Give every euro a job

By planning how to spend your available funds, you will feel more in control and your stress levels over mounting bills and lack of cash will drop

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Many farm businesses are showing the scars of a difficult year. Bare paddocks, low winter forage stocks, reduced crop yields together with well-depleted cash reserves and higher than usual short-term debt for the time of year. Cashflow will be a challenge for all farms over the next six months.

The best approach is to get an overview of what your cash commitments are now, and over the next six months. Then you can devise a plan which will help you steer through choppy waters in coming months.

First, establish what your cash commitments are in the short, medium and long term. The short term might be those you must pay within the next month, then those payable before the end of December, followed by those due before the next major cash income date in 2019 (e.g. the first milk cheque or first sale of other farm produce).

Make a commitment, now, to open every bill or statement promptly and record it under one of these categories. Never leave letters unopened or debt demands undealt with.

The need to list down absolutely all known demands for cash and fit these into distinct "due by" time periods is vital if you are to start putting shape on the farm's cash obligations in the months ahead.

You can then make decisions as to what gets paid, how much to pay and when. As each debt is paid mark it down by ticking it off, dating it or if it gives you more satisfaction draw a line through it.

Establishing the order in which to pay competing claims for cash can be difficult. The main areas to prioritise using either cash or credit are:

- Meeting operating expenses to ensure that production will not be compromised.
- Securing the key operating inputs of the farm for the short to medium term, including adequate supplies of feed, fertilisers, sprays for the remaining part of the current production cycle and the start of the next cycle at least until the next big sales income comes on stream.
- Meeting priority personal living expenses, family education needs, etc.
- Meeting your tax liability in October/November – talk to your accountant as soon as possible to get your 2017 accounts finalised so that your tax bill can be calculated, as well as any planned private pension contributions.
- Meeting debt repayments including bank and merchant debt as well as money owed to family, neighbours, contractors, landowners (for rented or leased land), etc.

> Always remember that farming goes in cycles and that while the year just gone has been tough, there will be better times ahead

Cash demands

Don't forget cash demands for which there is no formal bill, reminder letter or statement issued. Many farm-to-farm sales of feed have taken place and there may be cash owed to fellow farmers. In many cases, there will be no obvious pressure to settle these bills but that does not mean that they should be ignored in favour of other creditors shouting loudly. These farmer creditors may themselves be facing mounting bills due to drought and other issues.

You may fear that writing down your debts runs the risk of the list overwhelming you. On the other hand, you will have great satisfaction in drawing a line through bills as you work your way through them.

A monthly spending plan should be built on good information, or best estimates, as to what the priority demands for cash are, month by month. The "must-be-paid" category should obviously take priority – these are bills that are outstanding in the long term, are possibly incurring interest and penalty charges, or you (this is you taking control) have decided that they must be paid this month.

The next category is "pay if cash available" – as the name suggests you have some discretion here as to whether they need to be paid. Always ensure that you keep a buffer of either free cash or available credit that you can call on if an unforeseen cash demand occurs. This might be a broken water pump or an engine failing. Stuff happens. Knowing you have a reserve can greatly reduce your stress levels when something unexpected happens.

With fodder in short supply, those who can stump up immediate payment will get priority. This is why you need to prioritise getting your financial situation under control so that you have the flexibility and confidence to make deals for feed and pay cash to secure them.

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The income side

Monitoring spending is only half of the cashflow management equation. The other side is identifying sources and timing of cash income and how to increase them. Continuing to get the basics right in order to keep the output from the farm as near to normal as possible should be the main concern.

Identify what cash income is due to come in over the next six months. Income sources include the Basic Payment and other Department of Agriculture, Food and the Marine-administered direct payments, as well as the obvious money from farm sales.

Removing non-productive stock and focusing spending on those enterprises that give you the greatest return is the order of the day. While it is understandable that most of your energy and focus will be on the current crisis, try also to think longer term and the next production cycle.

Decisions made today may well have impacts in the future and compromising cashflow in next year's production cycle will not do the business any favours.

The role of credit

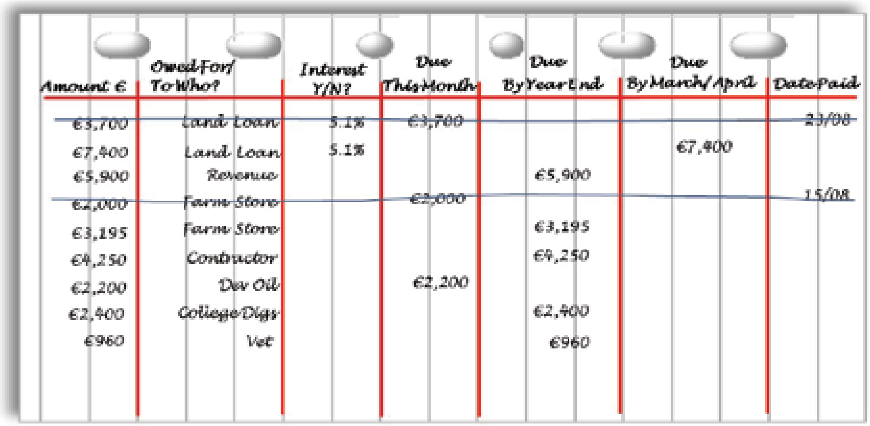
Practical use of credit to meet the required spending demands makes sense provided it is properly managed and structured with a clear programme for repayment.

Securing bank debt such as overdraft, stocking loans or term loans will inevitably involve a financial risk assessment and repayment capacity calculation. Repayment terms will be expected to be honoured. This line of credit will likely be a feature of most farm businesses' sources of callable funds to meet spending demands.

Sensible use of merchant credit can help smooth out spending and managing periods where purchases must be made, but cash is tight at the time of purchase. However, merchant debt that gets out of control or is not managed by the farmer can cause problems down the line.

For the farmer who is benefiting from merchant credit it is important that the terms of the credit arrangement such as days' credit, interest rates charged and upper credit limits are clearly understood. Merchants will not continue to extend credit where there is no attempt to clear some of the outstanding amount.

Figure 1: A few columns drawn on some notepaper to categorise cash demands and updated monthly will greatly help you to track and prioritise your spending. Start a new page at the beginning of each month and transfer any outstanding amounts from last month onto the new page before you add new entries.



Amount €	Owed For/ To Who?	Interest Y/N?	Due This Month	Due By Year End	Due By March/April	Date Paid
~~€3,700~~	~~Land Loan~~	~~5.1%~~	~~€3,700~~			~~23/08~~
€7,400	Land Loan	5.1%			€7,400	
€5,900	Revenue			€5,900		
~~€2,000~~	~~Farm Store~~		~~€2,000~~			15/08
€3,195	Farm Store			€3,195		
€4,250	Contractor			€4,250		
€2,200	Dev Oil		€2,200			
€2,400	College Digs			€2,400		
€960	Vet			€960		

Farmers equally should be aware that where they have built up a good relationship with a supplier and are long-term users of their products then jeopardising that relationship by abusing credit terms is not a sensible strategy.

Looking at the expected flow of income over the next month, two months and extending out to six months can give useful pointers as to how to time major paydowns of built up rolling credit from merchants, stocking loans or the overdraft. This will give you breathing space to call on these credit facilities if needed again in the future.

Having a clear picture of the expected monthly farming cash income and available credit facilities allows you to create a plan for using it.

Think in terms of allocating these available funds rather than spending them.

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The spending capacity that you have available over the next six months, and which you have some control over, consists of the farm cash receipts outlined above and the remaining scope for drawdown left on your short-term credit sources. These include the farm overdraft, stocking loan or merchant credit.

There are considerable benefits in planning how you will use this potential rather than making spending decisions ad hoc. To take control,you should in effect give every euro a job.

This means identifying:

- Funds currently available and how much is due to come in.
- Spending demands over the next six months – include all debt repayment demands as well as expected cash purchases.
- Identifying the non-discretionary and discretionary spends – those that must be paid and those that can be delayed.
- Building in some leeway to cover unexpected outgoings. This may take the form of an easily accessible cash fund.
- Plan your spending: what will get paid, when will it be paid and how much will be paid.

At the end of your monthly allocation process, every euro of cash income and available credit should be either used to cover other current expenses, meet debt repayments or reduce credit balances. If cash is left over, it should be allocated to your backup fund or as available funds for next month's allocation.

Teagasc has a number of useful worksheets to help you monitor cashflow. See the Teagasc.ie webpage dedicated to cashflow management here: goo.gl/dV3e3W (type this into your internet browser to access the webpage).

By planning how you will spend your available funds, you will feel more in control and your stress levels over mounting bills and lack of cash will drop. Working to a plan can give you a sense of calm. You are the one making the decisions as to how your available funds are used rather than reacting to whoever is shouting the loudest. Always remember that farming goes in cycles and that while the year just gone has been tough, there will be better times ahead.

- Teagasc financial specialists will be present on the Teagasc stand at the National Ploughing Championships.