

# Plan now to navigate your way through the tough times ahead.

The cost of living crisis and agri-inflation has left its mark on farming businesses and many will undoubtedly find the winter ahead challenging financially.

Some will also find themselves in unfamiliar territory with typical warning signs of cashflow problems being overdrafts and merchant credit accounts creeping upwards instead of reducing as well as struggling to have sufficient funds to meet regular payments such as input finance, hire purchase or interest. This also creates stress and worry for a business and family members alike which further compounds the problem.

Cash is vital to every business – while profitability and turnover are key performance indicators, cash flow is the beating heart of any business.

Different sectors will face different challenges this winter although the benefits of cashflow planning are common to them all. Livestock farmers are facing up to another winter of increased feed costs and cereal farmers, despite several profitable years have expensive fertiliser and possible tax bills to contend with. All farmers are also having to face up to increasing energy costs with potato and intensive livestock producers particularly badly hit and to cap it all interest rates are rising, increasing the cost of borrowings.

## Knowing what's to come in and what's to go out

The first step is getting a handle on likely income and expenditure over the winter months. This can be done in several ways – a formal Farmer's Balance Sheet can be created, which provides a snapshot of the stock, assets and liabilities of the business today or alternatively even the creation of a simple list of income and expenditure can go a long way to identifying any future issues. It is important to be realistic in this and to try and make figures as accurate as possible.



## Income

Take the time to list future cash inflows – consider

- future sales of stock, grain and other crops
- VAT receipts, subsidies or planned asset disposal
- Off-farm income, rents or other regular income streams e.g. renewables.
- Any work, or goods, that have left the farm but have not yet been paid for.

## Expenditure

Outgoings can take two forms, firstly trading creditors and secondly the regular payments relating to servicing and repayments of longer term liabilities. Items to consider include:

- Current invoices unpaid, as well as invoices not yet received for goods or services.
- Future input and trading expenditure through the winter months
- Any VAT liabilities, taxes due and planned capital expenditure
- For longer term liabilities – Hire purchase and loan repayments as well as interest payments,
- Many businesses will also have some household bills, or drawings paid by the business, if that is the case, make sure these are not omitted.

The information required can be drawn from several sources – existing stocks on farm, lists of current debtors and creditors and previous years usage and invoices.



Once this has been completed this gives you an idea of the overall surplus, or deficit, for the period. This only tells part of the story however and the next stage is to map out the inflow and outflow per month in a cashflow projection. Accurately allocate each item of income and expenditure for each month ahead. This can be done in a simple spreadsheet, or table, and using the current bank balance as a starting point, should then show the peaks and troughs and more importantly highlight any problem periods.

Identifying the pinch points early can allow you to take action, in many cases this can be fairly simple.

- Try to match expenditure with projected income – sounds simple but be aware of your bank balance and the effect of direct debits and other regular payments
- Can sales be brought forward, or can a partial prepayment be made, particularly if goods have left the farm already
- Can purchases be delayed, or is there an option to delay payment to a more suitable time e.g. merchant credit.
- Look at loan and hire purchase repayments – do they match cash inflow or do you need to have a discussion with the finance provider, or bank, about altering the payment schedule.

Talking is key to keeping control of your finances – by speaking early to suppliers and lenders about tailoring payments to a more appropriate time for the business is much better than missing payments through not informing them that payments may be delayed or need to be rescheduled.

For some businesses, timing will be the main issue and overall income over the winter period is sufficient to meet projected outgoings with the business owner having to pull forward income or push back outgoings to keep the bank balance on track. For others there will be a deficit and this may mean bigger conversations need to be had – is the rise in input prices a temporary blip to an inherently profitably business, or are there deeper fundamental issues at play. A deficit will need to be addressed at some point through the winter through bringing forward further sales, further reducing expenditure, increased lending or capital injections. Having identified the problem early means that a dialogue can be opened and options discussed. While the easy option may be to cut your cloth or sell stock or crops far earlier than normal to avoid awkward conversations – what effect will this have on the longer term and will it only serve to exacerbate the problem in the longer term? Regardless, getting to grips with your cashflow is an important first step and by identifying problems and potential solutions, provide important piece of mind.

Using an advisor to help look at your cashflow can also be beneficial and may also act as a sounding board for ideas as well as provide suggestions of their own. There is also support for business planning through the Farm Advisory Service, with an ILMP or Specialist Plan providing financial support for at least part of a business review.

Finally, farming can be a lonely business, it is important that you do not bottle up concerns and fears or hide them from family. Talk to friends, family or even someone outwith the business, this will not only provide comfort through a problem shared but may actually help provide advice or another point of view from someone with the benefit of a fresh pair of eyes.

