Latest news and views from *September 2019*

The Dairy Group

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Is your business fit for Brexit?

Ian Powell, Managing Director

A year ago, we forecast that the average cost of production would rise by 3ppl due to the drought in 2018. The good news is that the average cost of production only increased by 2ppl to 33.7ppl in the year to March 2019. Clearly, this is not good news with the average milk price rolling at 29.7ppl to March 2019, so even with 2.3ppl of income from culls & calves meant that the average farm lost 1.7ppl after unpaid family wages:

The Dairy Group : Cost of milk production analysis			
	AVERAGE	AVERAGE	CHANGE
Year end	**2017/18**	**2018/19**	
Dairy costs	**ppl**	**ppl**	**ppl**
Milk sales	28.4	29.7	1.2
Livestock sales	3.2	3.0	-0.2
Valuation change	-0.3	-0.7	-0.3
Total output	**31.3**	**32.0**	**0.7**
Feed	9.2	10.2	0.9
Forage	1.6	1.6	0.0
Vet & med	1.1	1.3	0.1
AI/recording	0.6	0.8	0.3
Bedding & sundries	2.0	1.9	-0.1
Total Variable Costs	**14.5**	**15.8**	**1.3**
Gross Margin	**16.8**	**16.2**	**-0.6**
Wages paid	2.1	2.8	0.8
Power & Mach	6.9	7.0	0.2
Property costs	2.1	2.2	0.2
Administration	1.0	1.1	0.1
Rent & finance	1.9	1.9	0.0
Total overhead costs	**14.0**	**15.1**	**1.1**
Profit before unpaid wages	**2.8**	**1.1**	**-1.7**
Unpaid family wages	3.2	2.7	-0.4
Profit after unpaid wages	**-0.3**	**-1.7**	**-1.3**
Total costs	**31.7**	**33.7**	**2.0**

The main cost increases last year were purchased feed (+0.9ppl) and wages (+0.8ppl). Our forecast for the year to March 2020 is for a reduction in the average milk price of around 1ppl, but with feed cost expected to reduce by 0.7ppl. The net effect is for the profit after family labour to remain at -1.7ppl. (Note: the table shows rounding differences).

EDITORIAL

Welcome to the September edition of our newsletter. We are huge advocates of informed decision making so have purposely kept Brexit commentary to a minimum in this newsletter.

Brexit uncertainty persists but is outside the control of farmers and consultants so our newsletter focuses on things within our control namely production costs, cashflow and feed costs. The fourth article covers some of the recent changes to farm assurance and/or milk buyer requirements and post-harvest management of maize crops is the first feature 'in-brief'.

One of our key roles is to help clients manage risk – we couldn't go to press without referring to Brexit contingency plans and the EU Settlement Scheme for EU citizens working in UK which will be applicable to some.

Our newsletter rounds off with some our staff news.

Christine Pedersen
Editor

A no deal Brexit could be just weeks away which has the potential to cause disruption to the dairy supply chain and dairy markets due to the asymmetric tariffs currently proposed by the UK Government. The UK currently exports one billion litres of milk annually with around 60% from Northern Ireland to the Irish Republic, which has serious implications for the dairy sector in a no deal scenario.

Milk price and Brexit are factors largely outside farmer control, so the focus should be on things within your control so that the business can withstand the challenges now being faced. Cost of production analysis should be used to highlight strengths and weakness and more importantly identify opportunities for potential cost savings. Our benchmarking analysis has 38 points of comparison with our Top 25% target to help you identify your strengths and weaknesses and where to focus your effort. Please contact your consultant or the office to arrange your benchmarking analysis.

Ian is responsible for our dairy cost database and MCi and works with clients across southern England. He can be contacted on 07831 617952.

Cash is still King!

Susie Felix, Senior Consultant

Whilst the objective of all businesses is to generate sufficient profit to increase the net worth or value of the business over a period of time, in the short term, cash is king. Having sufficient cash keeps you in control of your own business and to continue trading - if you run out of cash, control is effectively passed to someone else, usually the bank.

Of course, profit is very important – a high profit per litre, per cow or per hectare may be impressive but doesn't necessarily mean that sufficient profit is generated by the whole business to meet its cash needs. Cash needs include private drawings, tax, loan capital repayments and re-investment. What are the cash needs of your business and are you generating sufficient profit to meet them?

Understanding whether your business can meet its cash requirements is a key aspect of business planning and one that we regularly work with our clients to achieve through budgeting and cashflow forecasts. Whether re-negotiating an overdraft facility or seeking finance for a specific project, demonstrating that your business can meet its cash needs is a key part of the financier's decision-making process.

The EBITDA, or earnings before interest, tax, depreciation and amortisation, is a method of financial analysis increasingly used by banks, investors and other lending services. It is used to assess the business' ability to generate sufficient operating profit to service debt and will often be included in the assessment of finance applications. EBITDA can be expressed as a financial amount and as a percentage of operating profit. A figure below 100% means a business is not generating sufficient operating profit to service the cash requirements. Using this metric means we can help clients understand the implications of different finance options, e.g. term of finance and can also be used to 'stress test' budgets in 'what happens if' scenarios e.g. the milk price falls by 1 ppl.

One thing that farming businesses can always be certain of is uncertainty. That maybe continued indecision regarding Brexit, proposed changes to direct payments, future milk price and the weather! There is a real need for all businesses to understand their cashflow and peak borrowing requirements going forward to aid decision making with regard to capital investment, loan capital repayments and finance requirements. Monitoring the cashflow is just as important as it provokes action when things start to deviate from the plan. Please contact The Dairy Group if you wish to discuss further.

Susie is a senior dairy business consultant working in the North West, West Midlands and North Wales. She can be contacted on 07471 035199.

Feeding opportunities

Christine Pedersen, Senior Dairy Business Consultant

What a difference 12 months makes! After the drought last year, grass growth rates in 2019 have mirrored a more 'typical' growth curve and grass silage stocks have been replenished with good 3rd, 4th and in some cases 5th cut grass crops. The yield potential of maize crops looks promising as I write this and by the time you read it, maize harvest will be well underway in many parts of the UK. As reported in the first article, average purchased feed costs increased by 0.9 ppl in the year to March 2019 to 10.2 ppl. Feed and forage costs typically make up 35% of the total cost of milk production so it's no surprise that feed costs are always under scrutiny as part of an overall strategy to reduce the total cost of milk production. The top 25% had purchased feed costs of 8.5 ppl, a saving of 1.7 ppl or £33,000 per year for the average producer. With good forage stocks and cereals at around £120/t, there should be an opportunity for most to reduce the purchased feed cost for all livestock this winter.

As ever, grass silage analysis results are mixed, the reported 'average' results hiding a range of dry matter, fermentation and nutritional analysis. As the autumn progresses and the emphasis moves from grazing to feeding conserved forages, we will be reviewing forage quantity and quality with clients. For producers with plentiful supplies of forage, we will be conducting dry matter intake audits to review how to challenge forage dry matter intakes and to which groups of cows. The top 10% of our MCi costed herds are producing more than 4,000 litres from forage. Milk from forage is a Key Performance Indicator (KPI) for profitable milk production.

Climate Change is one of two main stories that have dominated the press over the summer. Climate Change has been almost daily news with cows and agriculture regularly hitting the headlines along with Greta Thunberg, Extinction Rebellion, Amazon fires, Greenland's rapidly vanishing glaciers and private jets. Agriculture is currently responsible for about 9% of the UK's greenhouse gas emissions, but has come under significant public scrutiny, with methane emissions from ruminants being one focus. Undoubtedly food production systems will need to evolve to feed a growing population with reduced environmental impact. Efficient milk or beef production is more resource efficient, has a lower environmental impact and is more profitable. We all know that nutrition and feeding are the cornerstones of efficient livestock production. Using a formulated diet to match the nutrient content of the feed to the requirements of the animal at different production stages is key, which means that regular forage and feed analysis is critical.

The phrase 'responsible sourcing' is cropping up more frequently with some aligned milk contracts already prohibiting the use of soya/soya bi-products and/or palm oil/palm oil derivatives in an effort to reduce the environmental impact and improve the overall public perception of dairy. The majority of our clients feed protein sources other than soya and many feed no soya at all. Based on our relative feed calculator which compares feeds to identify the best value for money energy and protein sources, we have been recommending rapeseed meal and other proteins as most cost-effective for a long time. As ever, managing diets to optimise the balance of energy and protein continues to make sense for cows, farm businesses and the environment.

Christine provides dairy technical and business management advice to clients across southern England. She can be contacted on 07831 172940.

Assurance and audits

Will Hawkyard, Principal Consultant

There have been a series of announcements from dairy companies and farm assurance bodies over the last few months introducing new requirements to farm assurance schemes, conditions of supply and tightening up existing requirements. The risk-based approach to audits introduced by the Red Tractor assurance scheme in the spring are leading to farm assurance inspectors taking a stricter line in their interpretation of the standards. In some cases, unannounced audits have been triggered and in the worst-case scenarios milk collections have been suspended. This is a risk not worth taking. Our advice is to review your farm assurance standards and ensure your farm is 'audit ready'.

Ensuring you have the correct, up to date paperwork is a significant task and it's easy to overlook records that are required. For example, did you know that a recent change to Red Tractor means that from 1/10/19 a parlour plant cleaning protocol must be available and on display, including all aspects of the plant cleaning routine? The Dairy Group can provide a protocol tailored to your specific cleaning routine.

One of the areas that is definitely receiving much more attention is the visible appearance of the farm. Do not underestimate how important this issue is. It is clear from feedback we have received from clients that all areas of the farm are covered by this whether or not they are visible to the public. Take the opportunity over the next few months to review the appearance of your farm and identify areas that need tidying and then act on this, e.g. by disposing of old machinery.

A Livestock Health Plan, written and updated in conjunction with your vet is a cornerstone of assurance schemes. Most, if not all assurance schemes require the implementation of the National Johne's Management Plan to manage Johne's disease, having identified an appropriate strategy through discussion with your vet. Although it has long been best-practice, from 1/10/19 Red Tractor assurance includes "Colostrum or milk from known Johne's positive cows must not be fed to dairy or beef breeding stock". In some cases, milk buyer requirements supersede farm assurance standards – at least one milk buyer now requires that milk from cows with two Johne's positive tests is kept out of the bulk tank.

Animal health standards are merely a framework for 'best-practice advice' in most cases as high standards go hand in hand with high animal welfare and efficient, profitable farming and food production. As consultants, we work together with vets, farmers and farm staff to help our clients proactively manage and improve health and welfare of livestock. We know from experience that many farmers find paperwork a chore, easily brushed aside to 'deal with on a rainy day'. If this is something you need help with, please speak to your consultant as we can help collate all the required paperwork together in a format that can be readily presented to an inspector, taking some of the stress out of an inspection.

Will specialises in business and farm management issues and can be contacted on 07831 477296.

News in Brief............

Maize stubbles present a serious risk of soil erosion if left overwinter, so with maize harvest underway it is time to think about post-harvest management of maize stubbles. Where an autumn sown crop is not planned, the best option to help reduce run-off and erosion after maize is to sow a cover crop. Even if they only achieve modest ground cover, cover crops can reduce run off by up to 50% and soil erosion by up to 90%. Cover crops have the added advantage of taking up nitrogen which would otherwise be leached away. When the crop is ploughed in the spring this nitrogen is released to the soil ready for the growing season, increasing the nitrogen available to the following crop.

If cover crops are not possible, farmers should take steps to prevent soil loss including breaking up tramlines and/or chisel ploughing to encourage rain to infiltrate the soil rather than running over the top of the soil surface. Chisel ploughing has been shown to reduce the amount of run off and erosion by over 90% compared to bare stubbles. The cross-compliance rules regarding soil management remain the same, if over 1ha of soil erosion is found upon inspection, it is a cross-compliance breach which may result in BPS penalties.

Brexit uncertainty continues and once again clients are urged to consider contingency plans for key inputs - feed, fertiliser, seed, chemicals, veterinary medicines and fuel. Employees who are EU citizens can apply to the EU Settlement Scheme to continue living in the UK after 30 June 2021.

The Dairy Group is delighted to announce that **John Baines** has resumed his consultancy career with The Dairy Group after 21 years as Technical Director with Fullwood Ltd. In his early career, John was the National Milking Technology Specialist with ADAS which included a spell working at the Bridgets Experimental Husbandry Farm.

John has wide and varied experience of milking cows, goats, sheep, buffaloes and camels in many countries. Since 1992, he has represented the UK in International Standards Committee work on Milking Machine Standards.

During his time with Fullwood, he led the team developing its automatic milking system and associated technologies. He is also a founder member of "Teat Club International", co-authoring a series of published papers on dairy cow teat condition. Working with The Dairy Group will be an opportunity to share this wealth of experience and problem solving in milking management, systems and milk production.

And finally, congratulations to Somerset based dairy business consultant, **Naomi Read** (nee Lee) on her recent marriage. We would like to wish her and her husband every happiness for the future.

The Dairy Group consultants work across the UK providing a wide range of dairy business advice. Please contact our Head Office at Taunton or visit our website for further information or to contact our consultants: -

The Dairy Group, New Agriculture House, Blackbrook Park Avenue, Taunton, Somerset, TA1 2PX
Tel: 01823 444488 **Email: enquires@thedairygroup.co.uk**
Website: www.thedairygroup.co.uk, **Dairy Herd Costings: www.dairy-mci.com**