Latest news and views from *September 2018*

The Dairy Group

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Is a fixed milk price of 28ppl enough?

Ian Powell, Managing Director

The short answer is no. Milk buyers seem to be under the impression that 28ppl is the right price to offer, which partly comes from the 5-year rolling milk price which at July 2018 was 27.6ppl. However, this period includes the ending of milk quota in March 2015 and the disastrous impact on milk price in 2015/16. There is an understandable fear of milk price returning to the 20ppl average we saw in spring 2016, but this should be seen in relation to the disruption caused by the ending of EU milk quota, which was a once in a generation event. There is also concern about the impact of Brexit on milk price, but if anything the UK milk price would increase under WTO tariffs and any weakening of Sterling also increases milk price. The current average market value for milk is 32.9ppl, which should deliver an average price to the farmer of 30.6ppl, which is 2ppl more than the average price paid in July of 28.6ppl. We should expect milk price to continue to increase and to exceed 30ppl by October.

The other aspect to fixing the milk price is to understand the cost of producing milk. Spring 2018 accounts should now be available, which is an ideal opportunity to analyse your cost of production and benchmark yourself against other dairy farms. We now have sufficient data from the 2017/18 accounts to populate our cost of production database for specialist dairy farms, as shown in this table.

The Dairy Group : Cost of milk production analysis

	AVERAGE	AVERAGE	Change
Year end	**2016/17**	**2017/18**	
Dairy costs	**ppl**	**ppl**	**ppl**
Milk sales	22.9	28.2	5.3
Livestock sales	2.8	3.4	0.6
Valuation change	-0.3	-0.4	-0.1
Total output	**25.5**	**31.2**	**5.8**
Feed	8.1	8.7	0.6
Forage	1.5	1.7	0.2
Vet & med	1.2	1.1	-0.1
AI/recording	0.6	0.6	0.0
Bedding & sundries	1.7	2.0	0.3
Total Variable Costs	**13.1**	**14.1**	**1.0**
Gross Margin	**12.4**	**17.1**	**4.8**
Wages paid	2.1	2.2	0.1
Power & Mach	6.4	6.7	0.3
Property costs	1.9	2.4	0.5
Administration	0.9	1.1	0.2
Rent & finance	2.3	2.1	-0.2
Total overhead costs	**13.6**	**14.5**	**0.9**
Profit before unpaid wages	**-1.3**	**2.6**	**3.9**
Unpaid family wages	3.1	3.1	0.0
Profit after unpaid wages	**-4.4**	**-0.5**	**3.9**
Total costs	**29.8**	**31.7**	**1.9**

The total cost of production for 2017/18 was 31.7ppl, which was 1.9ppl higher than the previous year, with both variable and overhead costs increasing by 1ppl. The profit after unpaid family labour was a loss of 0.5ppl, which was a 3.9ppl improvement on the previous year. The average cost of production covers a wide range in farm costs from the lowest at 26.4ppl to the highest at 48.2ppl. Where are you in this range?

What is the outlook for the current year ending March 2019? Rolling average milk price to July 2018 was 29.4ppl and is likely to increase to around 31ppl by March 2019, which would be 2.8ppl higher than at March 2018. However,

EDITORIAL

Welcome to the September edition of our newsletter. Our first article looks at the prospects for milk price and cost of production. Dairy producers take all the risk in supplying processors with a fresh, high quality product and if processors want a guaranteed supply at a fixed price they should be paying a premium and not a price below the cost of producing it.

For many farms conserved forage stocks are low this year and developing a forage strategy is covered in our second article.

Our third and final article looks at the physical and financial performance of one of the UK's highest genetic merit herds.

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

To receive this newsletter by email, please email "Subscribe" to newsletter@thedairygroup.co.uk due to the late spring and summer drought we expect the cost of production to rise by around 3ppl to 34.7ppl, with feed and additional forage costs expected to account for 2ppl of the increase.

Cost of production analysis can be used to highlight strengths and weakness and more importantly identify opportunities for potential cost savings, but it is just a starting point and a clear understanding of the current and pending cash position of your business is vital which means regularly updating your cashflow forecast. A detailed cashflow forecast means that your bank is more likely to support any application for deferred loan capital repayments or increased borrowing requirements.

For all dairy businesses the aim should be to operate a business which is robust enough to cope with milk price volatility. There are a range of options to consider to profitably increase your income (which generally means making better use of your available resources), or reduce your cost of production. There may be a temptation to change system and/or calving pattern as a solution to high costs, but any change should be budgeted carefully as there is invariably a cost to change and the alternative needs to deliver a real improvement rather than a perceived solution.

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

Coping with low forage stocks

Naomi Lee, Dairy Business Consultant

As you read this it is likely that this year's maize crop and any September grass silage will have been harvested making it the optimum time to review your forage plan. The key principles of forage planning can be broken down into 3 essential steps: Firstly, calculate conserved forage stocks from clamp measurements and silage density and include other conserved forages such as baled silage. Sample all forages to accurately assess quality and to convert forage stocks to tonnes of dry matter (DM) to reconcile with livestock dry matter requirements.

Secondly, calculate the monthly tonnes of dry matter required to feed the dairy herd, youngstock and any other livestock for the necessary feeding period. Daily forage dry matter intakes can vary from herd to herd depending on a number of factors so base your calculations on your own experience. This table indicates the typical range in daily forage dry matter intake that can be expected:

	kg DM / head / day
Milking herd	12 – 15
Dry cows	12
Other stock, 0 – 12 months	4
Other stock, 12 – 24 months	7
Other stock, 24 months +	10

The third and final step is to identify *if* you have a forage shortfall and if so, where and when this shortfall is likely to occur. We complete 12 – 15 month plans for clients to forecast rolling stocks and identify any shortfalls in the short and longer term, looking beyond this winter and into buffer feeding requirements next summer.

Having identified a potential shortfall, you can consider strategies to extend or increase conserved forage stocks over the next 12 months. To extend stocks, allocate forages to the most productive animals, typically the milking herd. Here are some options to consider, some of which may have a long-term impact on forage requirements:

- If you keep beef cattle and feed them forage based rations, is that still economical?
- Review youngstock numbers and consider the economics of retaining surplus heifers.
- Review your heifer feeding system and target age at first calving – the table above shows how much additional forage heifers over 24 months of age require. If heifer rations are formulated to meet nutritional requirements for target growth rates at all stages of their lives, heifers can successfully calve in at 24 months or even less.
- Review your herd culling policy and consider grouping cows where possible. Maize silage should be reserved for the high yielders and pre-calvers so review the diets of lower priority groups (i.e. low yielders/ late lactation cows).

Where a significant shortfall has been identified consider sourcing alternative feeds or by-products or locally available forages (take account of potential transport and re-clamping losses). When reviewing these options, assess them on the basis of relative feed value and compare on a dry matter, protein or energy basis. For herds that achieve very high daily forage dry matter intakes, using concentrates to replace some forage, e.g. rolled wheat at £189/t (including processing charge) = £220/t DM compared to bought in forage may seem attractive, but it is essential to ensure that rations are formulated with sufficient forage to maintain optimum rumen health.

Please discuss our Forage Manager service with your consultant to review your forage stocks for the next 12 months.

Naomi is a dairy business management consultant based in Somerset. She can be contacted on 07768 701135.

Unlocking the 13,000 litre potential

David Donaldson, National Dairy Nutrition Specialist

John Torrance owns and manages one of the highest £PLI and highest yielding herds in the UK at Romford in Essex. The PLI of the 500-cow herd at £294 (August 2018) clearly puts the herd within the Top 1% of UK Holstein herds. John has a very clear vision for his business and his herd and has worked with The Dairy Group for a number of years to help unlock the potential of both.

The results that John and his team have achieved are truly breath-taking. Yields from the 3 times per day milked herd exceed 13,000 litres per cow at 4.00% fat, 3.22% protein, SCC 93 and Bactoscan 13. John makes and manages excellent silage with a combination of Italian ryegrass, maize silage and for the first time this year Lucerne (for protein and fibre). More than 3,000 litres of milk per cow comes from forage which is testament to the high quality of forage which is critical to achieving high forage dry matter intakes and low feed costs in any herd. It is no surprise that this herd ranks number 1 of all MCi costed herds with a margin over purchased feed per cow of £2,950.

Herd performance including cow health, fertility and production parameters are regularly reviewed and rations for cows and youngstock revised on the basis of forage analysis. Straights fed in the milking cows rations are similar to most TMR fed herds - rapeseed meal, hi pro soya, sugar beet pulp, soda grain, wheat, fat and minerals are balanced to meet nutrient requirements. About 1/3 of the herd are heifers so achieving average dry matter intakes of over 26.5 kg per head day gives a good indication of the type of cow John has bred and when you consider that heifers calve into the herd less than 24 months of age on average, the high level of youngstock management too.

Dry cows are fed in two groups - a far-off group and a transition group. The transition group (less than 3 weeks pre-calving) are fed a high energy, low Calcium diet based on maize and grass silage, chopped straw and straights. This group is the most critical group on the farm; any issues here can have a dramatic effect on intakes, yield, fertility and health. The vet is also a critical part of the dairy team picking up any early signs of problems and tackling them immediately. The herd has a high health status and is IBR and BVD free.

Accepting that a 365-day housed system suits him and his cows, John asked Tim McKendrick for help designing new cow housing in 2012. At the time the clinical mastitis rate was too high, the high cost of straw bedding was reducing profitability and the herd was not performing to its potential; cow accommodation was out-dated for high yielding cows, poorly ventilated and did not lend itself to efficient work routines.

Having reviewed various options, an appropriate site and design for a new building was agreed upon which incorporated optimal ventilation, wide passages, generous feed space and water access and super comfortable sand cubicles. Other important considerations were good cow flow and reduced and simplified work routines. These points become more critical as herd size increases and more people work with the cows (in this case John has 10 employees, most of whom are directly involved with the cows and youngstock).

More recently, Ian Powell has provided John with business consultancy input including strategic planning on herd expansion, business forecasts to support loan applications, business support in relation to LEADER grant and cost of production analysis. John's clear vision for his business means he has achieved a seismic shift in herd and business performance over the last 4 years, which has resulted in an 8.2ppl reduction in the cost of production and together with the increase in annual milk sales there has been a tremendous improvement in the business result!

David has 30 years of ruminant nutrition experience and can be contacted on 07471 890888.

News in brief..........

PLI - The AHDB August proof run has a raft of new genomic bulls and an astonishing £PLI of £924 for the new number one sire. The next 14 bulls are all £800 or above and the top 20 sires are all higher on £PLI than every bull in the April run bar the top two.

There is a slight change in the way £PLI is calculated with the three traits of Lameness Advantage, Calf Survival and Body Condition Score all now part of the new £PLI formula. The new £PLI make up is as follows: 34.4% production; 15.1% survival; 15.3% fertility; 13.7% udder health; 8.1% leg health; 1.6% calving ease; 11.8% maintenance (efficiency). The digital dermatitis trait has not been included this time. There is also a new Autumn Calving Index (£ACI) to complement the long-standing £SCI (Spring Calving Index). This has been designed as an across-breed index (like £SCI) for autumn block-calving herds aiming for a 12-week maximum calving window. This index can be used whether pure or cross-breeding and reflects the requirements of cattle kept in that system. It includes all of the traits that make up the standard £PLI but in slightly different proportions. For more information about our Breeding Manager service please contact Kevin Lane on 07770 923344.

NVZ update - DEFRA has released data on Cross Compliance inspections and most common failures in 2017. NVZ non-compliance was the second highest reason for cross compliance failures (after cattle identification and registrations) with 34.5% of the 1,198 farms failing an inspection. The highest non-compliances were incomplete records for the current cropping year and incomplete historic records. Speak to your consultant about Nutrient-Wise and our NVZ Manager Service. Forthcoming NVZ dates to be aware of are:

1 Oct	Start of the closed period for applying high readily available N manures (i.e cattle slurry) to <u>tillage</u> land on all other soils**.**
15 Oct	Start of the closed period for applying high readily available N manures (i.e cattle slurry) to <u>grassland</u> land on all other soils.

SSAFO Update - The Silage Slurry and Agricultural Fuel Oil (SSAFO) Regulations are enforceable by the Environment Agency and relate to the storage of silage, slurry and agricultural fuel with the aim of preventing pollution incidents. Key things to be aware of:

- All new or 'substantially altered' stores must have a lifespan of 20 years and must not be constructed within 10m of a watercourse.
- Stores constructed pre 1991 are exempt, but the EA can serve an enforcement notice at any time if there is pollution risk.
- Notify the EA 14 days before you build any new store.
- Silage clamps must have an impermeable base that extends past the walls and an external drain to an effluent tank; this tank should be sized based on clamp capacity.
- Slurry stores should have a minimum of 5 months storage taking into account freeboard (300m for concrete or steel stores and 750mm for earth banked lagoons).

A non-compliance and/or pollution incident can result in prosecution and a fine of up to £5000 in a magistrate's court or an unlimited fine in the Crown Court. The Dairy Group now offers a SSAFO Compliance Review of your farm infrastructure, please contact Naomi Lee for more details on 07768 701135.

Sustainable Production Grant & Farming Connect (Wales only) - The Sustainable Production Grant provides 40% grant funding (£12,000 - £50,000) for slurry storage and other nutrient management equipment to help farmers to manage nutrient supplies on their farms. **The grant application window is open from 3rd September to 26th October 2018**. Anyone interested in applying for the grant must attend one of the Sustainable Farming Events (see https://businesswales.gov.wales/farmingconnect/sustainable-farming-roadshow). For more information please contact Farming Connect approved advisor, Susie Felix on 07471 035199.

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:-

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