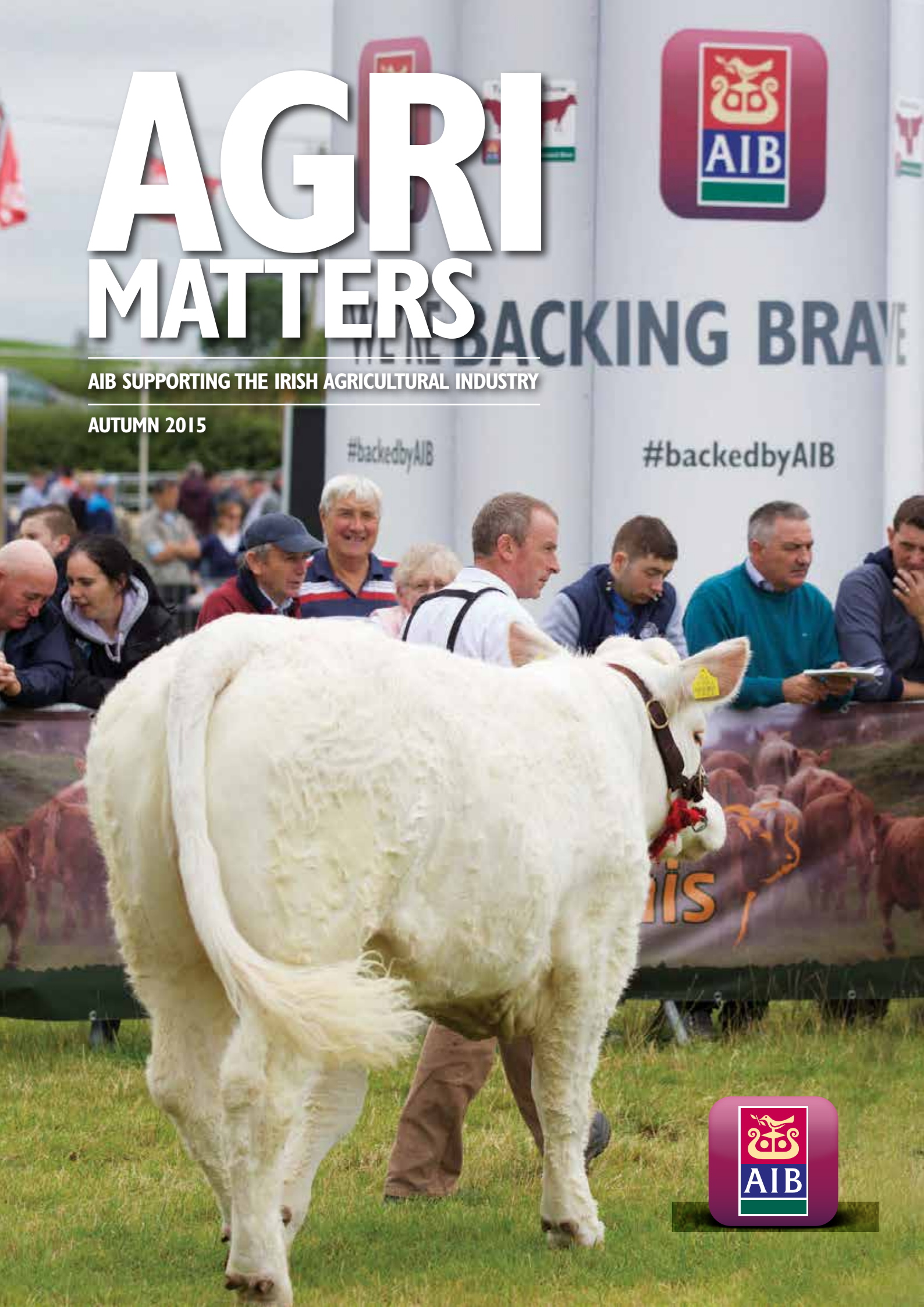


# AGRI MATTERS

AIB SUPPORTING THE IRISH AGRICULTURAL INDUSTRY

AUTUMN 2015



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# WELCOME TO THE AUTUMN EDITION OF AGRI MATTERS

### Anne Finnegan Head of Agri Sector

2015 will be regarded as an historic year for the EU dairy sector; however, the removal of milk quotas comes at a time when global dairy prices continue to bottom out. The fortunes of the beef and sheep sector are somewhat better than last year, while tillage is likely to return a similar margin to 2014.

As is often the case, it has been a mixed year to date across the farming sector and this will be reviewed in more detail in our 'Market Review' article.

As farmers embark on a new phase of capital investment, supported by the Targeted Agricultural Modernisation Scheme, Patrick Butterly, AIB Agri Advisor examines the importance of accurate costings when investing on farm.

Niall Murphy of Emerald Dairies shares his experience of developing a grass based dairy farm operation in Missouri. This edition also includes:

- Our usual economic review
- An article by Diarmuid Donnellan, one of our Agri Advisors, on our recent Beef Outlook report.

Despite the challenges faced by the beef sector in 2014, Diarmuid's article summarises the balanced outlook of beef farmers that was seen in our recent research which was undertaken in partnership with the Irish Farmers Association.

We hope that you find something of interest in this edition.

### Anne Finnegan Head of Agri Sector



Pictured at the Irish Grassland Association Dairy Summer Tour 'A roadmap through expansion', which took place in Galway are (L to R) Eamonn O'Reilly, Agri Advisor, AIB with Noel O'Toole and Henry Walsh host farmers of this year's dairy summer tour and Paul Crosson, President, Irish Grassland Association.



# A LOOK AT THE MARKETS

**2015 has been a mixed year for all farming sectors. On the one hand, favourable weather conditions in some regions have resulted in a near perfect year for beef and dairy production, however, unsettled conditions have frustrated the grain harvest and many on the Western seaboard. On the other hand, price volatility has been very much to the fore in 2015 and will certainly depress farm incomes in the dairy and pig sectors, despite moderate input prices. Perversely, the removal of milk quotas by the EU has coincided with the continued bottoming of dairy commodity prices globally. As in other years, the fortunes of individual sectors will vary greatly in 2015.**



Coming off the back of two years of very strong milk prices, the decline in milk prices that started to be felt in the second half of 2014 continued in earnest in 2015 and has accelerated in recent months. It is likely that the average price for the year will be 28-29c/l (actual fat and protein), some 10c/l lower than 2014. With European commodity prices currently delivering a base milk price of c. 23c/l, processors are and have been supporting the farm gate price.

The option to phase farmer superlevy bills over three years has provided relief to many, particularly those in receipt of substantial bills for the final quota year. Milk constituents are running ahead of 2014 and in the absence of quota, volumes are up which is adding to monthly milk revenue. Costs have remained moderate through 2015 with increased fertiliser prices likely to be negated by somewhat decreased feed and energy prices. Average dairy farmer incomes in 2015 are forecast by Teagasc to be 40% lower than 2014.

Internationally, 2015 has been a challenging year, with supply continuing to outstrip demand which has placed continued pressure on world dairy commodity prices. Prices have fallen steadily since the start of 2014, when prices were exceptionally high, to their lowest level since August 2009 (see Figure 1).

The factors that initially precipitated the decline in prices remain present, Chinese import demand for Whole Milk Powder remains low and the Russian import ban on EU farm produce and food has been extended to August 2016.

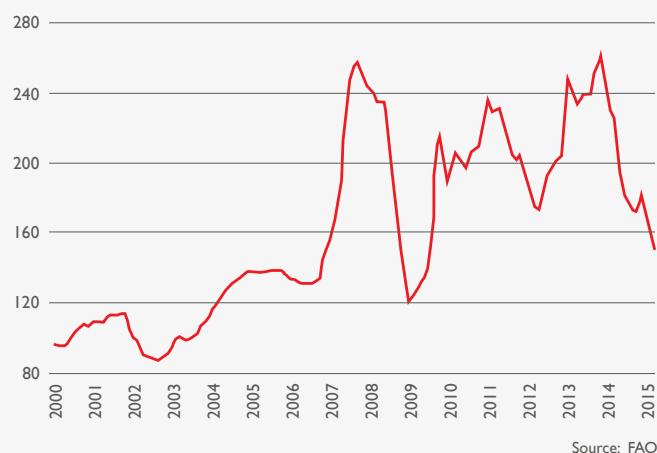
World market prices are significantly lower than European prices which have benefited from a weaker Euro. US prices have benefited from strong domestic demand, particularly for cheese and butter, and their low dependence on export

markets. The latest Global Dairy Trade (GDT) auctions indicate some bottoming of World Market prices. At the time of writing (mid September), prices had increased in the latest three GDT auctions as a result of reduced volumes on offer.

Markets have started to adjust as falling milk prices are being transferred to farmers. Milk production forecasts for New Zealand have been scaled back for 2015 where production is forecast to decline by 1%. There is evidence that US milk production growth is now slowing and the combination of weaker milk prices during late 2015 and higher than expected feed prices are expected to temper production in 2016. It is unlikely that any meaningful recovery in price will be felt before quarter two in 2016.

“The factors that initially precipitated the decline in prices remain present, Chinese import demand for Whole Milk Powder remains low and the Russian import ban on EU farm produce and food has been extended to August 2016”.

**FIGURE 1: FAO DAIRY PRICE INDEX**



The FAO Dairy Price Index consists of butter, SMP, WMP, and cheese price quotations. The average is weighted by world average export trade shares for 2002-2004.

“The prospect of some upward price movement combined with lower post-harvest feed costs may serve to return the sector to a more sustainable margin”.



## BEEF

The beef sector has fared better to date in 2015, with steer prices up 9% year on year and running well above the average of the past five years of €3.60/kg. Throughput for the year to date is back 4% on the same period last year and prices are expected to remain strong through to the end of the year. Throughout 2015, the Irish steer price has been running ahead of prices on the continent but maintains its position below prices in the UK (Figure 2). The combination of strong pasture conditions and moderate feed prices should combine with higher output prices to increase incomes on both suckling and finishing farms in 2015. On average, calf and weanling prices are trading substantially ahead of last year conferring a margin benefit to suckler farmers. However, it remains to be seen what margin can be achieved on this stock as they are matured further up the chain.



## SHEEP

Sheep prices are up 2.7% year to date and in recent weeks are running somewhat ahead of last year on the back

of good demand. Demand is expected to strengthen in the coming weeks as Eid al-Adha, the second of two major Muslim feasts, approaches. Slaughtering's are running almost 1% behind the same period last year. High cattle prices have resulted in a strong store lamb trade in the marts. Overall, prices are expected to be marginally ahead of 2014 and the sector is expected to return somewhat higher margins than 2014.



## PIGS

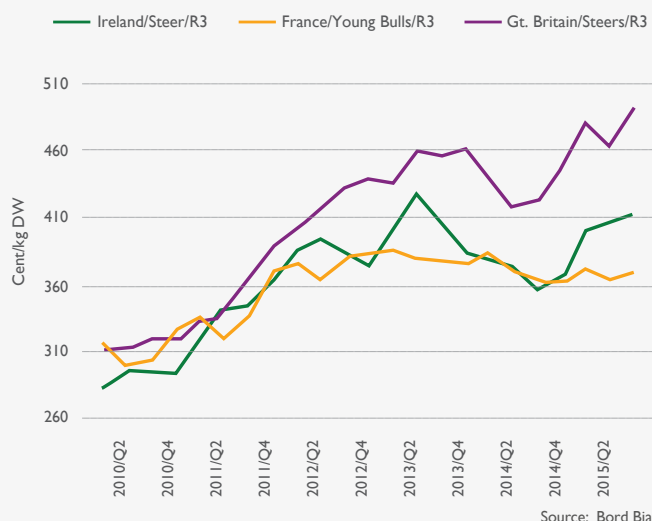
Pig prices are almost down 12% year on year in Ireland and almost 14% at EU level. Irish prices are running well ahead of Danish and Dutch levels but well behind prices in the UK. EU prices began to lift at the beginning of September giving hope of some lift in Irish prices. Notwithstanding more favourable feed costs throughout 2015, lower prices may exert pressure on the profitability of some producers. Those towards the top end of the efficiency scale still continue to be operating profitably. The prospect of some upward price movement combined with lower post-harvest feed costs may serve to return the sector to a more sustainable margin.



## CEREALS

Following a bumper global harvest in each of the last two years, the current season forecast from the International Grains Council is for increased global production (Figure 3). As supplies look strong for the 2015/2016 season, it is likely to put further downward pressure on price in the short-term. Harvest of spring crops in Ireland has been slowed by broken weather and delayed ripening, varying greatly by region of the country. At the time of writing, green prices were similar to 2014 harvest prices. With aggregate costs largely unchanged year on year; higher fertiliser costs offset by reductions in other costs, overall margins are likely to remain similar to 2014 at low levels. All reports suggest that the global soyabean harvest is forecast to rise by approximately 5% year on year. Notwithstanding, the trend in increased consumption, global stocks are forecast to increase by almost 40% which will almost certainly place downward pressure on price. Therefore for other sectors, the outlook for feed costs, at least in the short term, is favourable.

**FIGURE 2: SELECTED EUROPEAN CATTLE PRICE**



**FIGURE 3: GLOBAL GRAIN AVAILABILITY 2006-2016 (F)**



# BEEF FARMERS COMMITTED TO FUTURE IN BEEF PRODUCTION



**Diarmuid Donnellan, AIB Agri Advisor** reviews some of the key findings from the recently published AIB Beef

**outlook report, and offers some considerations on the opportunities and challenges ahead for the sector.**

Much of the focus in recent times has been on the dairy sector; the opportunities afforded by the abolition of milk quota and the expansion at farm and processor level. However, this research suggests that beef farmers are very much committed to a future in beef production, with seven in ten farmers either having invested in their enterprise in the past three years or planning to do so in the next three years.

Overall, beef farmers were balanced in their views of the road ahead and see a mix of opportunities and challenges over the next three to five years. Seven in ten identified opportunities for themselves and the industry, ranging from increased cattle prices, increased output, increased animal performance, increased live exports and greater access to international markets.

A similar proportion however recognised fluctuating beef prices, profitability, the ability of the industry to find adequate new markets for the increased beef output, and rising input costs as key challenges for the sector.

Results from the survey highlight that in the past three years, nine in ten beef farmers have undertaken a range of measures to manage or address the main challenges for their farm businesses. The main measures introduced included improving grassland management, joining the Bord Bia Quality Assurance Scheme and enlisting the support of an advisor/consultant. A further two in three farmers plan to introduce some further measures in the next three years to address the challenges identified for their businesses.

AIB in partnership with the Irish Farmer's Association commissioned a report on the Irish Beef sector as part of its 'Outlook' series of reports covering key sectors of the Irish economy. The research involved a survey of 200 beef farmers and interviews with key executives in the beef industry. A copy of the full report can be downloaded from [www.aib.ie/farming](http://www.aib.ie/farming)

A notable finding of concern from the survey is the age profile of the farming community within the beef sector. One fifth of farmers surveyed are over the age of 65, and only 4% were under the age of 35. Of those farmers under 45 years, almost four out of five (78%) had an off-farm job. Increasingly, younger beef farmers are working off-farm in tandem with their cattle enterprises to ensure their economic viability. It is important that the sector continues to provide young farmers with a reason to enter and remain in beef production for the future sustainability of the sector.

Over half of farmers have invested in their farms in the past three years with almost two in five planning farm investment in the next three years. Younger farmers and those with an off-farm job were most likely to be planning farm investment, the main areas of planned investment being herd size, land improvement/reseeding, breeding, adopting new technology and housing/slurry storage. Approximately one-third intend to fund future investment by reinvesting farm profits, while 30% intend to get a bank loan for the development works.

Interestingly, almost three out of ten beef farmers reported no borrowings or outstanding farm business credit at the time of the survey. Certainly, with grant aid available for certain on farm capital development works, the recent opening of TAMS II – (Targeted Agricultural Modernisation Scheme) will likely increase the level of investment on beef farms over the next five years.

Building sustainable resilient beef production systems will be key to advancing beef output and operating in ever volatile markets. Adopting a low cost beef production model with the emphasis

on producing a kilogram of beef as efficiently as possible is key to maximising return in relation to time and capital employed. The challenge for each beef farmer is to develop systems that look to optimise animal performance and utilise high levels of grazed grass in the diet of a beef animal over its lifetime.

Research results suggest that nine in ten farmers utilise some measure of farm performance on an ongoing basis. Sale price received is the most popular performance measure while almost two thirds of farmers cited margin per head or per hectare as the measurement of performance on their farm. While a significant proportion of farmers cite the eProfit Monitor or Cost Control Planner as the most beneficial farm management practice, far fewer farmers actually use these tools. The survey findings suggest that discussion group membership has had strong success in increasing the uptake of these tools.

Overall, the perspective from the industry is that the outlook for beef is broadly positive. Beef farmers are committed to a future in beef production, despite the challenges of farm profitability and market competition. Ireland's track record, reputation, green image and traceability are strong selling points when it comes to gaining new market access. Sustainable systems and verifiable Quality Assurance schemes are an essential component when it comes to differentiating Irish product on the global market place and securing access to high price markets.

At AIB, we have a long-standing relationship with the beef sector and are committed to playing our part in supporting the future development of this important sector.

# IRISH BEEF SECTOR

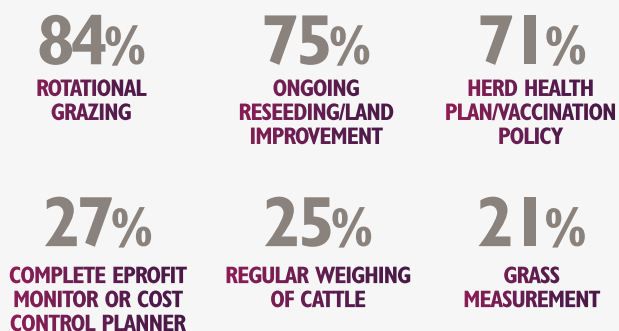
## INVESTMENT IN BEEF BUSINESS



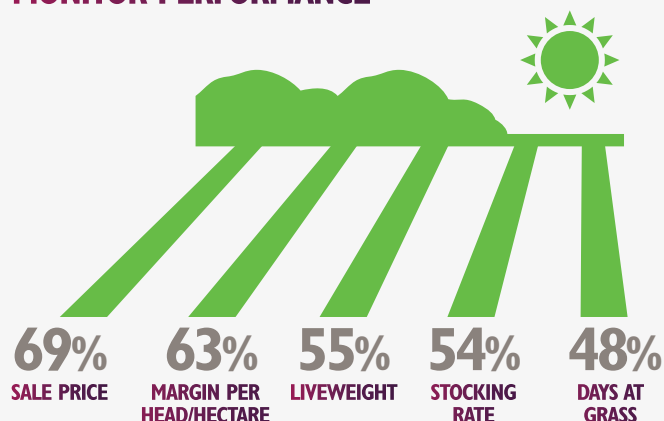
## PLANNED SUCKLER COW NUMBERS IN NEXT 3 YEARS



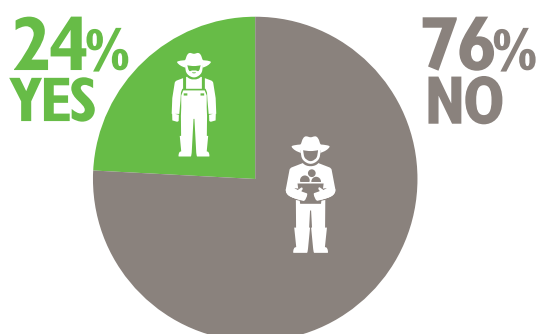
## MANAGEMENT PRACTICES CURRENTLY EMPLOYED



## MEASURES USED TO MONITOR PERFORMANCE



## DISCUSSION GROUP MEMBERSHIP



## MAIN BENEFITS OF DISCUSSION GROUP MEMBERSHIP



# TURNING GRASS INTO MILK IN AMERICA



**Niall Murphy, Emerald Dairies** shares his experience of grass based milk production in Missouri.

My wife Lisa and I decided to go farming in Missouri in early 2009. We formed Emerald Dairies in 2010 with another Irish couple, Siobhan and Gary Nolan. Today we sharemilk three dairies milking 1,700 cows and have just purchased our first farm, 640 acres and 700 cows.

Missouri is a small dairying state, about number 26 of 50 states in the U.S. It has 78,000 cows and that number is dropping by 7-8% a year. Cows are mostly indoors in confinement systems producing 10,000 litres of milk/year. We are one of the only dairying entities to graze grass.

Land is mostly used for growing crops in a rotation of maize grain, wheat and soybean every two years. There is some very extensive suckler beef farming. Land quality is poor compared to Ireland, with light low organic matter soils. However land price is cheap at \$2,500/bare acre with lots available in decent sized blocks. We are at 1,050 ft. above sea level and average about 40" of rain. Spring and autumn are wet and normally we've cool dry winters and hot dry summers. It is a continental climate so we experience short snappy weather events including ice storms, windstorms, snow blizzards and large rain events,

but nothing like a long wet Irish autumn thankfully. By far our biggest challenge is the hot summer nights (+25deg) and the knock-on effects on our pastures and cows.

We had years at the beginning when we reseeded over half our grazing platform following a harsh summer. Through trial and error, and Gary's research, we've gradually adapted our management. We now give ryegrass a very long rest period through summer, 40-50 day rotations, and we adhere to three leafed grazing principles. Also a certain percentage of the farms are now irrigated which is proving a huge aid for pasture survivability and summer grass quality.

We expect annual growth to average 13 tons of ryegrass/white clover, 11 tons on dry-land and 16 tons on the irrigated areas. Stocked at 3 cows/ha we'll produce 1,050-1,100 kgs of milk solids/ha, if we can do that and purchase less than 20% of the cow's diet it's very profitable.

## Sharemilking Model

The three farms that we operate as sharemilkers are owned by a corporate farming group. Similar to the New Zealand 50/50 sharemilking model, the farm owner provides land and buildings and Emerald Dairies provides the cows, people and machinery.

Basically everything that moves is owned by the sharemilker. Milk revenues are split 50/50 and some expenses are shared. Normally it averages out that profits are split 60% to owner and 40% to the sharemilker.

This works well as it reflects the extra investment cost to the owner of land and buildings versus sharemilker's stake of cows and sweat equity. It's allowed us achieve a 40% annual return on our equity for the last six years.

Looking to Ireland, sharemilking will prove a fantastic model to partner older landowners with highly skilled energetic young people. It should really get some vibrant young blood into the industry.

It is important we develop resilient sharemilking contracts suited to Irish conditions. It is also essential that the obstacles currently in place, are examined, which would allow the introduction of chattel mortgages and allow people without owned land to borrow against their livestock. Emerald Dairies would not have been able to develop the business as we have without this option. US banks are comfortable lending 60% of a cow's market value.

## Some of the things we have done well which led to growth and land purchase:

### 1 SIMPLE REPLICABLE SYSTEMS

We aim to run at 200 cows/person. To achieve this we run simple spring calving systems. We focus on good crossbred cows calving compactly at the right time and eating lots of high quality grass. This system leads to a very low turnover of our people.

### 2 COST CONTROL

We keep a tight eye on costs and are disciplined about setting and monitoring budgets.

### 3 LOW MACHINERY INVESTMENT

We have \$100/cow tied up in machinery and plant. We have one old 85 horsepower tractor for 1,100 cows at the one farm. We use contractors as much as possible.

### 4 CONTRACT HEIFER REARING

We send all our young stock to good contract rearers meaning we produce milk from every acre we farm. We don't own support land or out farms for young stock or silage.





Images from Emerald Dairies farm in Missouri.

“I was quite surprised to hear of lots of farmers feeding 3-4 kgs of meal a day now simply because quotas are gone”.

Again the benefit of using outside contractors and contract rearers is that we can keep our equity in what we see as high return areas i.e. lots of cows, young stock, soil fertility, irrigation and staff training.

These are the engines for growth. We always ask ourselves the question, “Will that add an engine or an anchor to the business?”

In terms of Ireland, the engines are mostly the same, growing and utilizing more grass. The obvious anchors are money tied up owning unproductive out-farms, shiny machinery, excessive concrete or technologies in milking facilities.

Interestingly feeding meals to cows at grass should make sense in the States. Grass quality can be low during hot weather so we get a much better milk response than in Ireland. Milk price averages 20% higher here. Feeds are about 20% cheaper. There are no

quotas or co-op shares limiting extra milk. Yet we have learned that the boring basics of growing as much grass as we can and utilising 80% plus of it, at low cost is what drives profits.

There are some hybrid models here where cows eat grass but also get lots of meal/maize. These systems look profitable on paper. However at best these businesses seem to go sideways if not backwards over time. Farmers running these are busy and some piece of equipment is always broken and needing to be replaced.

Lisa and I have just had 3 weeks at home in Ireland for weddings and holidaying. It's nice to have a farming system that allows that. I was quite surprised to hear of lots of farmers feeding 3-4 kgs of meal a day now simply because quotas are gone. We've tried that over here, coerced by cheaper feed and higher milk prices, but luckily we saw the light. Our focus is now on growing and utilizing more grass and our business is growing, simple and profitable at much lower risk.

It's interesting that it's the Moorepark blueprint, adapted a little, that is most profitable here, 4,000 miles from Ireland in continental U.S.A.



# ECONOMIC OUTLOOK

**The Irish economy continues to register strong growth. The latest CSO figures show that the economy grew by 5.2% last year. This strong trend has extended into the opening quarter of 2015, during which GDP grew by 1.4%, for a year on year gain of 6.5%.**

**An encouraging aspect of the recent data is that the recovery is becoming more broadly based. Consumer spending in particular is picking up, rising by 2% last year. Consumer spending rose by a further 1.2% in the first quarter of 2015, with the annual growth rate climbing to 3.8%. Retail sales data points to further strong growth in household spending during the second quarter of the year.**

Business investment continues to perform strongly with averaged growth of 36% in 2013 and 2014 (excluding the volatile transport category). Meanwhile, total investment (excluding transport) rose by 13% last year and grew by 16% year on year in the first quarter of 2015.

Output from the construction sector also continues to rise, although the rate of recovery has been disappointingly slow to date. Activity in the sector remains at very subdued levels. Housing completions rose by just 16% in the opening half of the year and output from the sector remains well short of meeting the estimated housing demand.

At the same time, exports, continue to be a key driver of growth, helped by a pick-up in demand in Ireland's main markets and the sharp decline of the euro over the past year. Service export volumes were particularly strong in quarter one, growing by almost 12% on year earlier levels.

Exports are rising even more strongly in value terms because of the fall of the euro, increasing by over 20% year-on-year in the first quarter. As a result, GDP rose in nominal terms by 12% from year earlier levels in quarter one, with GNP up by 12.7%. This is very helpful from the point of view of Government debt and budget deficit ratios.

The robust performance of the economy is also reflected in various labour market metrics. Employment rose by 19,000 or 1% in the second quarter, following increases of 15,000 or 0.8% in

quarter one. On a year-on-year basis, employment was up by over 57,000, or 3%. Furthermore, all of the job growth was in full-time employment and a positive sign is that the job gains were broad-based, with employment rising in eleven of the fourteen sectors in the CSO survey.

The steady rise in employment, combined with on-going emigration, have resulted in a sharp fall in unemployment. The unemployment rate dropped to 9.6% in the second quarter of 2015, down from 11.6% a year earlier and back from a peak unemployment rate of 15.1% reached in early 2012.

The sustained increase in economic activity and increased numbers of people at work is also evident in the public finances. The Exchequer Returns show underlying tax receipts some €1.4 billion ahead of target at the end of August and as a result the deficit is well on track to come in below the required 3% of GDP this year.

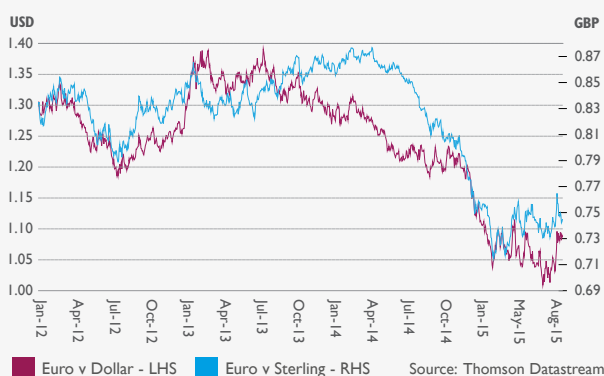
The outlook for the economy remains favourable. While the recovery in the global economy remains still quite moderate, economic conditions in key export markets such as the USA, UK and the Eurozone continues to improve. On the domestic front, the fiscal austerity programme is now at an end, removing a headwind to growth and interest rates are expected to remain at their current low levels for a number of years. Overall, the economy could grow by around 5% for a second consecutive year, with growth of around 4.5% forecast for 2016.

On the currency markets, the euro suffered some sustained weakness in the second half of 2014 and early 2015, before finding a floor during the spring, trading in a \$1.08-1.14 range versus the dollar and at 70-74p against sterling. While market expectations for both US and UK rate hikes have been scaled back substantially since the start of the year, nonetheless, both the Federal Reserve and Bank of England are still expected to begin tightening monetary policy well before the ECB, which is currently implementing quantitative easing.

Nonetheless, with only small rate increases now expected in the US and UK in the next couple of years, their currencies may find it hard to make further gains against the euro which has shown clear signs of stabilisation over the past six months.

One important consideration to bear in mind regarding prospects for the sterling is the UK's EU referendum, which is to be held before the end of 2017. If the gap in the polls close (currently showing majority in favour of remaining in the EU), then this could introduce a considerable amount of uncertainty which could put downward pressure on the currency.

**FIGURE 4: RELATIVE PERFORMANCE OF THE EURO AGAINST THE US DOLLAR AND STERLING**  
**EURO VS DOLLAR AND STERLING**



**TABLE 1: ECONOMIC FORECASTS - IRELAND**

<b>ANNUAL % CHANGE UNLESS OTHERWISE STATED</b>	<b>2013</b>	<b>2014</b>	<b>2015 (f)</b>	<b>2016 (f)</b>
Real GDP	1.4	5.2	5.0	4.5
Real GNP	4.6	6.9	4.5	4.0
Consumer Spending	-0.3	2.0	4.0	3.0
Government Spending	1.4	4.6	3.0	1.5
Fixed Investment	-6.6	14.3	2.5	7.0
Exports	2.5	12.1	10.0	7.0
Imports	0.0	14.7	9.2	6.5
HICP Inflation (%)	0.5	0.3	0.2	1.0
Unemployment (%)	13.1	11.3	9.5	8.3
General Govt. Deficit (as % of GDP)	-5.7	-4.1	-1.8	-0.5

(f) = forecast

Source: CSO, AIB Economic Research Unit Forecasts



Pictured at the AIB / Macra na Feirme Young Farmers Positive Forum on the Keane Farm were (L to R) Sean Finan, President, Macra na Feirme; Patrick O'Meara, Agri Advisor, AIB; John and Padraig Keane host farmers for one of the farm walks with Jason Farrell, Branch Manager, AIB Binn.

# AIB FARM DEVELOPMENT COSTINGS TEMPLATE

ITEM	COST	VAT	TOTAL COST
PLANNING PERMISSION/DRAWINGS/ENGINEER/FEEs			
SITE PREPARATION/EXCAVATION/STONE			
STEEL STRUCTURE & ROOF			
SIDE SHEETING			
SLATTED TANK (INCLUDE SLATS)			
CONCRETE FLOORS/PASSAGES/APRONS			
INTERNAL WALLS			
EXTERNAL WALLS			
DOORS/PENS/DIVISIONS/NEST BOXES			
CALVING GATES/CRUSH/DRAFTING SYSTEM/BACKING GATE			
CUBICLES/CUBICLE BEDS/CUBICLE MATS			
FEEDING SYSTEM/FEED BINS/AUGERS			
WATER SYSTEM/TROUGHS/DISPENSERS			
FEEDING BARRIERS			
AUTOMATIC SCRAPERS			
ELECTRICAL WORK/PLUMBING (INCLUDING ESB CONNECTION)			
MILKING MACHINE			
MILK STORAGE BULK TANK			
ROADWAYS/FENCING			
VENTILATION SYSTEM/HEATING SYSTEM/BOILER/PUMP			
INSULATION			
MISCELLANEOUS			
OTHER 1			
OTHER 2			
CONTINGENCY			
<b>TOTAL</b>			
<b>LESS</b>			
TRADE IN (IF APPLICABLE )			
GRANT (IF APPLICABLE)			
VAT (IF APPLICABLE)			
<b>TOTAL</b>			
<b>NET COST</b>			



# PREPARING COSTINGS FOR FARM INVESTMENT



**Patrick Butterly, Agri Advisor AIB, outlines the importance of taking the necessary time to accurately**

**cost farm development when investing on farm.**

Farmers by their nature are continually looking at how best to position their farms for the future. With the recent opening of a number of TAMS II schemes, we expect an increase in on-farm investment over the coming months as farmers seek to avail of the grant aid to upgrade farm facilities and/or improve on farm efficiencies. Some farmers will look to put facilities in place now, which will allow them to increase output in the coming years.

While it is important to make the most of opportunities as they arise, I would encourage all farmers to thoroughly plan any farm investment carefully and devote adequate time and resources to the pre-planning phase. It is important to get an understanding of the total costs involved and how they will be funded. I sometimes find that this part of the process does not always get the attention it deserves.

## **Preparing Costings**

From my experience farm development often takes longer to complete and costs more than was originally planned and budgeted for. Over-runs in capital expenditure are common on farms undertaking farm development and they can place considerable pressure on farm finances, particularly where the farm tries to fund this from cash flow. While

many farm investments will contribute to increased profitability in the longer term, they can in some cases place pressure on the farm current account in the immediate term if not fully costed correctly.

Consequently, before undertaking any farm development, it is important to cost the development fully and it is prudent to include a contingency cost of c. 10-20%. It can be easy to overlook some costs at the planning stage, such as legal fees, county councils fees and other pre-construction costs. To get an idea of the costs involved, it is good advice to get quotations from a number of different contractors. Teagasc also have standard costings available which can be a useful reference when preparing costings for your own development.

To support farmers planning farm investment, we have developed a simple costings template which breaks down individual costs. A copy of the template is available page 10.

Once the cost of the development has been established, the cost after accounting for any grants due can then be calculated. There will likely be a period between paying for the work and when the grant aid, if any, is received and where bridging finance may be required. If bridging finance is required, understanding and communicating to your bank the timelines and eligibility for payment will help ensure that the correct level of bridging finance and term loan facilities are put in place.

In addition to bridging finance, many farmers will require some level of bank finance to support their on-farm investment plans. When approaching a bank for finance, the bank will generally require detailed costings for the work been carried out. I sometimes find that,

costings are developed specifically for the bank application, and I have come across significant variations in the budgeted costs of development work and the costs incurred. I would encourage all farmers to take the time to accurately prepare the costings for their own use and not to rely on what somebody else's development cost. Under TAMS, the Department of Agriculture have reference costs available for grant aid purposes which will assist farmers when budgeting for any development. It can also be useful to enlist the help of an advisor or farm consultant to support you.

## **Conclusion**

Farmers should not underestimate the length of time involved in completing farm development works, from the planning process, to attaining and comparing quotations to finally carrying out the development work itself.

Expenditure on farm development can be a long-term investment and, as such, appropriate time should be spent on the planning phase. The starting point with any investment is to make sure that you have fully costed the development thoroughly to ensure you do not run into difficulty at a later stage. Understanding the costs involved, will enable you to properly monitor and control them and thus reduce potential over-runs and cash flow pressure.

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