GET FARM FINANCIALLY FIT BOOKLET

1 August 2015

INSIDE

- How to get BPS smart
- Managing cashflow
- How to develop a plan for your business
- Dealing with income volatility
- How to get the best interest rates

INTRODUCTION

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We all need a workout when it comes to getting financially fit. No matter what level you are at, the way you deal with finances can always be improved. To help you do just that, Teagasc got 24 different financial and support agencies from across the country to team up earlier this year to launch Getting Farm Financially Fit. You will recognise many of the companies whose logos are below – but there are a few you might not have thought of when it comes to getting financially fit. The aim is to run the initiative over a number of years to get farmers to improve their financial skills.

For me, getting anyone to take control of their finances starts with setting their financial goals. Depending on where you are starting, this could be as simple as starting a rainy day fund by saving a bit every month or putting money by for your children's education or your retirement.

Once you set a goal, you look at the ways and tools of how to achieve it. The goals each farm family will set depend on their starting point and their stage of life. However, the key is to develop the plan that will cover each stage before you actually get there.

Take the farm first. A financially fit farm is one that is generating its financial potential, meeting its needs, is able to meet repayment commitments, keeps its bills paid, is not overly borrowed and, most importantly, allows the operator and family members to have a good quality of life.

As farmers, we all run businesses, but many are guilty of not having financial control or a plan. This could be a plan to increase efficiency or to invest in expansion. But getting farm financially fit is about more than just the farm.

A financially fit farm family understands that the farm and the household are not separate. The worst cases of financial difficulty I have come across are where money was allowed to flow out of the household and into the farm, where it then became essential. It is critical to divide the household and farm income, so you can clearly identify where the money flows. Having a separate bank account for the farm and the household is the easiest way to do this.

In this booklet, there is a huge focus on cashflow. Firstly, we show you how to set up a budget for both the household and the farm. And then, more importantly, how to manage them. We look at dealing with the inevitable volatility in prices and income. We look at the need to focus on being efficient before you consider expansion.

For those who are struggling with debt, there are options – talk to MABS (money and budgeting advice service). We look at Microfinance Ireland which is lending up to €15,000 to farmers who are struggling to get credit from banks. For farmers looking to expand, we identify how to get the best rates and the new discounted rates that are emerging from the EU. The booklet is about giving you the tools and the information to not just set your goals, but by getting financially fit to also achieve them.

Get the money flowing

New sources of credit are becoming available for farmers looking to borrow money for development

ARE YOU FINANCIALLY FIT?
As you read through the booklet, complete the question at the top of every page. It is a checklist to see if you are really as financially fit as you think. Find out the results on the last page.

Banks are certainly looking to lend more money to farmers. The credit tap is also being turned on by two new sources. The Strategic Banking Corporation of Ireland is already feeding into the two main banks at reduced interest rates and a new fund from the European Investment Bank (EIB), and linked to the Rural Development Programme, will become available in the autumn.

Farmers who are having difficulty borrowing small amounts should look to Microfinance Ireland (see page 12) but, like any loan, you will need to show that you have the capacity to pay it back.

STRATEGIC BANKING CORPORATION OF IRELAND

Strategic Banking Corporation of Ireland (SBCI) is financed by a German bank KfW, the European Investment Bank (EIB) and the Irish Strategic Investment Fund (ISIF). Its primary aim is to provide more credit for businesses to grow, while creating more jobs to secure Irish recovery. The first phase, launched in February, provided €400m to businesses through AIB and Bank of Ireland. The farming community has already tapped into it with dairy, poultry and pigs the main drivers.

BOI operates a discounted loan rate, where loans are discounted by 0.4% from the bank's standard loan rates and depend on the amount borrowed and the loan term. AIB's SBCI offering of 4.5% represents a discount of up to 2% on its standard variable business loan rate.

These funds can be used for investment in machinery, plant and equipment, buildings and fencing. However, loans to fund working capital, the purchase of animals, land, or the purchase of production rights or entitlements and drainage works are not supported by this scheme. The SBCI felt it would drive up prices if it supported the purchase of animals and land.

Farmers should talk directly to their bank to see what is on offer, to understand the rates and what is eligible and not eligible under the scheme. Loan amounts are up to €5m, with a minimum loan maturity of two years and maximum of 10 years.

EUROPEAN INVESTMENT BANK (EIB)

€200m of loans are expected to be made available to Ireland through the Rural Development Programme (RDP) and the European Investment Bank (EIB). It was announced by EU Commissioner Phil Hogan earlier in the year but will not be available until the autumn. That is because some amendments must be made to the RDP for the fund to be made available.

The fund, which is being provided by the EIB, will be rolled out through the banks. Interest rates will be lower than normal loans and could be as low as 1.5%. There is likely to be a minimum loan of €40,000 per person required to access it.

The importance of a household budget

Knowing how much money you need to successfully run your household is a major step in getting financially fit, writes **Peter Young**

One of the first steps to getting farm financially fit should be to see how much money you need to live off. Surely it should start on the farm, you might ask? Well, no – simply because the reason we farm should be to feed and clothe ourselves. Do you know how much it costs you to live? Many people don't. The aim is to make a profit that can be brought back into the household, if required.

Many people are surprised when they work it out. Setting up a household budget simply sets out what comes in and what this is spent on. It can be done weekly, fortnightly or monthly – whatever you prefer. People always ask for the target or average figures that they should be spending, but this is something that each family has to do for themselves.

I have seen budgets from €20,000 to €70,000 depending on the number of children, the mortgage, and the number of holidays people feel they need. Family budgeting is a very personal thing and no two situations are the same.

HOUSEHOLD BUDGET SAMPLE

MONEY COMING IN	JAN	FEB
Farm	0	
Off-farm income one	0	
Off-farm income two	0	
Social welfare	0	
Child benefit	0	
Other social welfare payments	0	
Pension	0	
Investment income	0	
Other income	0	
TOTAL INCOME	0	
MONEY GOING OUT		
ESSENTIALS		
Mortgage/rent	0	
Home and contents insurance	0	
Groceries	0	
Work/school lunches	0	
Electricity	0	
Heat/fuel	0	
TV licence	0	
Mobile	0	
Internet	0	
Water charges	0	
Waste charges	0	
Telephone	0	
Car	0	
Tax	0	
Insurance	0	
Petrol diesel	0	
NCT maintenance	0	
Parking	0	
Other motor costs	0	
School books	0	

MONEY COMING IN	JAN	FEB
School uniforms	0	
School fees/contributions	0	
School trips	0	
Childcare	0	
Clothing/footwear	0	
Dentist	0	
Medication	0	
Health insurance	0	
Christmas	0	
TOTAL ESSENTIAL COSTS	0	
NON-ESSENTIAL		
Hairdressing/haircuts	0	
Children's pocket money	0	
Family outings	0	
Cigarettes/alcohol	0	
Store cards	0	
Credit card repayments	0	
Personal loans	0	
Hire purchase repayment	0	
Hobbies/pets	0	
Savings	0	
Pension contributions	0	
Household maintenance	0	
Gifts	0	
Clothing/footwear	0	
Snacks	0	
Entertainment	0	
Donations	0	
TOTAL NON ESSENTIALS	0	
TOTAL COSTS	0	
OVERALL INCOME LESS COSTS	0	
MONTHLY SURPLUS/DEFICIT	0	

SIMPLE STEPS FOR A HOUSEHOLD BUDGET

1 **Know why you are doing it?** The main reason is to allow you to be more in control of your finances. It allows you to manage the bills and feel that you are not going from one bill to the next. It also allows you to plan better and make more from the money you have coming in.

2 **Set it up.** You can do it on a copy book simply by putting the months along the top and using a different line for each heading down the side. If you can use a computer, do the cashflow in the form of an Excel sheet. It is very simple and it does all the additions and subtractions for you. You can also change it to suit your needs. Of course, there are plenty of more advanced options available if you want to get into more detail. However, sometimes simplicity is the key to getting it done.

3 **Start with the income.** Look at all the money that comes into the house. As well as the farm income, list income from off-farm employment as well. Don't forget to include any income from savings and social welfare payments such as child benefit. This can be broken down into monthly income or, if you feel the need, to it can be done on a weekly basis.

4 **Break down the spending**. I prefer to have two main headings in a household budget – essential and non-essential costs. Essential are the one that we can't get out of. It doesn't mean we can't reduce them, but they will still be there in some shape or form. Non-essential are ones where we have more choice if we want to spend money on them or not. This differs between people.

5 **Make up your own list under essential costs.** I have listed many on the template above. For most families, it would include mortgage, ESB and gas, health insurance and food. Tax and PRSI contribution would come in as well. Then there are telephone bills and the TV licence. Some people break down food between essential and non-essential as they find it easier to reduce the bill that way. Again, find a system that works for you.

6 **Be honest about the non-essential costs.** Under this heading are items such as holidays, hobbies, savings plans, if you have any in place, credit card balances, entertainment and miscellaneous for the bits and pieces. It is in this area that many find a black hole for money and where financial discipline is needed.

7 **Write it down.** Writing down what you spend for a week or two is often a good way to identify where the money goes. Have a small notebook and record what is spent and what heading it would go under.

8 **Don't do it alone.** Get your husband/partner involved and encourage your children to record their spending. It might not prove popular, but it will be important if you want them to change their habits and give them a responsible attitude towards savings.

9 **Look to trim.** Once you know what you are spending, you can start to look to where costs can be trimmed or cut out. Look carefully at each of your essential and non-essential costs. Set yourself a challenge on how to reduce a number of costs. In recent years, many people signed up for costs without much thought. Can you find costs that can be cut altogether in the non-essential column?

10 **Manage your budget.** Knowing what you are spending puts you more in control. You will be able to see when essential bills are due and start to ensure you have money to meet them. Of course, certain times of the year, like when children go back to school or Christmas, are more expensive, but if you plan then it can make it manageable.

11 **Start squirrelling.** One reason people get stressed about money is that there is no emergency fund. One goal should be to set aside even a few euro each month to build up a fund that can be called on for the unexpected cost. Depending on your situation, you could have definite goals to save for a holiday or children's education.

12 **Get into the habit.** Getting into the habit of budgeting will mean that looking to cut costs starts to come naturally. You are always conscious of costs and if done right it means that you shouldn't feel guilty if you do buy what you want. If you budget, there is much less chance that you will impulse buy.

HINT

A good way of starting the habit is to carry a notebook around and write down what you spend. Some people keep it in the car and write it down as they go.The rest of the bills will come to you in the post or email.

YES ☐ NO ☐

Get BPS smart – budget, plan and spend

Getting BPS smart is all about building good habits that stand the test of time. Farmers need to commit to a plan to do this, writes **Anne Kinsella**

In order to be financially smart, farmers need to focus on their own Smart BPS plan (budgeting, planning and spending), while also making better use of their resources and skills. The first steps to achieve this are:

- Protect your farm income and Basic Payment Scheme.
- Improve your long-term financial situation.
- Improve your quality of life.

WHAT IS SMART BUDGETING?

Smart budgeting encompasses your earning, spending, saving and investing. It is all about managing your short-term cashflow – understanding how you handle money.

Keeping a daily/weekly diary of income/expenses will reflect the reality – keep it simple. If you try to write down from memory, the picture you paint will be inaccurate.

"No one was ever meant to remember or invent what he did with every cent."
– Robert Frost, US poet.

SMART PLANNING

A plan is needed in order to budget correctly. Again, keep it simple, that way you will be more likely to stick to the plan – whatever works for you is best. Proper planning prevents poor performance, yet setbacks are inevitable. This applies to everyday life and farm plans. Leave some space for the unexpected as the farm and its finances are in a constant state of flux.

SOME TIPS TO BE BPS SMART

- Have a dedicated place/office space if possible.
- Put a system of filing invoices/receipts in place.
- Plan your spending in advance.
- Monitor your spending – check actual v planned spend. Are there differences, reasons for being the same. Let there be no surprises.

Anne Kinsella is an economist in the Agricultural Economics and Farm Surveys Department at Teagasc, Mellows Campus, Athenry.

1.

Maximise farm income

The first priority for any farmer is to maximise his farm income. Farm scheme payments constitute a large proportion of that

2.

Hold on to the money

The next goal with regard to these scheme payments should ideally be to try and hold on to as much of the direct payments for yourself and your household as possible

3.

Manage outgoings accordingly

One way to achieve this is by managing farm costs. But there are many other ways to manage household income and expenditure

In brief

- Getting BPS smart is all about building good habits that stand the test of time.
- Smart budgeting – managing short-term cashflow and understanding your finances.
- Smart planning – have a simple plan that allows for ups and downs on the farm.
- Smart spending – cut out unnecessary costs and make sure you're getting the best service from providers, eg energy bundles.

- Modify plan as necessary – it's not set in stone and should reflect your changing financial needs.
- Smooth cashflow. Is there a more efficient way to manage your short-term cashflow?
- Cost of credit card versus overdraft?
- Would a short- or medium-term loan be better?
- Match loan term to your cash requirements.

SMART SPENDING

Smart spending is essential. Loyalty does not always pay. Remember every €1 saved is another €1 in income.

- How much do you need to run the household on a monthly basis?
- Could you reduce non-productive farm costs?
- Farm costs/insurance/utilities – spread your bills over the course of the year, switch providers, bundle or save by paying online (switch and save).
- Reduce energy costs – avail of recently increased SEAI grants.
- Bundle your debt – shop around for best rates. Meet with bank/financial institution.
- Smart use of resources – use your resources effectively and efficiently, tapping into as many as possible to make your finances flourish.

By minding your money and getting the best from it you will also mind yourself, giving you a sense of control and consequently more peace of mind.

In the longer term, Smart BPS will assist in achieving your goals. Getting the family involved in the process will ensure you are all aware of how much it costs to run the household, while also providing children with valuable life skills.

It is all about building good habits that stand the test of time:

- Commit to a plan.
- Stick to it.
- Review and modify as necessary.
- Build on it gradually.

If you apply these principles, you will be well on track to farm financial fitness and sound household budgeting. Make the most of your resources – think, plan and be smarter.

Is cashflow the real issue for farmers?

I recently read a quote from psychologist Dr Wayne Dryer that "if you change the way you look at things, the things you look at change".

The situation on farms is unusual, in that there are seasonal peaks and troughs in income. Most farm income occurs in the last quarter of the year. However, farm costs are a continuous outlay throughout each month of the year. Consequently, farmers need to have some money remaining in their farm bank account at the beginning of the year to cover the ongoing farm costs.

Cashflow is, therefore, the real issue for many farmers. The challenge on the farm is twofold – managing cashflow, while also dealing with volatile income and prices. What is important is how farmers can deal with income volatility and plan around it, while retaining some of their Basic Payment Scheme payment. There is the added challenge of balancing the needs of the farm household with the financial requirements of the farm. Farm households need to budget monthly rather than annually. Ideally, the Basic Payment Scheme should not be used to cover the costs of production, but mainly be used for the household.

For many farmers this is not always possible, but taking a more long-term perspective and planning ahead may assist in achieving this goal.

Finally, farmers, like all other members of society, need to make the most of their tax and social welfare benefits. Farms with an income insufficient to sustain the household may indeed fall below the threshold to qualify for Farm Assist.

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Getting into more detail on cashflow

Putting some time into cashflows and planning ahead will give you the confidence to deal with the financial ups and downs over the coming months and years, writes **Kevin Connolly**

COMMENT

Not being financially and, more particularly, cashflow aware can affect profitability as well as posing a significant distraction in terms of day-to-day management of the farm and the household. Putting some time into examining your current cash position and planning ahead using a cashflow budget will give you confidence to deal with the financial ups and downs over the coming months and years

Putting together a detailed cashflow budget is a useful next step in building an understanding of cashflow. It will help you to navigate the second half of 2015 and into 2016 with confidence and an understanding of what your net cashflow is likely to be at the end of every month during the next six to nine months.

Preparing a cashflow budget is not an exact science since farm product and input prices are always changing. However, do not let that put you off – what we look to do in a budget is to make our best attempt to map out the main money movements that are likely to occur and then use this to compare against what actually happens during the year.

BUDGETING – THE TIME, THE PLACE AND THE TOOLS

• **The time:** You need to set aside time during the working day for the initial preparation of the budget as well as recording your actual cashflow at regular intervals. It may take a couple of attempts to get a decent budget together but be prepared to give it the time as the process will greatly help in clarifying what needs to be done over the next nine months.

• **The place:** Set yourself up to do this beside where you keep the farm records. You will need easy access to bank statements, sales dockets or statements, cheque books and invoices.

• **The tools needed:** You have options here – you can stick to the pencil, paper and calculator if you wish. Alternatively, Teagasc has a useful cashflow budgeting worksheet available to download from the following link http://goo.gl/sXEIx7. There are a few computer programs available to assist in cash budgeting and also cash recording and Teagasc has its own Microsoft Excel-based tool for this – the cost control planner. Further information on the planner is available by following this link http://goo.gl/sM68e5

Kevin Connolly is the financial management specialist, Teagasc rural economy & development programme

GETTING THE BUDGET STARTED

Record the main and consistent money-in and money-out items that occur yearly, and record them on the budget in the month you expect them to take place. Such items include periodic payments for electricity, insurance, land lease payments and loan repayments. Use your knowledge of the previous year as a guide.

Don't forget to budget for personal cash needs (drawings) as well as your expected tax bill. The cash figure included for sales in each month will be determined by the amount sold and the price received – give your best estimate of both. Remember, it is important to record the cash movement only if you either receive money in or pay money out.

TWEAKING THE BUDGET

Your completed cashflow budget should be a plan of how you predict money is going to flow through your bank account, merchant account or pocket during the year. There will be months where net cashflow will be positive and other months when it will be negative and this will feed through to your current account. If your budget indicates months when there is clearly a lot more going out in payments than is coming in via receipts, then you should inspect closely to see if you can better manage the money flow to try and reduce the monthly cash shortage.

Some options to look at here include:

- Rearranging loan repayments – the months of October to December normally show a lift in money coming in due to the arrival of EU direct payments, so some of the major repayments could be left to that period of the year.
- For large merchant account balances, make a staged payment over a number of months rather than a full payment. This is provided your supplier is in agreement and won't change any interest for late payment.
- Arranging that any saved funds siphoned off during the year can be fed back in to boost cashflow in months where actual cashflow is tight.

RECORDS FOR YOU TO USE

You also need to measure your progress against the budget regularly. By recording against the budget, you can monitor progress and assess if your cashflow is proceeding as planned. Differences will indicate when it is important to reassess:

- Is the difference due to a "wide off the mark" budget?
- Is the difference due to something beyond my control – an unexpected price change or emergency spending need?
- Is there something specific which caused the actual not to match what was budgeted?
- Do I need to recheck the overdraft or stocking loan requirements as a result of the difference to ensure they will cover any increased shortfall of cash?
- Can I make changes in the next few months that will bring the actual back in line with the budget?

By challenging yourself to come up with answers to these questions, you will be well focused towards managing your farm business for maximum profit.

This will ultimately ensure that your business will remain viable by generating enough cash to meet your daily requirements for both the business and the farm family.

Easy steps for reducing your cashflow issues

Barry Caslin is a Teagasc energy and rural development specialist in the CELLUP and Rural Economic Development Departments.

At the Teagasc Moorepark Open Day, farmers were told that a 70-cow herd could be down up to €35,000 this year due to the lower milk price. That's a massive swing and one that is hard to manage. Teagasc was looking for farmers to do a five-minute cashflow to plan where they might be at the end of the year (see table right). It's not just dairy farmers who can do it. It's a worthwhile exercise for everyone. The next step will be to do a more detailed cashflow to see where the problems and solutions lie. Here is what you can do:

Tighten the belt

- Minimise all spending until cash-flow improves.
- Prioritise essential living expenses.
- Eliminate all non-essential expenditure – both farm and personal.
- Involve all family members to find solutions.

Reduce debt repayments

- Consolidate/restructure loans over longer period, investigate interest-only, but watch rates.
- Investigate payment holidays on machinery lease options.
- Negotiate with merchants to avoid paying excessive interest on over-due accounts.
- Review policy payments – can pension/life assurance/saving policies be reduced.
- Talk to your accountant now to avoid shock to cashflow.

Bring in cash

- Sale of trading stock.
- Target beef cattle/stores for sale/ especially early sale of cull stock.
- Surplus fodder – plan for what you need first.
- Cash in policies/saving.
- Take advice from you broker/accountant on this.
- Off-farm income options.
- Sales of assets.
- Look into availing of farm assist.

FIVE-MINUTE CASHFLOW

		2015
Cow numbers (number)		
Other stock (number)		
Bank balance on 1 July	A	
Milk sales to end of year	Litres	
Milk price to end of year (your estimate)	Cent	
Milk sales to end of year	B	
Animal sales to end of year	C	
Direct payments at end of year	D	
Total cash inflow	**X(B+C+D)**	
Once-off investment to year end	E	
Tax bill to be paid	F	
Contractor	G	
Feed costs to year end	H	
Vet and other costs to year end	I	
Loan repayments to year end	J	
Family living costs to year end	K	
Total cash out	**Y (E+F+G+H+I+J+K)**	
New cashflow	Z(X-Y)	
Predicted bank balance on 31 December	A+Z	
Bank balance on 31 December 2014		

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Develop a plan for your business

Shaping the future by having a business plan means your farm business will be more secure, writes **James McDonnell**

We are all aware that business planning is something that we should be doing. We also know that having a business plan for the farm, means more security. The most successful farmers all have business plans. A business plan is especially important to any enterprise that is planning major changes or expansion. Many of us would rather spend time on the tractor, in the mart or tending the animals rather than spending some time in the office.

We now have the perfect opportunity to start the planning process. We can use 2014 figures – the CAP changes are almost agreed so we can predict our payments until 2019. This will give us freedom to plan the next five to six years.

This is an exciting time in Irish agriculture. The Food Wise 2025 document focuses on increasing agricultural production and, in turn, Irish exports. This offers all farmers an opportunity to grow their business. However, remember the slogans: "skill before scale" and "better before bigger". If the farm business is not efficient prior to an expansion phase, efficiency levels will be difficult to maintain.

MEASURING EFFICIENCY

Prior to completing any plan, the first step is to analyse the farm business as it stands. The requirement here is to look at yourself as a farm manager and ask yourself: "Have I being doing a good job managing the farm?" To answer this question honestly, a set of management accounts should be completed.

Management accounts are used solely for the purposes of analysing the performance of a business. The Teagasc e-Profit Monitor (e-PM) is an online financial analysis tool available to all Teagasc clients. Farmers work with their Teagasc adviser to gather the data required.

Once the data is entered and analysed, the adviser can produce a range of reports for each enterprise (dairy, replacements, cattle, sheep and tillage), or the overall farm. If the farmer has carried out an e-PM analysis on a yearly basis, multiple year reports tracking performance over a number of years can be generated.

In addition, if the farmer is a member of a discussion group, a group report can be produced, allowing each individual farmer to benchmark their performance with other group members. Completing the e-PM is the starting point of any future plan.

There are many farm businesses that are not as efficient as they should be. If your farm is in this category, your business plan should focus on addressing this.

Planning leaves you in control you can decide on the effects of change to your farming system. You decide when the next piece of infrastructure is put in place. You know the cost of doing this in advance. You can see what potential income will be generated, the trend in cashflow and the likely demands for this cash. When you plan, it is much easier to work with your bank and creditors.

Because farmers are sole traders, and farming for the most part is a seven-day job, and is just across the yard, it is intrinsically linked with personal life.

The planning process must also include the farmer's personal life and what impact this new business plan will have on both the farmer and his family's work and life balance.

James McDonnell is a financial specialist at the Farm Management and Rural Development Knowledge Transfer Department at Teagasc, Oak Park.

» Case study

John and Aidan Byrne farm near Tinahely in Co Wicklow. The farm consists of 97ha, of which 53ha is in forestry and 44ha is in grass. The land is on high ground, ranging from 400ft to 1,000ft above sea level. In 1990, the farm was changed over from a suckler farm to a dairy farm, with 45,000 of milk quota under a new entrant scheme from the Department of Agriculture.

Changing to dairying requires a lot of investment. A decision was made to plant the marginal land into forestry in 1994 to generate a steady cashflow and allow the dairy investment to take place. The dairy business was starting out small, so the management of the farm needed to be good to ensure that the conversion to dairying was going to reap dividends.

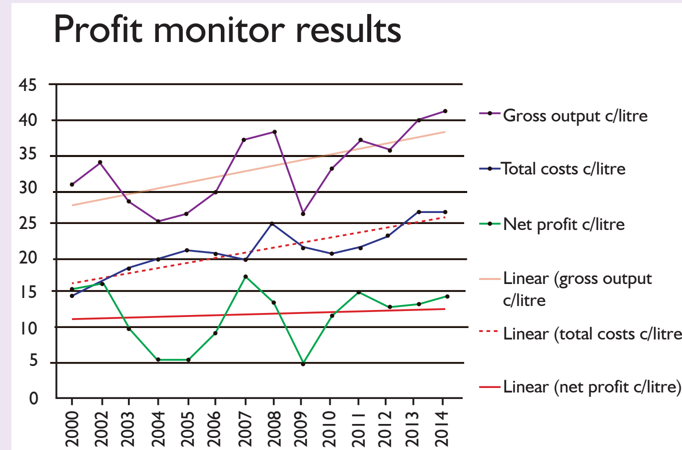
The Teagasc e-Profit Monitor was the tool used to measure how well the farm operation was performing. The information was then used to grow the business in a planned fashion. Joining the local discussion group also helped with the farm decision-making processes.

"The first year is the hardest," says John Byrne. He adds that the benefits of completing the e-PM are as follows:

- It allows you to make comparisons year on year.
- It allows you to benchmark yourself with other farmers.
- It gives you confidence to know you can overcome volatility.
- It helps you to get buy-in from the banks to invest in you.

The graph opposite demonstrates to us the performance of this farm. It also shows how farm incomes can change from one year to the next, with many of these factors outside the control of the farmer.

With quotas now removed, the future of this farm will be more volatile. Over the course of this time, the business has grown and John has handed over the farm to his son, Aidan. Cow numbers have grown to 65, with the farm reseeded and housing, roads and facilities put in place based on e-PM results. There is further expansion now planned with the removal of milk quotas, and Aidan will be using e-PM to benchmark himself, complete a long-term plan and successfully grow the farm business into the future.



Managing income volatility inside the farm gate

Some of the best ways to deal with volatility are within the farm gate, writes **Eamonn O'Reilly**, AIB agri adviser

Picture: Donal O'Leary

In brief

- Volatility is the new norm.
- Many opportunities inside the farm gate.
- Build a buffer and improve efficiency.
- Contact your bank early if there are issues.

It is widely accepted that not every year will be a great year in farming, or a great year for all farm sectors. Farmers have always contended with changing income cycles, and this has heightened significantly in the past decade.

At AIB, we consider volatility to be the new norm. I would encourage all farmers to examine how their business can deal with the effects of volatility and to have strategies in place to mitigate its impact on the farm when it arises.

There are a number of potential options available. However, some of the greatest opportunities lie within the farm gate. Building a buffer during periods of higher returns, which can be utilised during periods of cashflow pressure and low income returns, is one potential strategy you could implement. This buffer can take many different forms, such as surplus funds in a savings account coming from regular and/or periodic lodgements; additional stock which can be reduced during low income periods; or the forward purchasing of inputs (feed, fertiliser), paid from previous years' trading.

There are also a number of other options available which lie inside the farm gate. These include minimising non-essential expenditure, looking at opportunities to improve production efficiencies on an ongoing basis, and managing your cost base.

Bank support is also a key component of managing through these cycles. At AIB, we take a long-term view of a short-term challenge. There is no one universal solution, instead there are a number of support measures that can be tailored to the individual circumstances. These include a review of monthly repayment commitments; short-term increase in working capital facilities; short-term loan facilities; and an interest-only period on existing borrowings.

Solutions are best tailored at an early stage and early contact with your bank is key.

When meeting with your bank, take time to prepare and bring the appropriate information to support your request. In terms of establishing the level of financial support required, establish the cause of your cashflow difficulty and the length of time it is likely to last. You can then quantify the level of support required to overcome present or envisaged cashflow difficulties.

CASHFLOW FORECAST

A cashflow forecast is a very effective management tool in this regard. It gives you a blueprint of the expected cash position of the farm business and forecasts when cash is expected to flow in and out of the farm on a monthly basis.

A hand-written cashflow forecast for each month is adequate. A simple cashflow template is available on the AIB website www.aib.ie/farming. If you have not completed a farm cashflow plan previously, it may be beneficial to enlist the help of your accountant, Teagasc adviser or agri consultant.

While the overall market indicators are positive in the medium- to long-term, market volatility is likely to remain a feature. Building a buffer and improving efficiencies are some of the best methods of positioning your farm business to cope with volatility.

Whatever options are taken, it is vital that you position yourself well for continued volatility into the future. I would encourage farmers experiencing or anticipating cashflow difficulties to make early contact with AIB to see how we can support your individual needs.

Helping you to help yourself

The Money Advice and Budgeting Service (MABS) is a free, confidential and non-judgemental service for people in debt or at risk of getting into debt in Ireland.

How to use the Money Advice and Budgeting Service (MABS).

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www.mabs.ie

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Helpline: 0761 07 2000

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We have offices nationwide. Our website and helpline will direct you to your local office.

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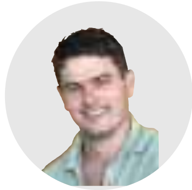
Getting the best interest rate



What is the best interest rate farmers can get from banks at the moment? **Peter Young** reports

What is the best interest rate I can get? That is a common question I get asked. The answer is, it depends. It depends not just on your negotiating skills, but also on your farm profitability, the ability to repay the loan and the security that the banks can get their hands on. Some farmers will never get the lowest interest rate due to their circumstances. Others who could get it, don't because they simply don't look hard enough – now that's giving money away.

Some farmers I have spoken to are finding it easier to get an overdraft or to increase their overdraft limit. The rates vary from as low as 4% for renewing an existing overdraft, to as high as 11% for a new, unchallenged overdraft, but most are getting 6-7% interest. Term loans range from 4% to 8%, and possibly even lower. Business credit lines or stocking loans are also proving easier to get, with rates varying from 4.75% up to 8% interest.

We have certainly seen a change in the banks' attitude to lending. Banks are advertising for business and are willing to take on new customers. New sources, such as the funds from the Strategic Banking Corporation, has helped (see page 3). A number of farmers I talked to have got loan offers from more than one bank and were able to chose based on the interest rates and other conditions set out.

One thing that farmers are finding is that paperwork is slow, but having a good plan before you start speeds up the process. It all comes down to repayment capacity. Many are being forced to pay for two solicitors: their own and the bank's. However, in some cases, the bank gives a sum towards the setting-up costs of a loan.

INTEREST RATE

The interest rate a farmer pays is not only a reflection of his negotiating skills, but also a reflection of the amount of money involved and the quality of the farmer's business, as well as the proposal he puts to the bank. Banks look at four main elements when setting interest rates:

- **Repayment capacity –** based on farm accounts and what is available to service borrowing.
- **Current account –** how has cashflow been managed in the past.
- **Equity in the business –** especially in off-farm investments, although there is a massive change to what has become acceptable as banks rein in borrowings.
- **Security –** Must be valuable, saleable or assignable. Land is still good, but value has been reduced. Farmers should look to minimise security by offering outfarm or splitting off sites from the main farm.

BANK MEETING CHECKLIST

- **Cashflow budget –** is it completed and based on sound projections? Have you put in living expenses?
- **Recent accounts –** you should have 2014 accounts done at this stage and have an indication for 2015.

Do you understand the key points?

- **Stock numbers –** have a list of your up-to-date stock numbers.
- **List of money you are owed and money you owe –** list out the creditors that owe you money and the debtors who you own money to. Bring in the most recent co-merchant statements.
- **Your requirements –** this could be from an increased overdraft to a plan to restructure loans. Have it well thought out and know the reason you are asking. It could be prepared by your accountant or adviser.
  This is recommended if you already have financial problems or see them ahead.
- **Security –** what will you give and how much will it cost? Banks are asking farmers to cover the cost of their solicitors as well.
- **Support –** you can ask your adviser to come to the meeting.

How to get better interest rates

- Know you rates – what are you being charged? How does this compare with what's available?
- Know your business – do cashflow projections and identify repayment capacity.
- No surprises – manage your cashflow, don't go over limits, make all repayments on time.
- Use professional advice if you need to – make sure you understand it as well.
- Be prepared to change banks – there are signs that banks are willing to take on new customers and a number of farmers have moved.

Counting the real cost – weaning your business off merchant credit

Merchant credit always builds up at this time of year. It's easier to go into the local merchant or co-op and put it on the account. For some it has been a way of doing business for years, a way of managing their cashflow. Merchant credit is definitely one of the first things that balloons when times are tough. It is the way many keep the overdraft under the limit.

One part of getting financial fit should be to plan to manage you merchant credit better.

The reason being that merchant credit is one of the most expensive forms of credit you can use. Merchants charge from 0.8% to 2.4% a month. With the interest compounded, the real interest rate is between 10% and 14% a year, higher than many credit cards. However, there is also a hidden built-in margin that merchants add to the price of goods sold on credit.

> *Lower output prices and higher costs are having a major impact. For many it comes back to managing cashflow*

Merchants put between 5% and 15% of a higher margin on products bought on credit and sometimes even more. Added to the interest rate, it means that farmers using merchant credit to fund their business could pay up to 20% higher for their inputs. Merchants will admit it is high, but they are not bankers and have to borrow money themselves.

PRICE FOR INPUTS

The best price for inputs is when you can pay on the day. Many farmers who pay off their account regularly can get the interest knocked off the bill before paying. However, they will have difficulty getting the additional margin added to be dropped. With rising credit bills, merchants are taking a much tougher line on writing off interest as well as reducing the quoted prices.

Farmers who have let bills build up and are paying off a bit each month are in a very weak position when negotiating. In extreme cases, some merchants have stopped the credit of farmers they had problems with in the past.

WHAT SHOULD FARMERS DO?

For many it cannot happen overnight, but the aim should be to get a bit better every year. Setting up a credit line in the bank for working capital is the cheapest way to fund your business. A number of farmers have moved to do this in recent years. Interest rates of 5% to 6% are on offer. A credit line is different from an overdraft and repayment terms are built-in during the year. Farmers who have set up this system have the ability to negotiate the best deal on inputs at the time of purchase.

If merchant bills are mounting, you need to look closely at the underlying cause. Lower output prices and higher costs are having a major impact. For many it comes back to managing cashflow.

In some cases, higher merchant bills are partly due to farmers using cashflow to fund building work.

There may be a need to look at restructuring loans, although banks are slow to incorporate merchants' credit that has built up over time in new loans. In saying that, it is being done as part of a restructuring package.

Table 1: The cost of merchant credit (per €1,000 borrowed)

Month		1	2	3	4	5	6	7	8	9	10	11	12
Merchant (1.4%/month)	€1,000	€1,014.0	€1,028.2	€1,042.6	€1,057.2	€1,072.0	€1,087.0	€1,102.2	€1,117.6	€1,133.3	€1,149.2	€1,165.2	€1,181.6
Bank (0.5%/month)	€1,000	€1,005.0	€1,010.0	€1,015.1	€1,020.2	€1,025.3	€1,030.4	€1,035.5	€1,040.7	€1,045.9	€1,051.1	€1,056.4	€1,061.7

Too much money going out? Think MABS

MABS, the State's money advice service, can help farmers if they are under financial pressure

REMEMBER YOU ARE NOT ALONE
If you think you could benefit from a chat with a MABS adviser, then please get in touch. If you need to draft a budget, in order to help you speak with a creditor, check out the MABS website or call the helpline on 0761 07 2000.

MABS, the State's money advice service, is there to help all kinds of people with all kinds of debt and financial worries. It is the only locally accessible, face-to-face debt and money advice service in the country which is completely free to all.

MABS is in every local community and it helps people without judging. Its service is completely confidential. MABS supports people to manage their money, through agreeing sustainable ways to pay debt, whilst also maintaining a reasonable standard of living.

For farming families, doing this can be particularly challenging. The income arising from farming can be unpredictable and irregular – this can make it difficult to budget your household for a year, making provision for the regular expenses, as well as the bigger events you may know are around the corner, and yet also putting something away for a rainy day.

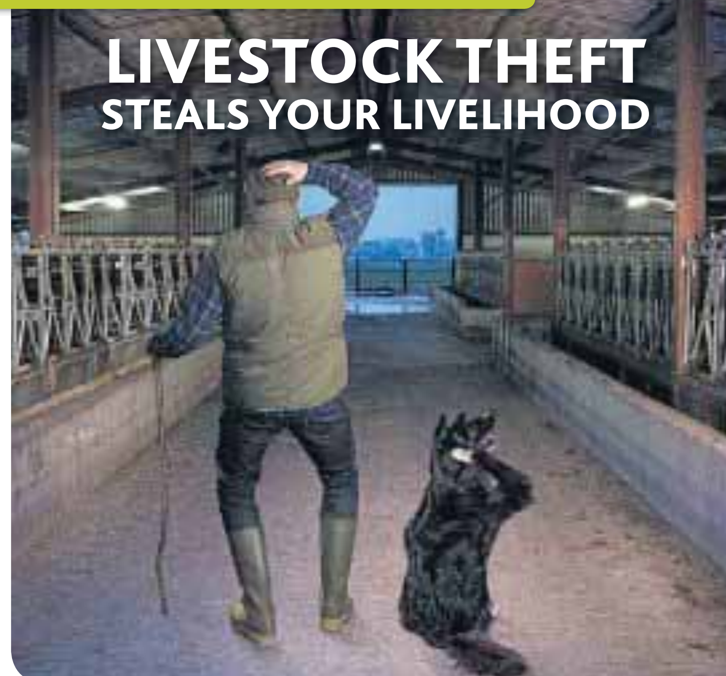
Many farming families will also have an off-farm income now. If that is the case, then it can provide some predictability in preparing your family budget. MABS has a strong record in supporting farm families in preparing a household budget that is realistic and which will allow a farm family to gain some oversight and control of the household money. The MABS website (www.mabs.ie) is a useful resource for this. Once there is a budget in place, it is possible to get a clear picture as to what funds are available to pay off the debt.

Of course, debt needs to be paid off, and anyone taking out any kind of borrowing knows this at the outset. People generally take out credit in good faith, fully intending to repay in line with their credit agreement. Unfortunately, sometimes that is just not possible – the unexpected can always happen, leaving a borrower in a position where the choice is to feed the family or pay the loan. Farm families are particularly susceptible to unanticipated changes in income – a wet summer or changes in international markets are beyond the control of any farmer and can have a very serious impact on the household income. What do you do?

Many families – whether farming or not – find themselves facing this question every day. Our advice is always to stop, and think. If creditors are calling you or writing to you, please do not ignore them – you need to speak with them. What you do not need to do, however, is to agree to payment plans under pressure. Take the time to draft your budget and see what you can afford – this amount should be one that you can afford for the foreseeable future, and which you can pay without creating undue hardship for your family. Finding this balance – which starts with drafting your household budget – can be a little tricky at first. You need to take time, which is why, although it may be tempting to agree to any figure over the phone in order to end the call, you may only make things worse.

Many creditors are happy to negotiate. They will want to see your budget, they will want to know they are being made a reasonable offer, they will want to know you can keep to this new arrangement.

For some families, the figures will just not add up, and a more formal arrangement with a creditor may be required. MABS is an expert in supporting families to reach voluntary arrangements with their creditors – these are agreements which you and your creditor jointly come to, through which you can pay a significant portion of the debt, and, in many cases, where the creditor may agree to some writedown. Laws in the area of insolvency can offer a legal solution, and, again, MABS has expertise in guiding and advising on these, as well as in the processing.



At FBD we listened to our farm customers concerns and that's why we're the first to offer **"Livestock Theft Cover"** on our livestock property option under our farm product. Cover excludes theft of poultry and of pigs and is available for all new and existing farm policies. Contact your local FBD farm expert and we'll call out to you to have a chat.

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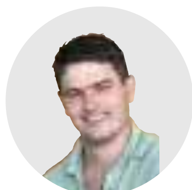
FBD Supporting Irish Farmers

Terms, conditions and normal underwriting criteria apply. Calls may be recorded for training and verification purposes. FBD Insurance plc is regulated by the Central Bank of Ireland.



MICROFINANCE open for farmer business

Microfinance Ireland is a borrowing option for farmers. It is targeted at businesses that are struggling to get credit, writes **Peter Young**

"It was just a chance conversation. I was telling someone that I had just been turned down by my bank for a loan," said John.

"And they said: 'I know where you can get a loan. At your Local Enterprise Office,'" John said. "At first I thought he was joking. However, he explained that Microfinance Ireland was offering loans to businesses like mine, which had difficulty getting bank finance. I had moved from sucklers to dairy earlier this year and I had invested in the milking parlour and facilities. I was not able to buy all the dairy cows I needed. It was like I was working at half the capacity, so it was worth a call. They were very helpful and they came out to go through the process. The man walked the farm and explained about the loan. He said he didn't see any reason I wouldn't get it as the extra cows would give me more repayment capacity. He helped me fill out the form and within two weeks I was approved for a loan of €15,000 that I have to pay back over three years. The interest rate is 7.85% and they did not charge fees and didn't look for security."

I was interested in John's story. I had heard of Microfinance Ireland and I knew some farm diversification businesses that had got a loan from them, but this was the first time I had heard of a farmer using them. Michael Johnston, chief executive Microfinance Ireland, told me they have given loans to a small number of full-time farmers, but have strong ambitions to increase the level of activity to the sector.

Microfinance Ireland (MFI), a not-for-profit lender, was established to deliver the Government's Microenterprise Loan Fund. It was initiated by the Government to provide another funding avenue to assist people who are finding it difficult to access credit, which, in turn, will help to create and sustain employment.

MFI recognises that some businesses may have difficulty in accessing credit from banks – due to economic difficulties or for reasons such as lack of security, current level of bank debt, difficulty with existing borrowings, or lack of a track record. One area Michael specifically mentioned they want to develop is where young farmers are taking over or developing the farm and they are finding it difficult to obtain all the finance they need.

"We have no problem co-funding with the bank up to the limits that we can," he said.

MFI gives unsecured loans from €2,000 up to €25,000. Farmers can get up to €15,000, but farm diversification businesses can get up to €25,000. Terms of repayment vary from three to five years. The interest rate is set at 8.8% but you can get a discount of 1%, dropping it to 7.7%, if you apply though the Local Enterprise Office.

The business has to have less than 10 employees and be below €2m in turnover, so most farmers will qualify.

Loans may be used to fund the start-up of a business, the purchase of stock, equipment, machinery and business vehicles, and are also available to established enterprises.

HOW TO APPLY

"People can contact their Local Enterprise Office (LEO) and there is also an online application that you fill out, but we will also look for other information," said Paul Kerr, external loan assessor for Microfinance Ireland.

"We would need a basic cashflow and short business plan. We focus more on the person than the banks would," said Paul.

If you did have problems with existing debts, you need to tell MFI about these, along with the arrangements you have made with the relevant financial institution. It will require evidence of this. If you can demonstrate that you are dealing with your current debts and your business has the capacity to repay a new loan, then MFI is willing to consider your application.

"We would accept about 50% of loan applications but, in most cases, the issue for refusal is we cannot see how the repayments would be made," said Paul.

"You don't have to be refused by the bank, but we have to see that you would likely not be given the money. Saying that, we have given loans to business which have got part of the money they needed from the bank," he added.

Loans are generally for three years. Up to five years may be considered if it involves financing of capital expenditure for equipment, machinery, or vehicles, for example. This will be agreed to on an individual basis. They do not charge any arrangement or set-up fees and do not impose early redemption penalties for businesses wishing to pay off their loans early.

Loans are unsecured. However, when a sole trader or partnership borrows money, they will be personally liable for the loan. When MFI lends to a limited liability company, it will require the directors and/or shareholders to provide it with a personal indemnity for the amount borrowed, which is similar to the sole trader being personally responsible for the repayment of the loan.

MFI has €10m a year to lend and so far this year have given out €5m to €5m. So, like in John's case, it could be worth to call MFI if you are having difficulty getting credit.

• Contact your Local Enterprise Office or visit www.microfinanceireland.ie

IN BRIEF

- Microfinance Ireland is an option for farmers to borrow money.
- It is targeted at businesses that are having difficulty getting credit.
- Farmers can borrow up to €15,000 while farm diversification and other businesses can borrow up to €25,000.
- Repayments are over three to five years and no security is needed.
- Interest rates are 7.8% to 8.8%.

» What makes a good application?

According to www.microfinanceireland.ie, some of the factors that make a good application are:

- A clear business plan and knowledge of the business from previous experience or skills of the employees.
- Good understanding of the business.
- Clear details of the financials of the business, including sales revenues, overhead and loan repayment costs, broken down on a monthly basis.
- If the applicant has existing personal or business debts, they have arrangements in place to repay these debts and are able to demonstrate through bank statements that the repayments are being made.
- The purpose of the loan being sought is not to rescue the business in the short term, or to repay creditors, revenue or other business debts.

A loan assessor will ultimately seek to be satisfied that the business has evidence of strong sales prospects and will be able to make the loan repayments, as well as covering all the overhead costs of the business.

A successful applicant will generally have clearly outlined and covered all the relevant areas in their business plan and other supporting documentation.

* Microfinance Ireland benefits from a guarantee issued under the European Progress Microfinance Facility (EMPF) established by the European Union.
* The EPMF is a microfinance initiative established in March 2010 with €200m in funding from the European Commission and the European Investment Bank.

Do you know your cost per tonne?

Calculating the correct costs of producing crops on your farm will be crucial to navigate through the next five years, writes **Martin Bourke**

Twenty tillage farmers in the southeast carried out Teagasc Profit Monitor calculations on their farms. Their average cost of production for spring barley was €121/t and €126/t for winter wheat.

However, what surprised all the farmers who took part in the analysis was the variation of costs between the farms. The costs per tonne ranged from €100 to €177.

This begs the question, if there is such a diverse range of costs for a pool of just 20 farmers, what could the range of costs be nationally?

Bearing in mind that the costs per tonne calculated in this analysis excluded land rental, labour and credit interest, the total costs could be considerably higher in many situations.

Land rental prices in 2015 have shown no signs of easing back. In fact, they appear to have risen even higher. So have tillage farmers examined their costs carefully enough to make an informed decision about whether to take that expensive block of rented land?

Do tillage farmers know the impact that greening and crop diversification are going to have on their business?

Do tillage farmers know if forward-selling grain at a certain price is a good commercial decision for their farm?

Unless you know your own individual costs per tonne, the answer is no.

GREENING AND CROP DIVERSIFICATION

Due to the new greening rules, many growers may be growing a new crop on their farm for the very first time. Many traditional spring barley growers have chosen winter barley as their second crop. Some are growing spring beans for the first time. Whatever new crops are grown, each crop has its own unique set of costs.

For example, winter barley will be in the ground for roughly 10 months of the year and will require autumn and spring treatment, whereas spring barley has a much shorter growing season and a considerably lower spend on inputs.

Unless a profit monitor is carried out for the 2015 harvest, how can tillage farmers know for sure which crop performed best? And, more importantly, did it make a profit.

MACHINERY COSTS

Big differences existed between the 20 growers analysed in 2011. Their range of machinery costs varied from as low as €163/ha (€66/acre) to €471/ha (€191/acre). Teagasc has an excellent machinery costs programme that will give a very accurate calculation for each individual tillage farm.

As they say: "If you don't know it, you can't measure it."

Regardless of what system and scale of crop production you have, margins are tight. The Basic Farm Payment will reduce significantly on most tillage farms over the next five years. Attention to detail will be the key to remaining efficient as well as the monitoring of performance.

Calculating the correct costs of producing crops on your farm will be crucial to navigate through the next five years. Contact your local Teagasc adviser now to help identify your farm's costs per tonne.

For further information log on to http://www.teagasc.ie/crops/crops_margins/

Photo: Ramona Farrelly

Martin Bourke is a senior tillage adviser based in Tinahely, Co Wicklow.

In brief

- Huge variation in costs to produce a tonne of barley and wheat.
- Land rental prices have an impact.
- Big range in machinery costs.
- You can't forward-sell unless you know your costs.
- Attention to detail vital for efficiency.

The Teagasc crop margin calculator.

www.seai.ie/betterenergyhomes

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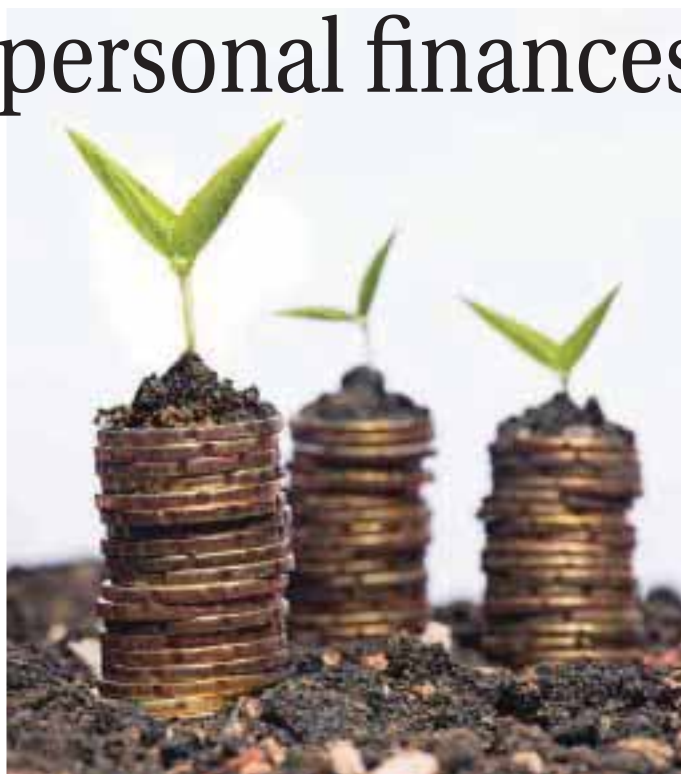
Getting your personal finances in order

Developing a personal financial plan is an important step in becoming financially fit, writes **Brendan Lee**

Any other farmer will admit that their entire focus needs to be on the day-to-day operations of their farm to ensure its continued success. But what happens when that focus shifts, or a change is forced on you? What happens to your family and your farm if you can no longer work due to a serious illness, or when you begin to look to the years beyond work – will have more time to enjoy the fruits of your labour?

Perhaps you think that your farm will provide you with an adequate income to maintain your family's lifestyle and cover the costs associated with ill health or retirement. However, as we've seen in recent years, farm finances can change dramatically from one year to the next. In terms of retirement and passing the farm to the next generation, if difficulties arise you may find yourself working for more years than you had hoped, or retiring on substantially less than anticipated.

Brendan Lee is marketing and sales manager of FBD Financial Solutions.



IS MONEY IN THE BANK COSTING YOU MONEY?

Another personal finance area worth considering is that of deposit rates. If you ask yourself where you keep most of your savings, are you most likely to say: "In the bank"? Irish people are conditioned from an early age to save a little with their local bank or credit union. While this is great at instilling the savings habit, when we get older we have to take other things into consideration.

With current deposit rates at record lows (and likely to remain there for some time), and deposit interest retention tax (DIRT) at 41%, this means net returns of less than 1% on money sitting idle in your bank are the norm. And that's before allowing for inflation.

MAKE YOUR MONEY WORK HARDER

It's sensible that you hold some savings on deposit for unforeseen events. Anything over and above that you should consider investing – whether into a pension, a savings plan or an investment plan.

If you want to make your money work hard, you will probably have to accept some level of investment risk – but how much depends on what you want to achieve.

As you would expect, there are many savings, investment and pension plans out there and many offer 100% capital security. There's a lot to think about and because you'll want to take both your farm and personal circumstances into account, looking for the right solution can take time and effort.

When it comes to your and your family's future lifestyle, there's too much at stake to put off making a decision, or worse, making the wrong decision. When the fitness of your farm and your personal financial plans are so closely related, getting the right advice from an adviser that you can trust completes the circle.

If you would like to review an existing personal financial plan or take those crucial first steps with FBD Financial Solutions, callsave 1850-767-560, or drop into your local FBD office.

Making sucklers lift their weight

There are three elements to suckler profitability: cost, price and output, writes **Aidan Murray** from Teagasc

In brief

When you are out among your cows, think about the three main areas – price, volume and cost – that need to be worked on if you want to make money out of your suckler cows. If you can recognise a few areas to work on, it will help you stay focused.

Photo: Donal O'Leary

Working out the cost of keeping a suckler cow is an exercise that is certainly worthwhile, but very farm-specific. Teagasc analysis of profit monitors shows that it costs approximately €650 to keep the suckler cow. Depending on where you are farming and your level of efficiency, that could easily vary by +/- €200.

The cost of keeping a suckler cow is only one, albeit an important, part of having a viable suckler cow enterprise. The other two components are the price we get for our output and the volume of output that we produce from the cow.

On the price front, as producers we cannot set the price at the marts or factories and this is quite evident when we compare last year's prices with this year and the effects of supply and demand. We can, however, optimise the price available by choosing the best time to sell, making sure that cattle going for slaughter are hitting the QPS bonuses and producing what the market wants. On the volume or output side, this is very much down to having a functional cow irrespective of breed. In simple terms, this refers to the amount of liveweight going out the gate. Again, there is quite a bit of variation out there.

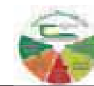
Increasing stocking rate will improve your output per hectare, but you need to optimise output per cow before you decide to keep extra cows. We have plenty of stats to show that output per cow needs working on. Look critically at your own cows. How are they performing in terms of calves/cow/year, mortality, age at first calving and calving interval. Using the ICBF reports will help identify cows that are underperforming in terms of fertility.

Once they produce a calf, is it good quality? Are your cows milky enough to achieve good weaning weights? Has your stock (cows and bull) got the genetic potential to achieve high growth rates and finish at a young age? These are all issues that need to be answered and addressed to improve the volume of liveweight we produce from our suckler cows. So make more use of your mart weights, kill sheets, your breeding reports and profit monitor.

COSTS

In many ways, we have overcomplicated and increased the cost of keeping suckler cows. The big cost accounting for over 70% of total variable costs is feed. In essence, suckler cows were developed to utilise grass over the grazing season, building up sufficient body condition that is then mobilised over winter, allowing the cows to be supplemented with forage such as grass silage. With 80% of cows calving in spring, this principle should, in essence, work.

Have we allowed our cows to get too big, further increasing maintenance and feed costs on our heavier land types? Is our calving pattern so spread out that calving cows to make optimal use of grass is difficult? Can stock be turned out earlier to reduce the length of the winter? Could the farm be set up more efficiently to make better use of grass? Apart from first-calved heifers, are you feeding concentrates to cows, and if so how much?



A financially fit dairy farm

Higher output, lower costs and higher profit – that's a financially fit dairy farm, writes **Dr Seamus Kearney**, Teagasc

The starting point for financial fitness on any dairy farm is to know where your farm is in relation to achieving its financial potential. The first step is to complete a profit monitor. This will allow you to benchmark your dairy farm against its financial potential (ie the top 10% of dairy farms).

WHAT DO FINANCIALLY FITTER DAIRY FARMS DO DIFFERENTLY?

Financially fitter dairy farms do everything a little bit better.

• **More cows per hectare:** The financial fitter dairy farms (top 10% farms) are able to carry more cows per hectare at 2.66 cows/ha. This means that the land is producing at its maximum potential (11.2t of DM used per hectare) with good drainage and soil fertility levels for lime, phosphorus and potassium at their optimum level. These financially fitter farms are using 30% more grass per hectare than the average farm.

• **Soil and grass:** Financially fitter farms have the soil fertility at the correct levels and stocking rates matched to grass grown on the farms.

• **Produce more:** The top 10% of farms produce more per cow. These farms produce an extra 434 litres per cow at 0.07% higher butterfat and 0.04% higher protein. This means that cows are producing an extra 40 kg/milk solids per lactation.

This equates to an extra €266 per cow based on 2014 figures. Higher milk solids per cow is an indication of compact calving, good cow genetics and good grassland management. Overall, 68% of the extra profit earned on financially fitter farms is earned on the extra output per cow.

• **Calving, genetics and grassland:** Financially fitter farms have more compact calving, good cow genetics and good grassland management. Financially fitter dairy farms (top 10% farms) have slightly lower variable costs per cow. Feed, fertiliser and contractor costs are €25 per cow lower, indicating better soil fertility, good grassland management and extended grazing practices carried out on farm. Overall, 9% of the extra profit earned per cow on financially fitter farms is earned by having lower variable costs per cow.

• **Lower variable costs**: Financially fitter farms have lower variable costs per cow. Fixed costs on financially fitter dairy farms (top 10% farms) are lower by €90/cow than on other dairy farms. All fixed costs, such as machinery, depreciation, leases, interest, etc, are slightly lower on fitter dairy farms.

• **Lower fixed costs per cow**: Financially fitter farms have lower fixed costs per cow. As well as having higher profits per cow of €392 in 2014 (€340 per cows at 32 c/l) the financially fitter farms are carrying an extra 20 cows on 40ha over the average dairy farm.

Combining the extra profit at €335 per cow on an average year with the 20 cows extra carried on 40ha means that the financially fitter dairy farms are generating an extra €35,000 profit per year.

TABLE 1: SPRING MILK DAIRY FARMS 2014 – COSTS PER COW

	Top 10% financially fit dairy farms	Average dairy farms	Difference between top 10% and average
PHYSICAL			
Herd size	106 cows	97 cows	9 cows
Dairy ha	40ha	45ha	-5ha
Stocking rate	2.66	2.17	0.49
Grass used (T DM/cow)	4.2	3.9	0.3
Grass used (T DM/ha)	11.2	8.5	2.7
Milk yield (lts/cow)	5,567	5,133	434
Fat %	4.18	4.11	0.07
Protein %	3.54	3.50	0.04
Milk solids (kg/cow)	442	402	40
Milk solids (kg/ha)	1,175	875	303
FINANCIAL	€/cow	€/cow	€/cow
Gross output	€2,290	€2,024	€266
Milk price	40.3 c/l	39.26 c/l	1.04 c/l
Variable costs			
Feed	€222	€229	-€7
Fertiliser	€138	€145	-€7
Vet	€58	€60	-€2
AI	€32	€31	€1
Contractor	€84	€95	-€11
Other variable costs	€94	€102	-€8
Total variable costs	**€627**	**€662**	**-€35**
Gross margin	**€1,662**	**€1,362**	**€300**
FIXED COSTS			
Labour	€50	€59	-€9
Machinery	€68	€86	-€18
Car/ESB/phone	€67	€75	-€8
Depreciation	€101	€110	-€9
Leases	€35	€50	-€15
Interest	€23	€35	-€12
Other fixed costs	€95	€113	-€18
Total fixed costs	**€439**	**€529**	**-€90**
Total costs	€1,066	€1,191	-€125
Net profit (excl premia)	€1,224	€832	€392

Source: e-Profit Monitor Analysis Dairy Farms 2014 (1,363 dairy farms)

TABLE 2:DIFFERENCE BETWEEN TOP 10% OF DAIRY FARMS AND AVERAGE DAIRY FARMS €/COW

	Difference between top 10% and average €/cow	% of overall difference between top 10% and average
Gross output	€266 higher	68%
Total variable costs	€35 lower	9%
Total fixed costs	€90 lower	23%
Net profit (excl premia)	€392 higher	100%

STRENGTHS

1. Basic soil fertility of lime, phosphorus and potassium at optimum levels and growing 14t DM/ha on the farm.
2. Excellent grassland management resulting in 11.2t DM/ha through a stocking rate of 2.66 cows/ha.
3. Good cow genetics and compact calving resulting in cows producing over 40kg of milk solids more than the average farms. This meant €266 extra output per cow in 2014 (€210 per cow at 32 c/l).
4. Good control of variable costs through better grassland management and extended grazing techniques.
5. Reduced fixed costs through good output per cow and good financial management.

ORGANICS

more profitable than you think

The common goal of organic farmers is quite clear – they simply want to make more money, writes **Dan Clavin**, Teagasc

Interest in organic farming is at its highest level ever. This year, a record-breaking 507 farmers made the decision to convert before the 29 May scheme deadline, with particular interest shown by drystock farmers. I find that organic farmers, in general, tend to be younger, with many taking over farms and starting off on a clean slate. They often tend to be more open-minded and are free from the prejudices that some in the agricultural industry still have about organics. Overall though, the common goal of new organic farmers is quite clear - they simply want to make more money.

IS ORGANIC FARMING PROFITABLE?

Organic farming can be a profitable system of farming, with some of the most profitable farmers in the country farming organically. This is clearly in evidence at Teagasc/DAFM organic demonstration farm walks which show financial margins well in excess of conventional benchmarks commonly being exceeded by the top organic operators. Often the organic scheme payments are an added bonus.

MAKING MORE MONEY IN ORGANICS DEPENDS ON FOUR KEY FACTORS:

• **Maintain a high level of output**. Organic farming is being practised successfully in Ireland at stocking rates up to 170kg N/ha. There are over 100,000 Irish farmers farming at lower stocking rates than this. Are you in this category? Organic farmers tend to be innovative in their approach to farming as they cannot depend on quick-fix chemical solutions. Good clover swards, crop rotation, correct variety choices for crops, correct choice of animal breeds and targeted use of slurry, farmyard manure and compost means that coping without artificial fertiliser and artificial agrichemicals can be managed effectively.

• **Keep production costs low.** While some costs can be higher in organic farms – such as animal housing, organic certification fees and organic concentrate feed for animals – these may be offset by reduced fertiliser, contractor and veterinary bills. Organic farmers tend to alter their own farming practices to suit the organic way of farming and to supply the market with what it wants (eg change breed of animal for instance). This helps reduce costs while still remaining productive.

• **Access premium market prices.** There are organic market opportunities in beef and milk and, in particular, there are large shortages of grain, fruit and vegetables. The price premium available over non-organic produce can be up to 100%. With the number and scale of farmers increasing significantly this year, there will be a renewed need for organic processors and marketeers to seek out new markets. There are some positive signs. The organic market in Ireland has recently returned to growth, with sales now up for two years in a row to €104, according to Bord Bia. There is also a large European market at our doorstep worth over €20bn, which has recorded very strong growth in recent years.

• **Maximise organic scheme payments**. The organic farming scheme (OFS) is a five-year plus scheme administered by DAFM which offers a basic payment for grassland, with increased payments available for tillage, horticulture and red clover crops. The scheme is currently closed for new applications. Details on the possibility of a new scheme should become clearer later in the year. The new TAMS scheme for the development of the organic sector, offering 40% grant-aid on farm machinery, buildings and processing equipment deemed necessary for organic operators. Extra top-up grant support will be available for eligible young farmers.

A HELPING HAND

For organic farming advice, a step-by-step guide to organic conversion and information on DAFM/Teagasc organic demonstration farm walks go to www.teagasc.ie/organics

Contemplating farm investment

Farmers considering farm investment need to take the necessary time to plan the investment carefully, writes **Donal Whelton**, AIB agri adviser

Farms, like any business, require continuous investment, whether it is land, infrastructure, buildings, stock or machinery, in order to improve efficiency or productivity.

We are seeing strong demand for credit. Given the recent announcements of grant aid under the Targeted Agricultural Modernisation Scheme (TAMS), we expect the level of farm investment activity to remain largely buoyant in the months ahead.

If a farmer is considering farm investment, he/she needs to take the necessary time to plan this carefully.

Give strong consideration to your potential options and seek strong professional advice, where required, to support your future plans. It is important not to underestimate the length of time involved, from the planning process, attaining quotations/planning permission for the development work where relevant, and, finally, carrying out the development work itself.

The investment decisions of individual farms will depend very much on past investment undertaken, existing farm performance, available resources, and/or personal and business goals. Decisions to invest can look attractive when prices are strong. However, they should never be made based only on a good year or on high performance expectations.

Instead, it is important to base investment decisions on the average performance of the farm over the previous three to five years, basing projections on conservative market prices, levels of output and operating costs. This will greater ensure that you can cope with external shocks, should they arise.

A useful starting point, and vital part of planning for the future, involves looking at the present and establishing existing levels of efficiency. Our core message to farmers considering farm investment is: better before bigger.

In other words, seek to improve your efficiency and cost base before embarking on any further investment or expansion. Otherwise the result will be a multiplication of inefficiencies that can lead to no (or low) increased profits for your farm business.

While many farm investments will contribute to increased profitability in the long term, it is also important to note that they can place immediate pressure on the farm's current account. This is particularly the case where some of the investment is funded from cashflow.

Indeed, one of the most important considerations when undertaking farm investment is to understand the effect, if any, the investment may have on farm cashflow.

Short-term financing of long-term assets, or trying to repay a loan for capital expenditure items over too short a time frame can often put significant pressure on farm cashflow. Before undertaking any farm investment, it is desirable to complete a cashflow forecast. A useful cashflow template is available on www.aib.ie/farming.

When funding some or all of the investment from cashflow, it is also essential to cost the investment properly. Starting an investment from cashflow and running out of money may lead to delays and add further to costs. To get a realistic idea of the potential cost involved, take time to visit similar projects and get quotations from a number of reputable suppliers, using detailed specifications, where possible, to reduce the risk of having to pay over the odds for extras at a later date.

Given farm investments often take longer to complete and cost more than originally planned, it is prudent to include a contingency cost of around 10-20% in all plans.

Always cost the investment properly.

In brief

- Make sure you get better before you get bigger.
- Take the necessary time to plan the investment carefully.
- Don't put pressure on your current account.
- Leave a contingency plan of 10-20%.

The troughs of farming

Barry Caslin illustrates ways to be proactive when faced with a drop in farm income

Many farm businesses across the country will find it difficult from time to time to manage cashflow, paying bills and meeting loan repayments. Nobody sets out to run into trouble. When faced with such difficult circumstances, rather than burying your head in the sand, it is better to be proactive:

- Clear communication within farming families, as well as with banks or suppliers, is crucial. Communication often suffers when people are under pressure.
- Successors should be considered in all discussions.
- In partnership situations, do the existing and future managing partners want to carry a greater level of borrowing?
- Early talks with banks, suppliers and tax authorities should be a part of the plan.
- Accountants may advise tax savings through reducing payments on account and income averaging.

KEY ACTION AREAS

Business planning

- Too many farmers are still relying on gross margin costings and are not calculating production on a cost per litre/kg basis.
- There is a major failure by farmers to account for drawings, unpaid family labour, reinvestment requirements or capital repayments.
- Clear cashflow forecasts and budgets are necessary, with realistic assumptions and sensitivity.
- Lower prices should be tested, for example, including the impact of a further 1.5c/litre cut.
- Monitor actual performance against the budget on a monthly basis and work on the weak areas of financial slippage.
- Potential areas of weakness include feed costs, machinery repairs and contracting costs, cull rates and forage quality.
- Tax bills due in October related to a previous years' better performance would be a challenge. Revenue might consider phased payments.
- Having up-to-date cashflows and budgets would help not only the current position, but also allow to test how things might look with a change of policy, eg should you hold on to that group of young stock or should they be sold now to alleviate cashflow.

Banking

- Broadly speaking, lenders will support farmers, but they will require detailed information to do that – not only well-considered cashflow forecasts and budgets, but probably also a real-time balance sheet and details of creditors and debtors.
- The easier you can make their job, the more support you will get.
- Capital holidays on loans, making interest-only payments and restructuring borrowing should be explored. However, you need to understand fees, charges and long-term effects of any changes.

Business creditors

- Creditors need to be managed to maintain trading relationships.
- If creditors face delayed payment, then part-payment of accounts will be better than deferring payment.
- Contractors, vets and feed companies would all rather have some money on a regular basis.
- Look to settle accounts with the highest interest rate first.

Check what benefits you may be entitled to, either through Citizens Information, MABS or the Dept. of Social Protection.

Making energy savings on your farm

Good energy management makes sound business sense and this starts with being aware of energy consumption, the way it is used through the different farming operations and how effectively it is used.

- Compile an energy checklist for your farm by walking around your buildings at different times of the day and seeing where energy is used. Check on building insulation, lighting, heating systems, pumps, ventilation, water heating and milk cooling.
- Maintenance of equipment is an important factor for sustaining good energy efficiency. Regular checking of automatic control can be particularly important. If the temperature setting is out by just 1°C, it can mean an increase of energy consumption of 10% to 15%.
- Insulation levels on buildings are largely a consideration at the construction stage, but retrofitting outside insulation, dry lining or just pumping the cavity on post-1980s buildings can bring substantial energy savings and improved comfort. There are grants available from SEAI for home energy retrofits, including insulation and heating systems.
- Lighting costs can be reduced by up to 80% by providing the right amount of light, in the right place, at the right time, with effective lighting equipment.
- Research energy suppliers. Are you paying too much for your energy? Use the online comparison tools to check prices and shop around for fuel purchases, such as home heating and tractor diesel.
- Good record-keeping is essential. Keep your energy bills and track savings when changes are made. Only with comparable records can improvements be measured and problems identified.

HOW CAN SEAI HELP?

The Sustainable Energy Authority of Ireland (SEAI) provides advice and training for businesses that are looking to reduce their energy spend. Businesses can register online at www.seai.ie/yourbusiness to avail of these free services or email business@seai.ie. SEAI also provides grants for home energy upgrades. Visit www.seai.ie/betterenergyhomes to find out more.