

CASHFLOW PLANNING FOR YOUR FARM: WHAT YOU NEED TO KNOW

Cathal Moran farms a 120 hectare dairy farm in Skeoughvousteen, Co. Kilkenny. Since taking over the family business in 1997, Cathal has steadily grown stock numbers and now manages a herd of 250 cows. With the farm's rising stock numbers and continuing expansion plans, careful cashflow planning has been an essential feature of all projects carried out on the farm to date. Below, Cathal explains how he deals with cashflow pressure and gives advice to other farmers on how to prepare their business for future expansion plans.

How to plan your cashflow

A little advance planning can help avoid short-term shortages of cash. Cathal urges farmers to, "Sit down in advance of every year and do a budget for it. You cut your cloth to meet your measure. You look at the peaks and troughs of what's going to be in your current account during the year and see if there are any costs adjustments needed. Then you see what adjustments you can make yourself before you talk to the bank."

Most farm businesses become aware of potential financial problems when cashflow becomes tight. Obligations become increasingly difficult to meet in the short and medium term. This may indicate a temporary short-term problem (such as a poor growing season, milk price) that will correct itself in time, or it may indicate a more serious long-term problem. "For example", says Cathal, "in 2009, milk prices were low so I took out a loan to help with the added expenditure out of cashflow. You should be looking forward two to three months, twelve months, and three and five years."

The causes of cashflow pressure

The most important and most difficult step in the cashflow process is identifying the cause of the cashflow shortage. This can be done by examining the efficiency, scale and debt structure of the business. "Since I took over in December 1997, we've doubled cow numbers four times. We've gone up another 100 cows since 2014, the last year of the quota." Cathal is acutely aware that for his farm, "The biggest cause of cashflow pressure is the cost of carrying extra stock." The opportunity cost of rearing own replacements and forfeiting the additional revenue from stock sales is a cost that farmers should be cognisant of during any expansion period.

The importance of the break-even price

It is important that every business knows the point where you cover your cost of doing business (the break-even point) when making business decisions. As Cathal explains, "Our break-even price was working out at about 26cpl gross output the last time I looked at it. It means you know what you have to do or when you have to take steps to counteract it." Part of Cathal's risk management process has been to look at forward fixing prices. He says: "A few years ago, I started taking the fixed milk price option. Part of the reason for doing that is you're looking at your break-even. If you can fix a certain amount of margin at a certain level, you're creating security for yourself." By fixing the gain, this income can now be banked and included in on-going budgets in line with the duration of fixed contract agreement.



Common mistakes when dealing with cashflow.

The importance of “bottom-up budgeting” and understanding what you want and need to earn is key. Ask yourself what your business requirements are for things like tax, repayments and immediate needs. Then you can look at your farm’s performance over the last five years and work out what you need to make up to hit those targets. Cathal states, “I think the most common mistake farmers make with cashflow planning is not looking at it in enough detail.” He is keen to highlight the danger of false savings when cashflow is tight. He advises farmers that, “The old adage is that every action has an equal and opposite reaction, so everything you do has a knock-on effect somewhere. There’s no point saving a euro now and it costing you five or six euro in three years’ time i.e. on fertiliser or PK lime.”

Working with your cashflow budget

Farmers need to be aware that cashflow budgets should be a live document and should be re-examined and adjusted throughout the year as circumstances, markets etc. fluctuate. Cathal notes, “You need to be stubborn to keep growing and get through all the different hurdles. But you also need to be flexible in terms of being willing to change from your original plan. I have the mobile number of my Agri Advisor in AIB so I can ring him just to bounce ideas off him, which is great. The long-term implication is learning what caused the cashflow issue and not repeating the exact same thing again.”

Funding the farm plan

Cathal explains: “One of the most important things [when creating a cashflow] is to clear your schedule...to allow the physical and mental time to plan. You have to make the time.” It is important to estimate any additional support required and minimise expansion from cashflow. In the past, Cathal has funded some farm development works from cashflow and, as he explains, “It just comes back to bite you. If it’s a long-term cost, structure it over an appropriate length of time. Otherwise the stock and unforeseen things will end up having to come out of cashflow.” By borrowing the money for major infrastructure investments, farmers will be better positioned to allow repayments to be made over a longer period of time and it reduces the pressure placed on cashflow.

How to Take Charge of Your Cashflow - Right Now!

Want to get to grips with your cashflow in 2016? Patrick O’Meara, from AIB’s Agri Advisor team, reveals three key ways you can meet cashflow challenges this year:

1) Understand the cause of the cashflow pressure or anticipated pressure

Consider what factors are acting as triggers for cashflow pressures on your farm, which may include:

- Low prices
- Building up livestock from cashflow
- Carrying out capital expenditure from cashflow (or a portion of it, from cashflow)
- High level of bank debt / high level of bank repayments
- Farm has a high cost of production



- High level of drawings
- High machinery costs
- Restricted herd / disease / other on farm issues
- Once off high costs

By identifying the cause or causes, you're in a position to plan how to meet these challenges.

2) Estimate the size of support required

With the source of your cashflow pressure now identified, it's time to plan out expenditure and income for the year. This will enable you to identify if you need any additional support, and when it should come into play.

- Take into account the overall outlook and include predicted output prices, performance, costs and living expenses. One way to account for this is to look back at previous years and calculate estimates for the year ahead based on previous performances.
- Calculate your break-even price. Ask "What is the break-even price that I need this year to cover farm costs, living expenses, bank repayments and income tax next year, assuming all other things are equal?" This calculation should include both capital and interest financial repayments, drawings/household expenses and taxation. It should also exclude depreciation as it is a non-cash expense.

Look online for cashflow templates if needed. You can find a simple one at www.aib.ie/farming. Once compiled, the projection will highlight how much of a shortfall will arise (if any) and when it will arise.

3) Develop a solution

With your projection completed and cashflow pressures identified, it's now clear whether this will be an ongoing issue – or a once off. Now's the time to take action and identify how you'll meet any predicted cashflow deficits. Consider the below list to see which will meet your needs best:

- Hold off on building up livestock numbers for a period
- Reduce and control living expenses by taking a set wage each week/month
- Place recent capital expenditure from cashflow on a term loan.

If you are experiencing or expect to experience cashflow difficulties, the important thing is to remember that there are a number of solutions available. Take the time to inform yourself, identify the cause or causes of the problem and estimate the level of support required.

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