

The Dairy Group

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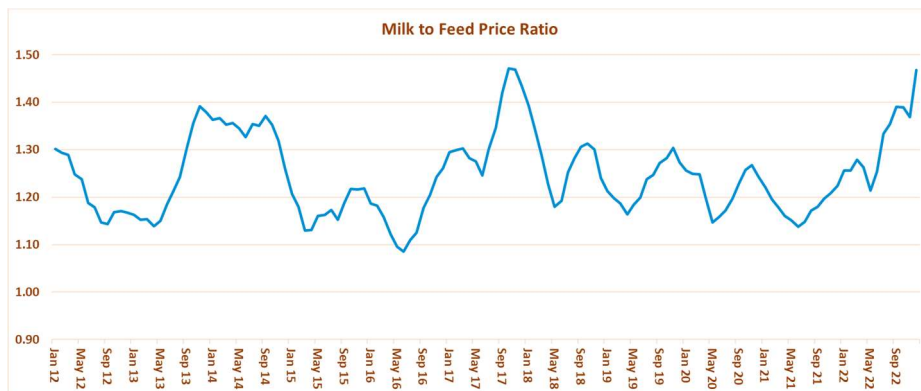


Outlook for 2023

John Twyford, Senior Dairy Business Consultant

Following announcements of price reductions from milk buyers, a very good period for dairy farmers seems to be coming to an end. One might hope that feed prices are going to come down in concert, but based on the current outlook for cereals and proteins it seems unlikely. Although the prices of wheat and barley have reached low points relative to last year, there is continued uncertainty around supply. Soya and rapeseed meal values continue to react to crop conditions and weather.

Assuming a milk price of 40 ppl and feed costs of 35 ppkg, a milk to feed price ratio of around 1.1 is a possible scenario this summer. The graph below shows the variations in this ratio for the last 10 years. A ratio of 1.1 was last seen in the summer of 2016:



However, the ratio alone can be misleading. Whilst 40 ppl/35 ppkg (2023) and 22 ppl/19 ppkg (2016) both yield a ratio of 1.1, there is a large difference in margin over purchased feed. At 35 ppkg and a feed rate of 0.35 kg/litre, the cost of concentrate is 12 ppl in 2023 yielding a margin of 28 ppl. In 2016, at the same feed rate, the margin over purchased feed was just 16 ppl. Milk to feed price ratios are interesting but as shown here, they don't tell the full story.

Fertiliser prices are expected to be down 1 ppl relative to 2022/23, and we are expecting total variable costs to be around 22 ppl, down by 1 to 2 ppl on last year, leaving a gross margin of 23 ppl after livestock sales of between 4 and 5 ppl are included in total output.

There is very little scope for fixed cost reductions in 2023/24 due to inflationary pressure. Fuel and oil may ease back slightly. Electricity costs are still expected to rise on average relative to last year since some farmers have yet to have contracts renewed at current prices. We anticipate total overheads to be up about 1 ppl on last year at 20 ppl.

EDITORIAL

Welcome to our March 2023 newsletter. The first article this month looks at the outlook for dairy profitability in 2023 following the recent milk price cuts.

The 2nd article reflects on the success of Gold Cup Award finalists Rookhaye Estate and focuses on some of the keys to their achievement.

The 3rd article covers input sourcing and how clients can source their key inputs through The Dairy Group at highly competitive prices.

The in brief section covers a range of topics including milk quality in Ethiopia, grants including Sustainable Farming Incentive (SFI), Countryside Stewardship (CS) and the Farming Equipment and Technology Fund and welcomes our new consultant, Jamie Radford to our team.

If you would like to discuss any of the topics featured in this newsletter further, please speak to your consultant or ring the office on 01823 444488.

Christine Pedersen

After family labour at 3 ppl and before grants, subsidies and other income, the average UK dairy producer appears to be in a break-even position in 2023 at a milk price of 40 ppl.

The start of the 2023/24 financial year is a key opportunity to look at the forward cash flow and understand cash needs and peak borrowing requirements taking into account likely tax liabilities from the year ending March 2023.

John provides consultancy to farmers in the South of England covering business strategy, financial planning, grant applications and organic farming. He can be contacted on 07889 720399.



Gold Cup Finalist: Rookhaye Estate

Ian Powell, Managing Director

We are delighted that our client Rookhaye Estate was a finalist in the 2022 NMR RABDF Gold Cup awards. Consultants from The Dairy Group support the business by providing nutrition, business management, parlour operation and building design advice. The key performance indicators are shown in the table below:

Litres produced annually	1.8 million litres @ 4.33% butterfat & 3.39% protein	11,094 litres per cow 2 x milking
SCC Bactoscan	146 8	
Herd £PLI	£228 (Dec22)	Top 10% UK Holstein herds.
Average concentrate use	0.38 kg/litre	3,233 litres from forage
Average purchased feed cost	11.9 ppl	12-month rolling average to Dec22
Pregnancy rate	26 %	
Average age at 1st calving	25 months	
Margin over purchased feed	£3,424/cow	12-month rolling average to Dec22

What is the key to their success?

Team work: Rookhaye Estate is a mixed dairy arable farm with the whole team focussed on achieving the goals for the dairy enterprise and the attention to detail needed to achieve outstanding performance. Meet the team! (from the left Martin, Liz, Paul & George).

Cow health and welfare: This is a priority and healthy cows are productive, profitable cows. Health, fertility and production parameters are reviewed frequently. Significant investment in buildings and facilities means cows are doing what cows should do; being milked, eating and drinking or lying down. The dairy enterprise has developed protocols so that the whole team has a clear focus on detail and the delivery of top results.



Genetics: The farm has always had a key focus on genetic improvement, with the herd now in the Top 10% of UK Holstein herds. The farm started genomic testing dairy heifers two years ago which has allowed the selection of the elite heifers, with the surplus being sold.

Forage production: Forage production fits well with the arable rotation, with maize and grass leys providing break crops for winter wheat. Forage requirement and production are planned 12 to 18 months ahead with the aim of always having maize which has been ensiled for at least 3 months before feeding. Early maturing maize varieties are chosen to allow the following wheat crops to be drilled in good time. We aim to make and manage high D-value 1st and 2nd cut grass silage (mainly grass & red clover leys). The combination of high digestibility grass and high starch maize silages promotes high forage dry matter intakes, reduced concentrate feed rates and a lower carbon footprint.

Nutrition: High forage dry matter intakes allow the high genetic merit cows to express their potential utilising forage and then balancing the diet for energy and protein. Dry matter intake (DMI) is key to milk production and every effort is made to promote high intakes. The renovated cow housing has wide passages and feed mangers which encourages intakes with

no pushing up of feed. Martin designed and built a tractor mounted feed manger scraper to allow for quick and easy daily trough cleaning. Feed intake is closely monitored and compared to the target diet and diet adjustments are based on regular forage analysis.

A single dry cow diet (a partial DCAB diet based on chopped straw, maize, rapeseed meal & minerals) has been adopted which has resulted in trouble free calving and sets the cows up for their subsequent lactation. The milking herd is fed a single TMR diet based on grass and maize silage with rapeseed meal as the main protein source. Soya bean meal has not been fed for many years. Dairy compound is purchased through The Dairy Group to ensure independent competitive buying of this key input.

Liz Birkett adds: "Like all dairy farms we are faced with the challenge of generating a profit margin with the current high cost of production. We have improved the existing cow housing and recently invested in new silage clamps and calf housing. We have also invested in genetic improvement and plan to move to three times daily milking to achieve the full genetic potential of the herd from the facilities now available."

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



Sourcing Inputs

Will Hawkyard, Principal Consultant

Many input costs have been at record levels in the last 6 – 12 months. Since the New Year there have been significant falls in nitrogen prices and the compound feed market has stabilised; current indicative prices for the summer suggest a small fall in compound feed prices. Dairy compounds are now being affected by fuel and power costs as much as raw material costs. Underlying markets do remain very volatile, and this does make the timing of purchase decisions difficult.

As the milk price cuts take effect, the cost of inputs will come under greater scrutiny. The Dairy Group sources compound feed, fertiliser, minerals, grass seed and maize seed for clients. Our feed groups source a range of compound feeds (14% to 24% crude protein, high starch and high fibre options) suitable for most production systems. The high quality specified for each product is maintained as we carry out independent laboratory analysis from random samples. The competitive tendering process means that clients using dairy compound sourced through our feed groups typically make £20 - £30/t savings. If you are not in one of our regional compound feed groups but are interested in joining, please ask your consultant for more information. The next tender period starts 1/4/23 & tonnages need to be confirmed by mid March.

Our competitive tendering approach to other inputs means the prices we achieve are highly competitive. We have recently awarded the grass seed tender to a new supplier and clients are able to select from 5 conventional mixtures (short – longer term cutting or grazing leys, with or without clover), based on NIAB listed varieties, available from £35.50/acre. We are also able to source organic mixes, herbal leys and Westerwolds and can provide quotes for bespoke mixtures.

In the fertiliser market urea has tumbled in price and prices for 2024 are currently close to £400/t. This is less than half what some farmers have paid for 2023 and may well be a good price for those who are keen to reduce risk and can take delivery over the summer/early autumn.

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

News in brief.....

Milk Quality in Ethiopia - Ian Ohnstad was recently invited to help design a pilot milk quality improvement plan in Ethiopia where dairy production is generally a subsistence smallholder-based industry with relatively few small and medium commercial dairy farms. In 2019, close to 6.7 million dairy cows produced an estimated 3.6 billion litres of milk nationally, with over 95% from local breeds such as the Fogera.

Milk quality is hampered by poor water quality, a lack of knowledge of basic hygiene requirements and an inadequate cold chain. Producers often walk six or seven miles to a collection centre where milk is weighed and added to a small reception vessel for onward transport to the dairy. There is no testing of cows or milk at a producer level which makes it impossible to manage the quality of the milk received at the processing site. The project aims to establish basic milk testing facilities at the collection centres, supported by trained technicians who can provide practical advice and support to the producers to help them improve the quality of their raw milk.



Grant Update - We are in the midst of the most significant reform of agricultural policy and spending in England in decades as we transition from the EU's Common Agricultural Policy (CAP) to Environmental Land Management schemes (ELMs). There are currently 3 schemes to pay for environmental and climate goods and services:

Sustainable Farming Incentive (SFI) – applicants can currently apply for 3 standards (arable and horticulture soils, improved grassland soils and moorland). Defra recently announced a further 6 standards that will be introduced in 2023: nutrient management, integrated pest management, hedgerows, arable and horticultural land, improved grassland and low/no input grassland. These new standards are expected to be available this Spring for new SFI applicants. Existing SFI agreement holders will be able to add these additional standards and more land to their agreements.

Countryside Stewardship (CS) - Defra has reviewed and updated CS payment rates based on current costs for capital items and revenue options. The following 4 CS grants are most likely to be applicable to dairy producers:

Mid-Tier and Wildlife Offers	Offers 5-year management agreements for options to improve diversity of wildlife, water quality, air quality and natural flood management. Applications for agreements to start 1/1/24 expected to open in March 23
Higher Tier	Offers, 5, 10 or 20 year options to help manage environmentally important sites. Applications for agreements starting 1/1/24 are now open, the deadline is 28/4/23.
Capital Grants	Provides 3-year agreements from 1/1/24 offering standalone capital items to achieve specific environmental benefits. Applications are now open and can be made any time.
Higher Tier Capital Grants	This new scheme offers 3-year agreements from 1/1/24 for a selection of 20 standalone capital items to improve environmentally significant sites and woodlands. Applications are now open, and applicants don't have to be in an HLS scheme

Landscape Recovery which will pay for bespoke, longer-term, larger scale projects to enhance the natural environment.

The interaction between SFI and CS is complex. In the future, the intention is to offer SFI and CS in a single, integrated online service. At present, separate applications are necessary for each scheme although schemes can co-exist if the RPA is not paying for the same actions twice on the same piece of land and the actions are compatible. Your consultant can help you unpick the details of the schemes and help you decide which options are most appropriate for your situation.

The Farming Equipment and Technology Fund (FETF) 2023 is a competitive grant scheme split into 2 themes. Farmers in England (including contractors) can apply for grants between £1,000 - £25,000 in each theme towards the cost of items:

Productivity and Slurry Grant	Animal Health and Welfare Grant
Application window open now until 4 th April	Application window expected to open in March 2023
Items include: Robotic slurry or silage pushers Slurry separators & slurry application equipment Heat detection systems Heat recovery unit, Plate heat exchanger, Variable speed drive for pumps	Items include: Cattle handling systems including auto shedding & foot trimming crushes Automated footbaths Cluster flush system Auto calf feeding and outdoor calf housing Automated mobility/body condition scoring system

Note: This is not an exhaustive list of items. Farmers who received funding in Round 1 can still apply. Please ask your consultant for more details.



And finally, we are very excited to welcome our **new consultant, Jamie Radford** to our team. Jamie graduated from Harper Adams University in 2020 and from April will be working in the South. Jamie will introduce himself properly in the next newsletter!

The Dairy Group consultants work across the UK providing a wide range of independent dairy technical and business advice. Please contact Karen or Anne in our admin team on 01823 444488 or visit our website for further information or to contact our consultants.

Website: www.thedairygroup.co.uk,

Email: enquiries@thedairygroup.co.uk
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