Agri Matters

Supporting the Irish Agricultural Industry

Autumn 2017

Welcome

Anne Finnegan

Coming after the difficult year that was 2016, the fortunes of most sectors of Irish agriculture have recovered to varying degrees owing to the combination of reduced input prices and increased output prices. We examine the dynamics of each sector in more detail in our Market Review article and look forward to improved or similar margins to 2016.

The Irish Grassland Association Dairy Summer Tour took a detailed look at farming on leased land. George Ramsbottom considers the key lessons from this study tour. Sticking with a dairy focus, but relevant for any farmer that employs staff, Teagasc's Marion Beecher discusses successful labour management. She offers very practical management tools which support a productive and positive workplace.

In AIB we have seen an increase in investment on farms in 2017 and our expectation is that this will continue. Donal Whelton, AIB Agri Advisor suggests some considerations for those planning on investing.

This edition of Agri Matters is published to coincide with the National Ploughing Championships. We wish the organisers, exhibitors, competitors and visitors a productive and enjoyable week. We look forward to meeting you at our stand.

Anne Finnegan
Head of Agri Sector, AIB

Pictured receiving their AIB sponsored College Awards were Hugh Massey (AIB / Teagasc Best Farm Business Plan All Ireland Award Winner) and Lorraine Delahunty (AIB / Waterford IT Land Management (Agriculture) Award Winner)

Economic Outlook

The Irish economy continues to grow at a strong pace. Recent GDP figures from the CSO showed that GDP rose by 6.1% year-on-year in Q1 2017. This follows on from strong growth of 5.1% in 2016. While the data are distorted by issues related to the presence of large multi-national firms, Ireland remained the best performing economy in the Eurozone last year.

The underlying GDP data showed that consumer spending rose by 1.8% year-on-year in Q1. Construction output was up by 20.7% in the quarter, as the sector continues to ramp up to meet the considerable overhang in demand for residential property. However, the agricultural, forestry and fishing sector declined by 0.9% year-on-year in Q1, after increasing by 13% in 2016.

Although, other data from the CSO show a number of positive developments for farmers. For example, prices of agricultural produce were up 10.7% year-on-year in May, due in no small part to a sharp rebound in milk prices. At the same time, farm input costs were down 1.3%. This suggests improving profit margins and incomes for some farm sectors, assuming normal weather patterns.

The strong Irish economic growth is continuing to be reflected in the labour market. Employment rose by 19,300 between Q4 2016 and Q1 this year, with employment up 68,600 versus the first quarter of 2016, a 3.5% rise.

Meanwhile in terms of the property sector, housing completions were up by 25% in the year to May. However, this would still only put the construction sector on course to build 18,000-19,000 new homes this year, well below the estimated demand of around 30,000 per annum. The lack of supply of housing is helping to drive up prices, which rose by 11.6% year-on-year in June, according to the CSO.

Other recent indicators also suggest that the economy continues to grow at a strong pace. For example, underlying retail sales (excludes car sales) grew by 1.9% in Q2, following on from similarly strong growth of 1.8% in Q1. Meanwhile, the jobless rate fell below 6.5% in the summer months.

Survey data have also been very positive. Both the manufacturing and services PMIs, a good leading indicator of economic activity, remained at strong levels in July, while the construction index has remained particularly strong in recent months. In terms of how the economic situation is translating into the public's perceptions, the ESRI/KBC measure of consumer confidence was up near a 15-year high in June.

Therefore, there seems to be little sign yet that the uncertainty around Brexit and the sharp fall in the value of sterling is having a significant effect on the Irish economy, though some sectors are being impacted.

The euro, though, did rise back up to the 90p level against sterling in August. Brexit remains a serious event risk for the Irish economy. Much will depend on the nature of the exit deal reached between the UK and EU, probably towards the end of 2018.

Overall though, the Irish economy is expected to grow by 4% or above in 2017 (Table 1), with growth of 3-3.5% being forecast for 2018/19. The economy will be supported by the steadily improving labour market, further recovery in construction, more expansionary fiscal policies, low interest rates and improved growth in the global economy, particularly in the Eurozone.

Table 1: Annual % Change Unless Otherwise Stated

	2016	2017 (f)	2018 (f)	2019 (f)
Real GDP	5.1	4.0	3.5	3.0
Real GNP	9.6	3.5	3.0	2.5
Consumer Spending	3.3	3.0	2.5	2.2
Government Spending	5.3	1.5	1.5	1.5
Fixed Investment	61.2	6.0	5.0	5.0
Exports	4.6	4.5	4.2	4.0
Imports	16.4	4.0	3.8	3.7
HICP Inflation (%)	-0.2	0.2	1.0	1.5
Unemployment (%)	7.9	6.3	5.3	4.8
General Govt. Deficit (as % of GDP)	-0.6	-0.4	-0.1	0.1

(f) = Forecast

(Source: CSO, AIB Economic Research Unit Forecasts)

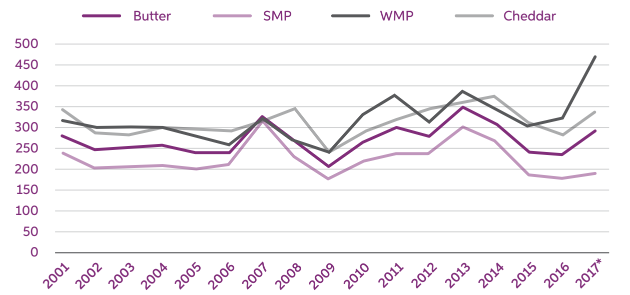
Review and Outlook

2017 has been a much more buoyant year for Irish farming and most sectors have experienced a welcome margin uplift. The strong weather pattern in the first half of the year resulted in strong grass growth and livestock performance and supported good crop performance in many parts of the country. Input prices are in general down on last year while output prices have recovered across most sectors, with some fairing better than others. Combined, increased incomes is likely on many farms in 2017.

Dairy

The combination of supply corrections in the main dairy exporting regions and firmer demand for dairy products, in particular butter and cheese, has resulted in an upturn in dairy commodity prices (Figure 1) and consequently milk price in 2017. The FAO Dairy Price Index for August 2017 was up 1.4% from July and over 42% from August 2016.

Figure 1: Relative trend in select dairy commodity prices'



*Average to date (Source: European Commission, various years)

On the supply side, while milk production in the main exporting regions remained stable in 2016, there were regional variations. EU milk production increased marginally, USA's output grew by almost 2% while in both New Zealand and South America supply reduced. This supported the strengthening of EU exports. The combination of improved demand and tight stocks supported price increases for butter and cheese in particular. The gap between protein and fat prices continues to widen as butter prices continue to strengthen while Skim Milk Powder continues to lose value under the weight of EU intervention stocks. Steady demand for butter in the EU and USA is attributed to consumer perception that it is now a safer alternative to vegetable oil substitutes such as margarine. According to FAO, growth in butter trade increased by almost 2%. EU butter exports have almost doubled since 2013 fuelled by strong growth in China, US, Saudi Arabia and Egypt. In the short-term, butter prices are likely to remain at current high levels, however, it is likely that with increased supply, prices will adjust downwards from current historic levels.

Cheese prices are reported to be at the highest level in four years and as a result processors, globally, are pushing greater volumes of milk into cheese, further tightening the butter market. Based on current average spot EU commodity prices at the end of August and allowing 5c/litre for processing costs, butter and SMP would deliver a return of 39 c/litre while cheddar and whey would deliver 35 c/litre. However, farm gate prices are not based on spot prices but rather on a combination of product mix and sales contracts.

Based on current prices and production trends, we forecast 2017 annual average Irish base milk price at 33.5 c/litre - 34 c/litre (Incl VAT). The combination of increased milk prices, weather and reduced input prices, in particular fertiliser, will support strong positive dairy farmer margins in 2017.

The current strong market returns do however also favour a recovery in milk production, particularly in New Zealand which the EU Commission forecasts could increase by 2-3%. US production is also forecast to increase by 2%. Demand looks set to remain firm over the months ahead particularly from Asia but increased demand is also seen from the Russian Federation and Mexico among others.

Cereals

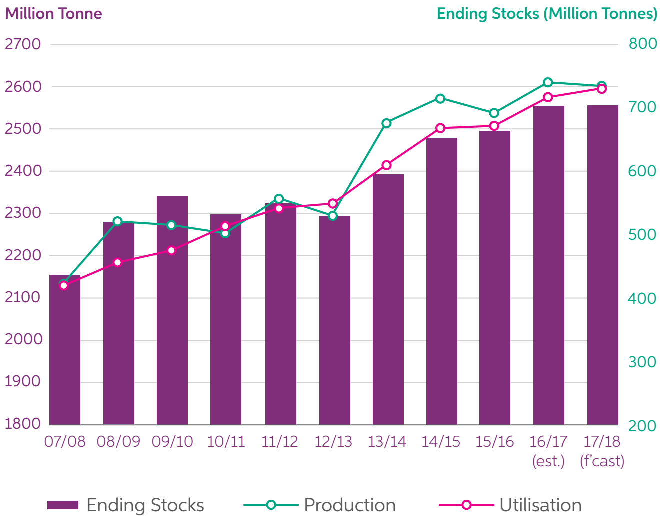
Global cereal production is forecast to remain high for 2017, albeit not as high as the 2016 record. The International Grains Council forecast total wheat and coarse grains production of 2,038 million tonnes. Combined with existing stock levels, global markets are expecting an ample harvest with price expectations currently (28th August) similar to last year's harvest prices (Figure 2).

The EU is forecasting a lower cereal harvest due to the combination of reduced sown areas and extreme weather events across the continent. The USDA has sharply increased its forecast of global wheat supplies in 2017/2018 due to increased expectations of output from the Black Sea region based on higher winter wheat yields. The impact is an expected increase in wheat stocks, above last season's record level. However, US and Canadian wheat harvests are projected lower which will impact on the global market with reduced exports from this region. There are some concerns about tightening supplies of premium milling grade wheat. Overall, the USDA predicts global wheat stocks at end 2017/2018 at 6 million tonnes above last season's record levels. It now seems unlikely, as some had predicted, that 2017 would see the start of a contraction in global grain stocks.

The unfortunate wet weather conditions in Ireland from mid-August into September are likely to have some impact on the harvest of spring crops. There are signs of break down in crops, discolouration and some deterioration of bushel quality. Overall, it is likely that late season weather conditions will once again impact on yields.

Straw prices remain strong, in the region of €2 - €3 higher than last year. Overall it is likely that tillage margins for 2017 will remain broadly similar to last year, at low levels.

Figure 2: Global Grain Availability (2008 – 2018)



(Source: FAO, 2017)

Beef

With 2016 beef prices down over 5% on the previous year, 2017 opened with concerns over increased supplies and fluctuating Euro Sterling exchange rates. However, supported by a strong live export trade, which is up 50,000 head to 153,000 head year to date (end-August), and strengthened EU beef prices, 2017 has been a relatively good year for the beef sector. Across the EU, growth in production has stabilised and when combined with a continued increase in consumption (forecast at +0.6% 2017) and increased exports has supported EU prices to date.

Irish Prices remained relatively stable through the first quarter of 2017 at c.€3.93/kg, peaking at €4.30/kg mid-June. Irish prices year to date (end-August) are 110% of the EU price and current prices are at a similar level. Euro Sterling exchange rate fluctuations in recent weeks are exerting some downward pressure on price which have been further impacted by recovery in supplies.

When combined with stable input costs (assuming normal weather conditions continue) incomes on beef farms in 2017 should be above 2016 levels with suckler producers benefiting from a strong mart trade for quality stock.

Pigs

A further 2% decline in the EU sow herd in 2016 resulted in reduced pigmeat production in 2017 which has supported a strong recovery in pig prices. Pig price has been on a generally upward trend through much of 2017, helping producers rebuild cash reserves after a number of challenging years.

Aggregate prices year-to-date (end-August) are running over 15% above 2016 levels, which when combined with relatively favourable feed prices, is yielding strong margins over feed, particularly among those towards the top end of the efficiency scale.

The growth in EU pigmeat exports continued in Q1, driven strongly by Chinese demand. However, exports declined in Q2 due to the impact of prices on the competitiveness of EU product, a reduction in Chinese demand and a temporary suspension of licences by China of two significant German processors.

Notwithstanding some slippage in Irish prices in recent weeks, the outlook for the remainder of the year is broadly positive. While the soundings from global grain markets will not be welcomed by tillage farmers, pig farmers will certainly appreciate the feed price outlook.

Sheep

Despite sheep prices being currently (end-August) marginally above 2016 levels (+4.6% at c.€5/kg), aggregate sheep price end-August is running 2.4% below 2016 levels as a consequence of a more challenging opening quarter.

Positive grass growth and thrive is however supporting improved finishing dates of mid-season lamb, with increases in throughput reported in the main export plants to end-August (+10%; +140,274 head).

Demand for smaller store lambs has also been particularly strong among grass buyers in recent weeks, in part a reflection of beef price, as mixed enterprises keep greater numbers of sheep at the expense of cattle numbers to safeguard margins.

Given reduced input expenditure and stable prices, incomes on sheep farms are likely to be at least comparable to 2016 levels.

Outlook

Overall, the outlook to year end remains relatively positive. Assuming positive weather conditions, lower input prices (feed, fertiliser and energy) will help reduce input expenditure on many farms, which when combined with increased output prices for many sectors, incomes on many farms will be above previous years. The impact at individual farm level will as always be heavily influenced by underlying levels of competitiveness and on-farm efficiency.

Improved people skills can lead to **more profitable and enjoyable farm businesses**

Marion Beecher

Marion Beecher, Teagasc Research Officer

Irish dairy farming has experienced considerable structural change over the past decade and is the fastest growing agri-food industry within the EU. Since 2010, there are over 300,000 extra cows being milked on Irish dairy farms. This increase in cow numbers has created a new and growing demand for labour.

Up to now on most Irish dairy farms, almost all management and labour activities are carried out by the farmer with the assistance of predominantly family labour. As farms expand however, additional non-family labour is required to undertake operational tasks. At larger scale the management responsibilities of the farmer also increase, so their role in the business must change.

Consequently, todays dairy farmers need to spend more time managing (planning, monitoring, evaluating and adjusting) their farm businesses and developing additional skills particularly in people management. Practices, such as effective work organisation and good communication may improve employee satisfaction, thereby increasing the effectiveness of the labour input and increasing the profitability of the farm business. This stands true when working with both family and non-family labour and also with others such as contractors in the farm business.

Communication

Previous research identified that there is a positive relationship between communication effectiveness and job satisfaction. This means if there is good communication between the manager and employee, the employee is more satisfied with their job leading to improved performance. Staff should know what is going on and what is expected of them, and feel that their ideas are valued and their good performance praised. Communication is essential to creating a strong working relationship and open communication is crucial for a dairy farm business to be productive. It helps set expectations and co-ordinate actions; builds trust; enables people to act on facts not assumptions; and provides feedback on performance.

Communication with employees starts with a clear, well thought out job description. A job description sets out the duties and responsibilities required of the new recruit and also infrequent tasks that the person may need to carry out from time to time. A detailed job description can help eliminate individuals who would not perform well on the job before the hiring process begins. It should be used to communicate with the employee what is expected before starting employment, so if any problem arises over work responsibilities the farmer can quickly refer to the job description.

Communication can occur formally or informally. An example of informal verbal communication that occurs daily would be going through the "to-do" list for the day and assigning people to do different jobs if there is more than one person working on the farm. Information regarding production performance (milking performance, grass covers etc), relevant work or material needed can be informally communicated using WhatsApp group messaging, diaries, books or notice boards. This can be a very effective method of ensuring that everybody working on the farm is up-to-date with critical information, e.g. date of cow treatment with antibiotics or date of fertilizer application.

A simple way of communicating to all employees when the routine jobs such as TB testing, vaccinations etc will be occurring is to use a yearly wall planner - simply a yearly calendar. This can be used as a planning tool to plan for jobs that are clearly known in advance, allowing for clarity about what needs to be done and when. Employees can also record when they are taking holidays in advance. The planner should be placed in a common area where it can be viewed, discussed and modified.

Body language is an important part of communication which can constitute 50% or more of what is communicated. Noticing the signals that people send out with their body language and being able to effectively read those cues is therefore a very useful skill. Excellent communicators are aware that their body language is equally as important as verbal communication in conveying a message to others.

Both positive and corrective feedback should be communicated to the employee. Recognition of a job well done is one of the most satisfying aspects of an employee's work and contributes to job satisfaction. Alternatively, when things are going wrong it is important to deal with the issue as quickly as possible to avoid small problems becoming more significant. Corrective feedback aims at getting the job done to standard. The key to corrective feedback is to make sure that a lack of training or resources has not led to the problem arising. It is important to listen to why the problem arose. The farm owner/employer should check to ensure that the employee has the correct understanding of all communication to him/her, e.g. the tasks to be carried out, method of undertaking of the tasks, etc. Take extra care to communicate tasks correctly especially with non or partially English speaking staff. Speak slowly and if possible include a demonstration of how the job is to be done as part of the explanation process.

Motivating employees

People are motivated by different things. It is important not to make assumptions about what will or will not motivate different people. In a UK study, one third of employees believed that a gesture as small as 'thank you' went a long way toward motivation, and 75% of the workers remembered a time they were verbally praised.

Good managers are generally effective motivators and provide regular feedback both good and bad. They create an environment where employees have a sense of purpose, pride and pleasure in their jobs.

By providing a degree of control/autonomy to the employee e.g. the employee having clear responsibilities and the opportunity to plan their own work load, and subsequent recognition of achievement can be an effective motivator. Another element that may contribute to employee motivation is when the employee is given the chance to develop and master new skills through education and/or training. Although money is not necessarily a primary motivator people do need to be fairly remunerated for their work.

Dealing with peak workloads

The seasonality of workload means that almost 50% of the annual workload on dairy farms occurs during the period of calving and breeding. Calving a high proportion of the herd in a short period does create a workload challenge. The increased workload can cause increased stress for farm families and employees. However, with the use of scanning data and fertility reports this workload is now more predictable and therefore can be planned well in advance to ensure that adequate facilities, equipment and help is available to cope with the demand.

Have the herd of cows in the appropriate body condition score, divided into groups according to calving date and keep cows closest to calving nearest the calving pens will minimise cow movement around the yard. Ensuring the farm is well-set up in terms of grazing infrastructure and having an appropriate closing cover of about 600-700 kg DM/ ha by 1st December depending on stocking rate will allow cows to access to grass as soon as they calve. Preparation is key and all maintenance tasks should be completed well in advance of calving which will ease the workload. For example the calf shed should be cleaned, power-washed and disinfected. All the equipment required such as straw, feeders, tags, disinfectant etc. should be conveniently located to minimise walking.

There are numerous labour reducing strategies that can be employed during this period such as once-a-day milking during the very busy first 3 weeks of calving, once a day calf feeding from 3 weeks of age, night time feeding of cows to minimise night time calving etc.

Conclusions

The structural changes on Irish dairy farms recently has resulted in more cows on farms and created a new and growing demand for labour on farms. Consequently the role of the farm owner has changed to focus more on the management aspect of the business. One of the immediate challenges facing farmers is becoming a good employer and working with short and long term hired non-family labour. To ensure the long term sustainability of Irish dairy farms, farm owners must improve and develop excellent people management skills. Crucial to becoming an excellent manager is develop excellent communication skills and learning how to manage both employees and also peak workload periods successfully with minimum stress on everyone involved in the business. By having excellent managerial and people management skills it will improve work efficiency, employer and employee satisfaction and increase the overall efficiency and profitability of the farm business.

For more information on Labour Management please consult the Teagasc Farm Labour Manual: https://www.teagasc.ie/publications/2017/teagasc-farm-labour-manual.php

5 Key Lessons for Labour Management:

1. Open communication is essential to create a strong working relationship
2. Both positive and corrective feedback should be shared with the employee
3. Good managers create an environment where employees have a sense of purpose, pride and pleasure in their jobs
4. Plan well in advance to ensure that adequate facilities, equipment and help is available to deal with peak workloads
5. Farm owners must improve and develop excellent people management skills to ensure the long term sustainability of Irish dairy farms.

Dairy Summer Tour – producing milk on leased land

George Ramsbottom

George Ramsbottom, Teagasc Dairy Specialist & Chairman of the IGA Dairy Summer Tour organising committee

This year's Irish Grassland Association Dairy Summer Tour, sponsored by AIB Bank focused on milk production on leased land visiting grass based dairy farms in Skeaghvasteen, Co. Kilkenny and Tullow, Co. Carlow on Tuesday July 25th.

With stocking rate increasing by approximately 10% since quota removal and one third of dairy farmers renting an estimated 30% of the land they farm, leasing land to increase milk production was the focus of this year's event. The topic attracted a record audience - over 600 dairy farmers from around the country attended the event.

The Moran Farm

Cathal and Grainne Moran farm at Curraghlane, Skeaghvasteen, Co. Kilkenny. Cathal started farming in 1997 with 16 cows when the farm also had beef, sheep and tillage enterprises. Today he farms a total of 144 ha where just over half of the 120 ha milking platform is leased. This year's overall stocking rate of 2.5 LU/ha includes 259 cows and replacement heifers. In 2016, the herd produced 450 kg milk solids per cow (4.30% fat; 3.67% protein). Cathal plans to increase this to 360 cows within 2 years with replacement heifers contract reared off the farm.

The Kealy Farm

Jamie and Lorraine Kealy are first generation farmers. Coming from a non-farming background, they purchased 12 ha of land while Jamie worked as a building contractor. He commenced milk production on a 26 ha fertile leased farm at Slaneyquarter, Grange, Tullow, Co. Carlow calving 60 heifers in the spring of 2014. The lease also included cubicle accommodation and a milking parlour. The following year, Jamie leased another 10 ha across the road from a second lessor and he currently milks 94 cows stocked at 2.6 cows/ha on the milking platform. His herd produced 530 kg milk solids per cow (4.47% fat; 3.70% protein) on 780 kg meal last year. He plans to increase the size of the herd to around 120 cows over the next couple of years.

Developing a relationship

Both hosts alluded to developing a relationship with the land owners, talking about the importance of trust which comes from being open and transparent in their dealings with them from the start. Jamie for example talked of informing the land owner about what his plans are before making changes, 'You've got to remember it's their land you're dealing with'.

Minding leased land as if it was their own has helped both hosts to strengthen the relationship that they have developed with the owners of the land that they lease.

Common themes

Common features of the host farms were the following:

- The relationship that both hosts have with the owners of the land that they lease – both mentioned openness, communication and respect when asked about how they work with the owners of the leased land;
- Their focus on improving soil and breeding the right cow – both farmers place huge emphasis on regular soil testing and planned fertiliser applications and believe in breeding highly fertile, high EBI cows to maximise the yield of grass utilised on their farms;
- Their emphasis on financial budgeting and monitoring – both carefully plan cash flow on a monthly and multi-annual basis.

Investment costs

Both Jamie and Cathal detailed the investments they made to develop their farms. The costs involved for both are summarised in Table 2.

Table 2: Investment costs (€/cow) for the Kealy (well developed leased former dairy farm) and Moran (conversion to a specialist dairy farm) farms.

	Kealy	Moran[1]
No of cows costs are based on	100	360
Cow opportunity cost	€1,200	€1,200
Accommodation & milking facilities	€550	€2,500
Land development/improvement	€250	€500
Milk quota	-	€800
Total invested per cow	€2,000	€5,000

[1]Based on 360 cows milked which is planned for 2019

For the Kealys, leasing a fertile, former dairy farm the investment costs were lower than for the Morans. Most of the infrastructural work was already done on the farm that they leased. Total investment still totalled €2,000 per cow because paddocks needed to be adjusted, roadways extended and water system upgraded.

On the Moran farm all the facilities have been constructed on effectively a green field site to include a 30 unit milking parlour, 350 topless cubicles and two lined slurry lagoons. Converting drystock and tillage land to dairy use involved constructing new roadways, reseeding most of the milking platform, soil fertility improvement and developing a paddock system. The investment on the Moran farm has taken place over the past 20 years with approximately 60% of the costs incurred since 2014.

Lease length determines true cost of the investment

Speaking at the event, Laurence Shalloo, Teagasc Moorepark highlighted the impact of the lease length on total annual costs. Assuming an investment cost of €2,500 per cow (€7,500/ha) with half of the investment borrowed, and a stocking rate of 3 cows per hectare the funding and depreciation costs were €825/ha, €596/ha and €481/ha for leases lasting for 10, 15 and 20 years respectively. Thus the greater the length of the lease, the lower the annual cost of investments made by the lessor on the land.

Generating a return

Of interest to the audience on the day was the capacity of both farms to generate a return on fully or partly leased farms. The financial performance of the two host farms in 2016 is presented in Table 3.

Table 3: Financial performance of the host farms dairy enterprise in 2016 (€/ha).

	Kealy	Moran[1]
Gross output	4,157	5,252
Variable costs	1,344	2,246
Fixed costs	1,305	1,779
Net margin	1,508	1,227
Own labour cost	775	370
Margin after own labour	733	857

[1]Based on 360 cows milked which is planned for 2019

Both farms were operating to a high level of technical efficiency in 2016. The Moran farm was more highly stocked than the Kealy farm in 2016 (2.8 vs. 2.4 LU/ha) in anticipation of extra land coming on stream in 2017. Own labour costs totalling €30,000 were included per farm leaving a margin per hectare of €733 and €857 to cover principle repayments and taxation on the Kealy and Moran farms respectively.

In conclusion, the visits to the two farms showed that when farmed efficiently, leasing land for dairying can be a profitable option. According to Cathal: 'There is no point in farming your own land badly and thinking that leasing more is going to make you more money'.

Above: Some of the 600 strong crowd getting insights on production from leased land at the 2017 Irish Grassland Association Dairy Summer Tour, sponsored by AIB

Left: The Moran family, one of the host farms for this year's Irish Grassland Association Dairy Summer Tour, sponsored by AIB, pictured alongside Bernard Ging, IGA President and Chris Nolan, AIB Agri Advisor

Financing Farm Investment

Donal Whelton

Donal Whelton, AIB Agri Advisor

A recent Ipsos MRBI Agri Financial Services Survey commissioned by AIB and completed in April and May this year identified that 51% of farmers plan to invest on their farm in the next 3 years, with 41% of investment planned for farm infrastructure works.

If you are considering undertaking an on-farm investment project, I have outlined below some of the key considerations if applying for bank finance:

1. Come and talk to your bank at an early stage. In most instances an Agri lending application form will have to be completed. Your AIB relationship manager can offer guidance on what supporting information will be required for your application, the appropriate structure for your request, and give indicative repayments on the proposed term of the loan
2. It's important to assess the average profitability of the business over a number of years (the previous 3-5 years) rather than looking at the profitability in any one year. This gives a truer reflection of business performance. I have included an example (Table 4) of a repayment capacity table (used in conjunction with your audited accounts) which we typically use to assess business performance
3. It's also important to understand the difference between farm profit and available cashflow to meet new loan repayments. The available farm profit generated in any one year may have to be allocated to other areas before the free cashflow available to fund new repayments is evident. For example, a farmers living expenses, tax payable and existing farm repayments may all have to be deducted from farm profit before the free cashflow to meet new repayments is evident.

In addition, sometimes arranging the finance does not necessarily get the attention it deserves, and common issues/pitfalls continually arise that should, where possible, be avoided. For example:

- Investing in a farm development because of the availability of grant-aid support, not because it's aligned with the long-term goals of the farm business
- Not having planning permission in place for the development, or letters of exemption from suitably qualified professionals where applicable
- Going over budget on a project. This can occur when the project has been poorly costed; additional work has been completed that wasn't in the original plan, or the spend on the project has been let drift. In many scenarios where this happens, farmers have funded the overrun from their own resources which may be detrimental to the cashflow of the business if that sector has a period of income volatility following the development. It is prudent to build in a level of contingency c10-15% into your plans
- Requesting short term facilities for long term investments. I would encourage farmers to term their loan over as long a period as being offered from their bank, as they have the option, on variable rate interest loans, to make out of course reductions over and above the annual agreed repayment structure. Also with any on farm investment, there will be a 'bedding in' period and the cash benefits of that investment may not be readily evident for a number of years. It's important during this bedding in period that the farm is not under cashflow pressure caused by large repayments over a short term.

AIB is committed to supporting the development of the Agri sector. For farm development finance we offer terms of up to 15 years and also offer bridging finance if a farmer will be in receipt of a grant and/or vat rebates on the project. I would encourage any farmer considering an investment on their farm to engage with their AIB relationship manager at an early stage and see how AIB can help your business in the months and years ahead.

Table 4: Example of a repayment capacity table

Year Ending	2016	2015	2014	3 year average
Net Profit				
Plus Depreciation				
Plus Bank Interest & Charges				
Plus Leasing				
Cash available				
Less Living expenses & tax				
Less existing repayments				
Surplus/Deficit available for proposed loan repayments				

Aidan Cotter pictured receiving the Agricultural Science Association (ASA) Distinguished Member Award, sponsored by AIB, from Mary Delaney, ASA President and Anne Finnegan, Head of Agri Sector, AIB

FIND OUT ALL THE WAYS WE'RE BACKING FARMERS

CONTACT OUR DEDICATED AGRI TEAM

Anne Finnegan,
Head of Agri Sector
Call: 01 6411974
Email: anne.m.finnegan@aib.ie
AIB Bankcentre

Noreen Lacey,
National Agri Business Development Manager
Call: 086 3817533
Email: noreen.p.lacey@aib.ie
AIB High St, Kilkenny

John Farrell,
Agri Sector Team
Call: 01 6414001
Email: john.a.farrell@aib.ie
AIB Bankcentre

Shane Whelan,
Agri Sector Team
Call: 01 6411437
Email: shane.g.whelan@aib.ie
AIB Bankcentre

Tadhg Buckley,
Agri Advisor Team Leader
Call: 086 1706528
Email: tadhg.g.buckley@aib.ie
AIB Mallow

Donal Whelton,
Agri Advisor
Call: 086 4146550
Email: donal.j.whelton@aib.ie
AIB Bandon

Bryan Doocey,
Agri Advisor
Call: 086 8221313
Email: bryan.p.doocey@aib.ie
AIB 66 South Mall, Cork

Shane McCarthy,
Agri Sector Specialist
Call: 086 0081317
Email: shane.p.mccarthy@aib.ie
AIB 66 South Mall, Cork

Patrick O'Meara,
Agri Advisor Team Leader
Call: 086 0229247
Email: patrick.j.o'meara@aib.ie
AIB Nenagh

Liam Phelan,
Agri Advisor
Call: 086 0231700
Email: liam.p.phelan@aib.ie
AIB Wicklow

Diarmuid Donnellan,
Agri Advisor
Call: 086 4621355
Email: diarmuid.p.donnellan@aib.ie
AIB O'Connell St, Limerick

Chris Nolan,
Agri Sector Specialist
Call: 086 0080272
Email: chris.p.nolan@aib.ie
AIB High St, Kilkenny

Eamonn O'Reilly,
Agri Advisor Team Leader
Call: 087 2517806
Email: eamonn.m.o'reilly@aib.ie
AIB Mullingar

Patrick Butterly,
Agri Advisor
Call: 086 3831576
Email: patrick.p.butterly@aib.ie
AIB Ardee

Barry Hyland,
Agri Advisor
Call: 086 3831661
Email: barry.l.hyland@aib.ie
AIB Cavan

Mark Glennon,
Agri Sector Specialist
Call: 01 7725767
Email: mark.a.glennon@aib.ie
AIB Mullingar

WE'RE BACKING BRAVE

#backedbyAIB