Latest news and views from **September 2023**

The Dairy Group

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Outlook for milk price and cost of production

Ian Powell, Managing Director

There has been a dramatic reduction in milk price, which followed an equally dramatic increase last year. The peak average milk price was 51.5ppl in December 2022, which has fallen to a UK average of 36.0ppl in June. The dairy markets are weaker and there have been further price cuts announced from October. In addition, there is the continuing reduction in BPS income, which by 2024 will be around 50% of the income received in 2021. Some farms entered the SFI pilot and SFI22, which has helped to offset some of the lost BPS income and the SFI23 should offer all farms some additional income opportunity.

We have recently analysed our specialist dairy farm accounts with a summary in the table overleaf, together with a forecast for 2023/24. We only include specialist dairy farm accounts for bench marking as mixed farm accounts can skew the average results. We also include all the costs to the business including rent and finance and we don't deduct non milk income and call this 'net cost of production' which is used by some milk buyers.

Our average farm in the table sold 2.2 million litres in 2022/23, so well above the UK average. Last year was exceptional with an average profit after family labour of 7.1ppl, which was a welcome reprieve from a long run of losses in the preceding 6 years (average loss 1.6ppl). The challenge going forward is how to deal with significant milk price volatility and to manage higher costs. Our Top 25% cost of production was 7.2ppl below the average due to every cost item being lower. The forecast for 2023/24 is for the cost of production to remain very similar at 41.7ppl, even with the reduction in feed and fertiliser, being offset by higher wages, electricity and finance costs. The forecast is a loss of 0.4ppl, which is a return to the run of losses in the years before the exceptional profit in 2022/23. The actual out turn for 2023/24 will depend on what happens to milk price over the rest of the year to March 2024.

A good opportunity to reduce costs is to review the highest cost areas first then work down the list. At 30% of total costs, purchased feed is the single highest cost and there is often scope to reduce feed costs by making better use of home produced forage and buying the best value sources of energy and protein to meet the nutritional needs of the livestock. Rearing heifers drains cash so reviewing heifer numbers and target/actual age at 1st calving can reduce costs and free up resources.

Managing volatility requires a thorough understanding of the cash position of the business, which requires a forward budget to identify the peak borrowing requirement. Whilst there is uncertainty over milk price going forward it is relatively easy to update a budget for milk price changes to see how this impacts on cashflow.

EDITORIAL

Welcome to our September newsletter. This month we open with an article looking at the outlook for milk price and cost of production.

With lower milk prices putting pressure on cashflows and profits, producers are asking where they can cut costs which is the topic covered in the second article. Feed costs are typically around one third of the total cost of production, so a logical place to start.

The 3rd article provides information about a new grant which is due to open for applications in the autumn, for Calf Housing for Health and Welfare. Grants can cover up to a maximum rate of 40% of the eligible costs of a project.

The final article includes an update on the Sustainable Farming Incentive 2023 and Countryside Stewardship grant schemes options.

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 in future please email: newsletter@thedairygroup.co.uk

The Dairy Group : cost of milk production analysis						
	Average	Average	Change	Top 25%	Top 25% v Av.	Forecast
Year end	**2021/22**	**2022/23**	**23 v 22**	**2022/23**	**Diffrence**	**2023/24**
	ppl	**ppl**	**ppl**	**ppl**	**ppl**	**ppl**
Milk sales	32.9	45.2	12.3	41.0	-4.2	37.0
Livestock sales	4.2	3.9	-0.3	3.6	-0.3	4.3
Valuation change	-0.3	-0.2	0.1	-0.8	-0.6	0.0
Total output	**36.8**	**48.9**	**12.1**	**43.8**	**-5.1**	**41.3**
Feed	11.0	12.8	1.8	10.8	-2.0	11.5
Forage	1.9	2.9	1.0	2.4	-0.5	2.4
Vet & med	1.5	1.3	-0.2	1.0	-0.3	1.4
AI/recording	0.7	0.9	0.2	0.8	-0.1	0.9
Bedding & sundries	2.0	2.3	0.3	1.8	-0.5	2.4
Total Variable Costs	**17.1**	**20.2**	**3.1**	**16.8**	**-3.4**	**18.6**
Gross Margin	**19.7**	**28.7**	**9.0**	**27.0**	**-1.7**	**22.7**
Wages paid	2.7	3.9	1.2	2.9	-1.0	4.1
Power & Mach	7.8	7.9	0.1	6.6	-1.3	8.6
Property costs	2.7	3.3	0.6	2.8	-0.5	3.3
Administration	1.0	1.3	0.3	0.8	-0.5	1.4
Rent & finance	2.5	2.6	0.1	2.6	0.0	3.0
Total overhead costs	**16.7**	**19.0**	**2.3**	**15.7**	**-3.3**	**20.4**
Profit before unpaid wages	**3.0**	**9.7**	**6.7**	**11.3**	**1.6**	**2.3**
Unpaid family wages	3.2	2.6	-0.6	2.1	-0.5	2.7
Profit after unpaid wages	**-0.2**	**7.1**	**7.3**	**9.2**	**2.1**	**-0.4**
Total costs	**37.0**	**41.8**	**4.8**	**34.6**	**-7.2**	**41.7**
Non dairy income	**2.4**	**3.3**	**0.9**	**3.0**	**-0.3**	

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. The analysis is quick and easy to do and provides a detailed insight into business performance.

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

Where can you cut costs?

Christine Pedersen, Principal Consultant

With lower milk prices putting pressure on cashflows and profits, producers are asking where they can cut costs. Feed costs are typically around one third of the total cost of production, so a logical place to start. There are several ways to reduce feed costs without reducing output; maximising the use of home-grown forage continues to be a large driver for increasing farm profitability.

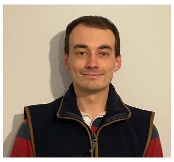
AHDB reports latest grass growth and quality figures and there is no surprise to see that average grass growth rates through the late summer and into autumn have been significantly higher than previous years. Producers will be inclined to reduce concentrate inputs to utilise any available grazing, but the success of this strategy will depend on the quality of the grazing available, stage of lactation and cow grouping options.

Starting from the basic principle that all classes of livestock should be fed to meet recommended nutrient levels, where milking cows are fed a single ration there is always a compromise in meeting the requirements of cows at different stages of lactation. Fresh cows have high nutrient requirements to produce milk – if nutrients are under-supplied in early lactation, peak milk can drop and the income potential for the whole lactation will be reduced. Fertility is likely to be affected too with excessive loss of body condition impacting on conception rates and fewer peak milk yields in the following 12-month period, again reducing the income potential. Where infrastructure and labour allow the herd to be split, target higher intakes of grazing for pregnant, late lactation cows whilst buffer feeding fresh calvers to ensure that their nutritional requirements are met for peak production. Producers are reminded to monitor body condition score regularly and adjust diets and/or groups to ensure cows are in the correct body condition for their stage of lactation.

Where there is sufficient forage of appropriate quality to ensure that nutrient requirements can be met, rations can be formulated with high levels of forage dry matter intake (up to 16 kg/head/day for milking cows) thus displacing more expensive concentrates. In contrast to previous years, grass silage stocks are plentiful, but initial reports of average 1st and 2nd cut quality indicate low protein, high fibre silages. Averages hide variable results and regular forage analysis will allow rations to be updated and adjusted as necessary.

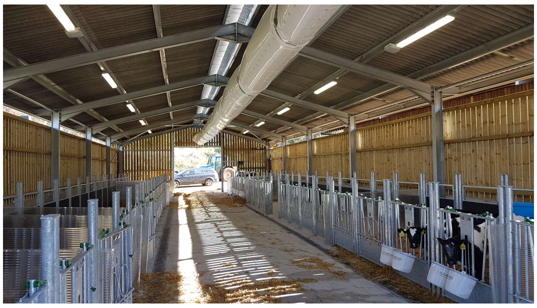
Average dairy concentrate prices have started to reduce as prices for both cereals and proteins have fallen. Rations formulated with cereals and rapeseed meal currently offer the best value for money on the basis of the energy and protein that they supply and give tried and tested results when starch and fibre levels are balanced. Rapeseed meal and feed grade urea frequently represent better value than soya and many clients feed little or no soya with no adverse effects on performance. It goes without saying that eliminating any feed additives not deemed cost-effective will save costs.

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



Calf Housing for Health & Welfare

Jamie Radford, Dairy Consultant



Farmers in England have recently learned that they will be able to apply for a Calf Housing for Health and Welfare grant to build new, upgrade, or replace existing calf housing buildings to deliver health and welfare benefits for calves up to 6 months of age. The grant offers a great opportunity to increase calf growth rates through improved calf health and welfare and ultimately improve cow performance. It is well documented that increasing daily liveweight gain of heifer calves has a positive impact on their milk yield. Studies have shown that for every 0.1kg daily liveweight gain increases, milk yield in the first lactation can increase by up to 200kg.

Calf housing conditions may be compromised due to poor ventilation and a layout that is labour intensive. At a time when labour is difficult to source, this grant will allow farmers to design their calf facilities to maximise efficiency and implement new technologies that in turn will provide data to assist management decisions.

The grant which will open for applications later this autumn is competitive and applications will be scored against the funding priorities. There will be a 3-stage application process:

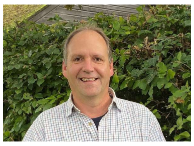
- **Stage One**: Online checker to check eligibility and how well the project fits the funding priorities.
- **Stage Two**: Ambient Environment Assessment - details of the design & specification of the proposed calf housing
- **Stage Three**: Full Application including accounts, quotes and vet support.

Grants can cover up to a maximum rate of 40% of the eligible costs of a project. The minimum grant is £15,000 (40% of £37,500) and the maximum grant is £500,000 per applicant business. The minimum grant amount does not include costs associated with rooftop solar photovoltaic (PV) panels. If rooftop solar PV panels are included, 25% of the eligible costs of purchase and installation will be grant funded. Buildings must have a roof that is designed to support solar PV panels, for use as part of the project or potential use in the future with certain exceptions.

The Calf Housing for Health and Welfare grant will gather information on projects receiving public investment, in this case including calf mortality, medicine use, temperature and humidity data. Supplying this information will be part of the agreement obligations and failure to provide this information may delay the claim payment.

All projects must meet the legal requirements for calf housing. This grant offers funding to help farmers deliver higher standards for health and welfare and is not intended to help meet the minimum standards.

Jamie provides dairy technical and business management advice to clients across South West England. He can be contacted on 07795 385497



SFI2023, soil analysis & Countryside Stewardship

John Twyford, Senior Dairy Business Consultant

The Government has announced that farmers in England can sign up for the Sustainable Farming Incentive (SFI) 2023 from 18 September. For grassland farmers, the action "Legumes on improved grassland", with an annual payment rate of £102/ha, is a sound choice as it will also reduce fertiliser costs and possibly improve forage protein levels. It requires the establishment of legumes into new or existing swards and could be part of a whole farm application. For those keen to establish or maintain more diverse swards, the "Herbal Leys" action, with a payment rate of £382/ha per year could be attractive. These are 2 of 23 actions on offer including soil health, moorland, hedgerows, integrated pest management, farmland wildlife, buffer strips, and low input grassland. Payments under SFI2023 will be made quarterly in arrears.

Autumn is typically a good time to take routine soil samples to inform your nutrient management plan (NMP) for the following season. Regular soil analysis is a regulatory requirement under the Farming Rules for Water, but will also improve performance and save costs, when used to optimise fertiliser and organic manure inputs. Soil organic matter (SOM) can be included with routine testing this autumn for those who want to monitor soil health or are entering the SFI2023 and including the SAM1 action (to assess soil, produce a soil management plan and test soil organic matter). There are various methods to test organic matter within soils and the most cost-effective is 'loss on ignition'. The fee for a standard soil test (pH, P, K, Mg) including SOM testing loss on ignition is approximately £27 per sample.

As announced in January 2023, Defra has decided to evolve Countryside Stewardship to include what they'd originally planned for Local Nature Recovery. The new scheme known as Countryside Stewardship Plus (CS Plus) will see around 30 additional options added to the existing 131 Mid-Tier and Higher Tier Options by the end of 2024. Whilst SFI2023 offers attractive options for many farmers, it should be considered alongside CS Plus which may offer a more comprehensive range of options.

There are several options and situations that will require a CS Plus agreement:

- All options for management of organic land are only available through CS at present.
- Options for the development and management of priority habitats are not available under the SFI.
- Where scheduled monuments exist, it may be necessary to include options only available under CS such as HS2 for taking historic features out of production.
- Catchment Sensitive Farming Officers might feel that a CS Plus agreement is most appropriate where large amounts of capital are involved so that environmentally beneficial options can be tied to support for funding.

SFI actions and CS options can be combined on the same parcels and on the same areas of land within parcels, provided the land is eligible for both schemes and the actions are compatible. For example, a parcel under organic management of improved grassland (OT1) can be included under a CS agreement and entered into Herbal Leys (SAM3) under SFI2023.

A holistic assessment of your farm, goals, practices and capital requirements will help to structure your grant applications. There is no closing date for applications for SFI2023. The application window for CS Plus agreements commencing 1 January 2025 has yet to be announced. However, as CS schemes can be more complex and may require prior approval from Natural England and Historic England, it is not too early to start planning applications now.

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