targets for the enterprise?
- What are target growth rates and feed inputs?
- Are margins positive and do they cover overheads for profit?
- Work out the breakeven sale price for the year which makes it easier to take stock of financial performance during the year with volatile prices.

Whatever the beef system, whether growing and finishing cattle or a breeding suckler herd, a budget can be a powerful tool to assess total herd margin targets after forage costs against apportioned overheads. There is a danger of giving up at this stage as allocation of overheads on a mixed farm can seem onerous. Make the best estimate at this point in time and don't get bogged down by the pounds, think hundreds and thousands.

Sheep

Lamb prices in 2015 suffered from strong sterling and less favourable export conditions. The positive aspect for the year was good growing conditions which for many allowed more finishing and sales off grass at lower cost.

The start of 2016 has already seen price improvements as sterling has weakened. Prospects are for a larger lamb crop as scanning percentages are up following plenty of grass last Autumn ahead of tupping.

Exchange rates and lamb price will be outside the control of individual producers, who should now shift attention to the areas within their control i.e. whole flock management to achieve a high rearing percentage and planning grazing and crops for lamb finishing.

Again, preparing budgets for the flock asks questions of all areas of performance and cost. We see a wide range in performance between farms but there are some excellent flocks still achieving positive net margins built around:

- Strong breeding and rearing performance.
- High grass yields and utilization, with more now seeing the benefits of rotational grazing for ewes with lamb and finishing lambs.
- Efficient labour use (largest single overhead) whether paid or unpaid business partner/family.

Farming Connect - Making The Most Of The Support

Kerry Jerman



Farming Connect 2015-2020 is now up and running again for eligible farming businesses in Wales. In order to access funding, farmers must re-register with Farming Connect either by contacting your local development officer, by calling the Farming Connect Service Centre on 08456 000 813 or completing the online form, which can be accessed on the link below.

<http://businesswales.gov.wales/farmingconnect/farming-connect-registration>

As before, farmers can apply for individual business advice by applying for Strategic Business Planning. Tony Evans, David Thomas, Joe Scarratt and myself are registered as advisers who can provide this advice for any farmers wishing to review their current business performance and develop strategies to move their business forward. Technical advice can also be sought individually to improve physical aspects of the business, although a strategic business plan with action plan must be in place before this advice can be accessed. One-to-one surgeries will also now be available in one to two hour spots allowing farmers to discuss succession, business review, planning, contract/share farming, IT or renewable energy with professional advisers.

Alternatively, farmers are now able to access group advice in either groups of two for farmers potentially entering into joint venture opportunities or in groups of three to eight farmers to address issues similar in all of their businesses. As with the individual advice, strategic business plans must be in place before group technical advice can be accessed. There is also now funding available for groups of approximately 8 farmers to form discussion groups that are sector specific and have set aims and outcomes for the group.

The short-accredited training courses will again be available for farmers (full list of courses available on the Farming Connect website), although to access these courses each individual will have to complete a Personal Development Plan beforehand. The application windows for these courses are:

Window 1: 4th – 29th January 2016

Window 2: 1st – 29th April 2016

Window 3: 1st – 30th June 2016

The existing Agrisgôp and Agri-academy programmes are set to continue in the new programme along with the new Venture programme, which is designed to link existing farmers who want to take a step back in the farming industry with enthusiastic young individuals to potentially set up new joint ventures.

The new round of Farming Connect will provide an opportunity for Welsh farmers to engage and communicate more with each other and with professionals linked with farming businesses, allowing a wealth of knowledge to be exchanged that can make the Welsh farming industry a more resilient one, if the opportunities available are taken.

Positive Farmers Conference 2016

Blaise TerHaar



The Positive Farmers' annual Dairy Farming conference was hosted in Cork, Munster. The conference continues to grow with over 450 farmers in attendance including an increasing number from the UK. The focus is on grass based dairy farming and the dairy industry both domestic and international. Despite the low milk price the mood as the name would suggest was positive.

Budgeting, breeding and family farming were the main themes of the conference this year, with Caroline Spencer and Matt Venables speaking about their experiences and the importance of financial planning. Starting a budget from the bottom is essential where by the requirement from the business (rent, tax, drawings and repayments) is the end point. Zeroing all the costs and analysing what costs are built in order to reach the requirement. Most importantly it is critical that the farmer takes ownership of a budget and is actively involved in its creation, understanding it and reviewing it throughout the year.

Donald Anderson a farm owner from New Zealand reiterated this and how low-cost systems simplify decision making. If cashflows are tight Mr Anderson advised not to panic, but get the budget right and discuss issues with the bank who are more likely to be accommodating when actively included in the business.

Optimum Stocking Rates				
Total supplemented feed t/DM/ cow	Pasture grown tonnes/ha			
	10	12	14	1.6
0.00	1.5	2.0	2.3	2.6
0.25	1.7	2.1	2.4	2.8
0.50	1.8	2.2	2.5	3.0
0.75	1.9	2.3	2.7	3.1

Grass utilisation is the essence of low-cost systems, the link between grass utilisation and profitability is well established. Research from Teagasc showed that each additional tonne of dry matter utilised is worth €161/ha, and increasing stocking rate is only profitable when utilisation increases. Optimum stocking rates are related to pasture growth rates and supplemented feed (see table).

Longevity and fertility are key to a low-cost system and have a greater impact on pasture based systems compared to high input total mixed ration systems. Donagh Berry from Teagasc detailed that in a spring calving system every 1% calved within the first six weeks is worth €8.26/cow/year. While achieving low heifer mortality and target weights at mating will increase longevity, life time yields and profitability.

Piet Boer of FrieslandCampina warned that although no one knows what milk prices will be European dairy farmers should be prepared for a sustained period of low milk prices. Stating that Europe has to learn how to manage market volatility, and increasing production in a low price period is not viable. Piet Boer explained that longer exposure to low prices should increase the dairy industries resilience to global markets in the long term.

Long term resilience is about keeping to a low costs system, and maintaining discipline to keep low cost when milk prices are high. Meaning that as an industry we must learn not how to manage low milk prices but how to manage costs when prices are high.

All the papers from this year's Positive Farmers conference are available on the Positive Farmers website.

Tel: 07733 503966 [Email: bterhaar@theandersonscentre.co.uk](mailto:bterhaar@theandersonscentre.co.uk)

New Zealand Dairying Update

Gaynor Wellwood



The low and ongoing declining payout in NZ has driven a renewed focus on grassland management with Dairy NZ (DairyCo equivalent) prioritising the topic of 'utilising home grown forage' during spring discussion group meetings. Particular emphasis put on managing the quality of grass and utilising the spring rotation planner to get the best from the grazing platform. Dairy NZ quote \$5.40/kg/milk solids (18.6 ppl) as the breakeven figure at which the 'average dairy farmer' now sits, well beyond the current payout level now at \$4.15kg/MS (14 ppl). Dairy NZ have also run the challenge of reducing farm working expenses (costs of production to us) by a \$1/kg/MS (3.5 ppl). One could argue this is not enough now considering the drop in payout from the high of \$8.40/kg/MS (29 ppl) back in June 2014.

The effect of El Nino is also a factor that east coast farmers on both islands needed to be more aware of. More protracted droughts were expected and in some places have been felt. Heavy rain during early January brought welcome relief to many on North Island as grass quality and stocks looked to be challenging.

The focus coming up for the autumn/winter for NZ dairy farmers is now on setting up for next spring, reviewing again where more cost can be removed without adding extra stress to staff on farm. Much emphasis is being put on ensuring the correct checks and balances are in place for looking after staff on farms. As costs are reduced on farm there is clear recognition that the staff are the greatest asset and labour costs should be the last to be reviewed rather than the first.

The knock on effects of a low payout are impacting vet practices and agricultural suppliers in particular. Bankers have been more supportive this time around with early discussions taking place on farms as to how to manage the current economic climate. Bankers and advisors form part of the support team on many farms and are consulted early in order to ensure farmers are kept on track during this challenging period of low returns.

Dairy NZ expect a 5% reduction in overall milk production and many cows have been culled already over and above normal levels. Interestingly a number of units have not experienced much loss of production as cows on lower stocking rates are better fed and so milk output has not dropped as much as expected; Lincoln University dairy farm is one of these. Following the downturn in payout a 2% growth is expected in NZ milk production per year.

The focus for NZ dairy farms is on profitability and return on investment; two key Key Performance Indicator's that are commonly discussed on farm. Of the five systems in NZ system 2 and 3 were felt to be the most resilient in challenging times but each farm is unique in its resources so this is relevant only when taking into consideration the individual challenges on each farm.

What is impressive is that schools are now building into their curriculum elements of agricultural science so for young people looking to enter the agricultural industry they already have some knowledge of key factors affecting production on farm.

With 2016 providing a tough trading environment for dairy farmers, Profitability, Sustainability and Competitiveness are the key elements that Dairy NZ aim to bring to the NZ dairy industry in order to ensure a thriving dairy industry for the long term.

Cross Compliance - Be Prepared To Be Inspected

George Cook



Average penalties for failures/breaches are usually set at between 2% - 5% of Annual Basic Payment Scheme payment. There is a high probability that most will receive a full or partial inspection in the next 3 - 5 years.

It is therefore worth spending time being prepared. This article can only set out a few pointers and is by no means comprehensive but it will help to reduce the panic when you receive notice of an inspection (often less than 24 hours).

Some key points:

- Download a copy of the 2016 cross compliance handbook from the Rural Payments Agency website.
- For those applying organic materials of any sort, make sure you have prepared a risk map for all land.
- When applying any nitrogen (artificial or organic) make sure you have recorded the following for each field.
 - A) Previous crop
 - B) Initial N assessment - update with any revisions
 - C) Record what has been applied and when, keep records for 5 years.
- Field margins for environmental protection of hedgerows and watercourses.
- The 2 metre margin from centre of hedge, 1 metre from top of ditch watercourse etc. These are minimum and there is no averaging - check and reinstate as soon as possible. If I see breaches when driving which I do, then so will inspectors.
- Application, storage of organic manures is a minefield, particularly where numbers are high, seek assistance with recording software. Check timings of applications over a 12 month period on forage crops.
- Livestock movements and tagging is high in the list of failures. Synchronise movement dates, replace tags if ordered.

Top 10 Cross Compliance Failures in 2014 by number of failures



1	Cattle TB Testing	1142	(new)
2	Cattle Identification & Registration	897	↓
3	NVZ Regulations	631	↑
4	Soil Protection Review	478	↓
5	Sheep & Goat Identification & Records	470	↑
6	Protection of Hedges & Watercourses	186	↓
7	No Spread Zones	147	↑
8	Public Rights of Way	56	↓
9	Food & Feed Law	47	↓
10	Plant Protection Products	46	↓

- Ensure public rights of way are maintained at their full width across arable fields. Finally stay up to date - attend briefings run by various agencies i.e. Up and Coming NFU Green Future meetings in East Midlands, FAS Farmers Briefings Newsletter or contact one of The Andersons Centre team.

Sign up to FAS Newsletter: <https://www.gov.uk/government/groups/farming-advice-service>

Tel: 07836 707360 Email: gcook@theandersonscentre.co.uk

What Are Your Business Goals?

Karolina Klaskova



With the New Year's resolutions fresh on our minds and the end of the financial year around the corner for most of us, this is a good time to take a step back from the day to day routine to consider our goals and values. This might sound like a bit of a luxury or even downright waste of time to some, however clearly established goals are one of the most important drivers of a successful business.

It is important that we spend some time considering what our values and goals are, on our own as well as with our family and key staff. Once private goals are clarified, they then need to be encompassed into overall business goals. Clearly identified goals will help to focus business management as well as motivate everyone to work hard towards achieving these goals.

Some key points:

1. Understand what is really important to you, your family and key staff.
2. Identify 'motivating' goal/s.
3. Discuss retirement and succession
 - Timescale
 - Different options of business transfer onto the next generation
 - Financial requirements
4. Take time to discuss all the above, do not assume anything!
5. Use an external facilitator so everyone is listened to and that emotions are controlled.
6. Establish overall business goals.
7. Ensure that everyone understands how their private goals fit within the overall business goals.
8. Write it down!

Identifying business goals is the first part of strategic management. The next part is to relate these to how your business should look like in 10 years' time (or more/less depending on your situation). Write down the relevant key aspects of the future business. After that we can start to plan how to achieve these key aspects step by step.

Arable Cash Flow Planning

Joe Scarratt



Cash positions are tight with delays to the Basic Payment only worsening matters. Ahead of the spring work-load and key crop spending period, now is the time to take stock and re-plan working capital requirements through to early 2017 to ensure there is sufficient cash available to meet requirements.

Key to cash-flow planning:-

1. Consider income timings of crop sold but in store. Review current un-sold crop tonnages and likely sale timings/market expectations.
2. Consider contract timings for the 2016 crop to fulfil autumn cash shortfalls. Forward markets offer prices approaching £120/t for feed wheat by Christmas 2016; this is likely to be a higher price than the average achieved for the 2014 and 2015 crop, thus offering an opportunity?
3. Take advantage of delayed payment options on fertiliser deliveries.
4. Plan ag-chem costs for spring/summer 2016 – depending on variety choice/impact of mild winter there may well be options to cut fungicide rates/product choice to deliver financial gains depending on weather events due to current market prospects i.e. return on fungicide investment is reduced with markets expected to deliver £120/t ex-farm for the 2016 crop. Do the sums, is it worth chasing that extra 0.25t/acre? 2015 demonstrated how reduced fungicide spend can still deliver high yields provided the weather is on our side. Cutting herbicides or base fertilisers is a false economy, as this creates challenges for future years. Whilst likely to be against the agronomist's recommendations, reviewing fungicide spend can be a valuable exercise.
5. Ensure you understand the full benefit of deflation being observed when completing your budget for next year, particularly fuel and fertiliser compared to last year.
6. Ensure you plan for the timings of all loan repayments and HP commitments. If continuing bank loan repayments are causing the overdraft to rise, talk to your lenders early about the possibility of taking a 'capital holiday' for a year. Interest only payments will continue but there is no point having a rising overdraft and reducing loan accounts – from the bank's perspective the Balance Sheet position remains the same. With HP, these are often 'lumpy' sums which if close to overdraft facility limits, is important to monitor balances closely during these times.
7. Ensure you know your drawings and tax requirements. For businesses with a September year-end there is the opportunity to reduce tax payments on account as the tax bill paid in January 2016 relates to the period ending September 2014. Get the 2015 accounts completed to enable any January payments on account to be returned or prevent further payments in July. This could assist cash-flow.

With price prospects for the 2016 wheat crop at circa £120/t, this represents a break-even price after rents and own labour for the average business. Therefore, where businesses can delay re-investment decisions, use the annual depreciation charge as an opportunity to re-address cash balances which would otherwise be static or negative on an annual basis. Delaying re-investment decisions at present is clearly helpful from a cash-flow viewpoint but also wise because of the current deflation being observed – with prices down already and sales falling, machinery costs could fall further! It is important to get cash-flow correct first time, you will lose credibility with lenders if you go back in 6 months' time for additional funding because you planned incorrectly.

The Pitfalls of Assured Shorthold Tenancy Agreements

Caroline Ingamells



Some farms may have residential property which they let, this may or may not be to an agricultural worker. But in most instances an Assured Shorthold Agreement (AST) will be used. This allows the Landlord to seek possession without giving a reason but to do this they must be set up correctly and certain obligations met. Under an AST, an initial short fixed term (normally 6 or 12 months) is agreed. After the end of the fixed term, it is possible for the agreement to roll onto a Periodic Tenancy. The Agreement can then be brought to an end by the Tenant giving one month's notice or the Landlord serving two months' notice. But Landlords in England and Wales need to beware of changes taking place.

England

A number of measures have recently been brought in in England which means there are significant obligations Landlord's need to abide by otherwise it may not be possible for them to serve a notice or they could receive a civil penalty. The first question to ask is, who is the Tenant? When considering who the Tenant is there are two points to take into account:

Firstly, is the Tenant classed as an 'agricultural worker'? If so it is essential that an Agricultural Notice, in the prescribed form, is served on the Tenant **before** the start of the Tenancy. This informs the Tenant that it is an AST and avoids creating a protected Assured Agricultural Occupancy. The rent must also be above £251 per annum (£1,000 on London) to be an AST.

Secondly as from 1st February 2016 the Right to Rent Scheme will be rolled out across England. This means that all private Landlords will have to check their Tenant's (and all other over 18s in the property) have the right to be in the UK before renting a property, failure could result in a civil penalty. After considering who the Tenant is, as from 1st October 2015, at the start of the Tenancy the Landlord must also provide them with:

The most up-to-date copy of the guide: *How to rent: The checklist for renting in England*

A gas safety certificate (if applicable). This must be carried out annually.

The Energy Performance Certificate (EPC) for the property.

Deposit paperwork – if a deposit is taken, the Landlord must protect it in a government approved scheme and give the Tenant the required paperwork;

Electrical inspections – checks every 5 years are recommended for electrical appliances supplied in the property.

Failure to comply with the above could mean that Landlords are unable to serve a Section 21 notice to gain possession of the property. The Landlord must also ensure that there is a smoke alarm on every floor of the property and that there are carbon monoxide alarms in all high risk rooms i.e. where solid fuel is burnt.

Wales

Meanwhile, in Wales, ASTs are due to end shortly! The Renting Homes (Wales) Act 2016 received Royal Assent on 18th January 2016. Its provisions will come into effect in line with the Commencement Orders – at the time of writing the exact date is not known. The Act introduces two new forms of contract for letting residential property in Wales: a Secure Contract and a Standard Contract, the latter will replace the AST.

The legislation will apply to existing tenancies as well as new Agreements. Existing ASTs will need to be converted to Standard Contracts. Landlords in Wales will need to keep abreast of the legislation as it is being introduced during 2016.

ANDERSONS

THE ANDERSONS CENTRE

FEBRUARY 2016

Old Bell House,
2 Nottingham Street,
Melton Mowbray,
Leicestershire,
LE13 1NW

Tel: 01664 503 200
Fax: 01664 503 201

enquiries@theandersonscentre.co.uk

For more details about our services please go to:

www.theandersonscentre.co.uk

DATE	EVENT	VENUE
23rd February 2016 - 17th March 2016	The Andersons Centre Seminars	Various - Please call 01664 503200 to book a place
4th March 2016	Farmers Briefing	Melton Cattle Market
Please note Andersons now have a new online Dairy Manager Service—for further information please call Blaise TerHaar on 01664 503222		