Begin

5 steps to improving farm cashflow

Bank of Ireland

Farming is uncertain and often the best made plans can be impacted by unfavourable weather conditions, disease outbreaks, or even volatile agri commodity markets. These can have major implications on profitability and the availability of cash. In good price years, it is important that cashflow is managed to build a cash reserve and to undertake necessary on-farm improvements. In poor price years, cashflow must be managed to ensure that all essential bills are paid (including living expenses) and that no long term damage is done to the business due to a cash shortage.

Follow Bank of Ireland's 5 step plan to help manage cashflow on your farm:

Step 1 Recognise the problem

What: early warning signs farm is running out of cash:

- Sales receipts (milk, cattle, crops etc.) spent before the next payment is received
- Current account unable to meet direct debits/standing orders/cheques written
- Unable to clear merchant/co-op account and balances are increasing
- Bank overdraft is increasing
- Credit card is unpaid and balances are increasing

Why: understand why there is a shortage of cash, what is the underlying problem:

- Is the cash shortage due to:
  - Short term/once off a price collapse, input inflation or unfavourable weather, structure of debt
  - Long term/ongoing problem with high cost structure, high debt, low output, disease, high living expenses etc

If the problem is a once off:

- Business is essentially sound and will recover when conditions improve
- Need short term access to additional cash to tide over the business
- High level of confidence in paying off this short term debt when conditions improve

If the problem is longer term:

- Profitability is below average and cash is always tight
- Examine farm outputs and farm expenses
- Is the scale of the farm correct for the farm family needs –living expenses and bank payments?

Step 2 Take action

1. **Don't ignore the issue:** admitting there is a problem is a key step. Delaying could cause the situation to deteriorate and cause stress. Be honest with yourself when thinking about your cash situation.
2. **Speak up:** speak to someone, a friend, a neighbour, involve the wider family. Don't be afraid to speak up.
3. **Seek advice:** draw up a plan with your Teagasc Advisor, Agricultural Consultant or Accountant.
4. **Engage early:** make contact with your bank, creditors and suppliers as soon as you see a problem developing.

Step 3 Get ready – know the facts

If repaying debt is a problem

- Recognise the problem early
- Contact your lender as soon as you see a problem developing
- Develop your plan as to how you will make repayments
- Meet your lender fully prepared and put your proposal to them

Understand your debt position

- Who do you owe? (the lender/co-op/merchant/contractor)
- How much you owe? (the balance)
- What it is costing you? (the interest rate)
- How long have you left to pay? (the months or years left)

Step 4 Examine solutions inside the farm gate

1. **Prioritise essential expenses:** eliminate all non-essential expenditure- both farm and personal spending. Match timing of payments to when you're likely to have a cash surplus (i.e. Direct Payments lodged).
2. **Cut expenses:** look for ways to reduce your costs and get the best value for your money. Negotiate payment terms with suppliers and buyers and try align them with your cash inflows. Not only for major inputs such as labour, seed, chemicals and fertilisers, but for all expenses.
3. **Bring forward sales:** sell stock early, sell surplus breeding stock, defer non-essential purchases.
4. **Reduce or delay capital expenditures:** under-utilised machinery may be costing more than it's worth.
5. **Consider using a contractor:** sell non-essential machinery. Sometimes it makes sense to use a contractor for certain operations rather than buying and owning your own equipment that spends a lot of time unused.

6. **Just-in-time feed, fertiliser or fuel:** when there is plenty of cash, having large stocks of feed, fuel, fertiliser might make sense. However, when cashflow is tight, carrying just what you need for the next month or two will lower the carrying costs of that stock. Stock management is key.
7. **Ensure your farm is tax efficient:** speak to your accountant regarding tax planning and the structure of your farm business.
8. **Review monthly pension, savings and life assurance payments:** speak to your accountant/advisor to ensure your pension and life assurance plans are adequate and suitable.
9. **Build an emergency fund:** create a fund to help you deal with unexpected challenges such as bad weather or disease.
10. **Look into availing of Social Protection payments:** Farm Assist, Family Income Supplement, Pension entitlement.
11. **Examine options to enhance income:** farm diversification, farm partnerships, joining Department of Agriculture, Food and Marine (DAFM) schemes.

Step 5 Examine financial solutions

1. **Check your credit:** review your credit facilities to see when they expire and what options are available to renew and increase them.
2. **Review working capital facilities:** ensure current facilities are appropriate for the current scale of the business.
3. **Review machinery leasing or hire purchase agreements:** consult with your finance provider to examine ways of reducing monthly repayments on a temporary basis where possible.
4. **Examine the option of reducing bank repayments:** speak to your financial provider to see if either availing of a temporary interest-only period or extending the term on existing loans is feasible.
5. **Negotiate flexible lines of credit:** together with your financial provider, discuss options around high-interest debt (if present) and short-term borrowing needs.
6. **Tap into unused borrowing capacity:** explore potential unused borrowing capacity options with your finance provider in order to assist with short term cash flow problems.
7. **Restructure debt to gain more financial leverage:** renegotiate loans, or extend loan terms. Loans could be structured to match the life time of the asset.
8. **Engage with your co-op/merchants/farm input suppliers:** examine potential for structured repayments to avoid paying excessive penalty interest on overdue accounts.
9. **Allocate time for finances:** consider building time into the weekly work schedule to properly deal with the financial side of your business. Prepare cash flow or annual budgets, know your costs and consider financial upskill courses.
10. **Retrospective finance:** if you have invested in farm development or machinery from cash over the past 2 years it may be an option to finance. Speak to your financial provider about the option to finance any farm development or machinery purchased from cash in recent years.

Useful Resources:

- Contact your advisor or accountant if you feel a more detailed monthly plan is required.
- Complete the Teagasc Cost Control Planner - a tool for recording cash flow and setting budgets for the future.

Supports from Bank of Ireland

- **Cashflow calculator:** A free cashflow planner for farmers
- **For list of available supports and to apply online:** Farm Loans - Loan | Bank of Ireland
- **Dedicated team of agri advisors:** Agri Development Managers - Bank of Ireland Business Banking