CASH-DROUGHT TO CASH-FLOW

Regularly monitoring cash is as important as feeding cattle

New financial year is the critical time to reset a sustainable cash-flow.

Agriculture is a dynamic, high risk and ever-changing industry, and farmers need to be proactive and forward planning to remain viable. Updating cash-flows and budgets could be the difference between making or breaking a farm business - even the most profitable ventures can be undone by a 'cash-drought'.

No longer does 'Equity = Security'. Prioritising 'Liquidity' is the most important aspect of farm business.

Liquidity is just a fancy term for cash – ensuring more cash is coming into the business rather than going out. Yes, we would all love that...but smoothing out payments and adjusting spend to current realities allows for resilience during difficult or low-income periods. Knowing what expenses are coming and where you may need to make adjustments is the key to successful case-flow management.

Cash-flows and budgets should not be a set-and-forget exercise just to satisfy lenders. It is why banks rely heavily on prudent, realistic and ongoing cash-flow management to provide lending: no longer just relying on asset equity. It is an invaluable farm management and decision tool.

Benefit is the ability to identify trigger points throughout the year for activities such as farm improvements; investment; expansion; building cash reserves, or alternatively, implement efficiencies to ensure no long-term damage.

Budgeting is important to forecast estimates of what is expected.... but how often does a budget really pan out as expected? Climatic changes; volatile and unstable physical and trading environments; innovative practices; diversification; inflating costs; increased farming demands; disease; plague; and limited time to undertake supplementary work, can all have a major impact on cash-flow.

Actual figures are what will decipher if the budget plan for resources to improve, grow and increase profits is viable. Reviewing cash-flow will show if it's more appropriate to delay spending and consolidate, bring forward improvement plans, invest further in contingency reserves, or pay down debt.

Let's clearly detail the consequences verses benefits of cash-flow management... noting that it can affect more than just the farm... it has a flow-on affect to your, as well as your employee's families and future:

FALL OUT CASH-DROUGHT	Vs BENEFITS CASH-FLOW
Increased interest, bank charges or late payment fees	Pay costs when due; easy instalments; early pay discounts
Accumulating bills, debts and overheads	Minimise use of overdraft, reducing interest payments
Missed or restricted opportunities to grow	Ability and readiness to take advantage of opportunities
Bad credit rating or poor relationships with suppliers	Maintaining the security of assets and good credit rating
Unable to pay or delay employee salaries	Managing additional farm labour when most in need
Sacrificing personal savings, security and respite	Reduced stress and positive outlook
Increased borrowing or reliance on relatives and charities	Resilience during difficult conditions
INSOLVENCY	**Vs VIABILITY**

Big picture thinking is essential when developing a cash-flow plan, taking into consideration the stage of the farm life-cycle, growth and succession, as well as efficiencies; productivity; and level of debt:

- Forecast potential risks and budget for worse-case scenarios.
- Build in contingency cash reserves.
- Smooth regular lump sum payments throughout the year i.e. phone, power and council rates, insurance, tax, farm supplies and stock feed.
- Negotiate loan and lease payments that are affordable during non-income seasons i.e. lower rate during off-season and higher rates during revenue season.
- Assess methods of acquiring equipment: instalments vs lump sum vs lease to purchase vs hire.
- Evaluate Fixed vs Variable interest rates for both borrowings and savings.
- Consider additional revenue opportunities.
- Review business plan – itemise and prioritise or defer projects that require significant expense.
- Ensure enough money is allocated to living and family expenses.
- Ensure appropriate insurance coverage.
- Factor in GST payments, reimbursements and all other tax obligations.
- Stress test the budget to ensure it can meet interest rate rises and/or customer payment delays.
- Seek advice or counsel from an accountant, financial planner or rural financial counsellor.

Assessing these items will identify the amount of credit or overdraft required (or not required) and what will be manageable to pay back within the year, especially during less affluent times or following a bad year.

Seeing negative cash-flow may be stressful, but it helps focus on opportunities and strategies to improve the farms' financial position, especially if it has been negative over a number of years.

What to do if cash is limited? Firstly, don't just assess options alone – family, employees and professional advisors are part of the business team and should be included to help brainstorm possibilities, including:

- Review spending and non-essentials.
- Renegotiate loan repayments, consolidate debt, or spread debt risk.
- Adjust superannuation or other future nest egg contributions.
- Discuss expected tax obligations or saving opportunities with accountant.
- Research available grants for farm improvements and efficiencies.
- Seek support available for farm labour and/or stock feed.
- Consider Government assistance such as Farm Household Allowance.
- Seek additional revenue options (either ongoing or as a cash injection). These could include renting out machinery; off-farm income; seeking new customers; diversifying stock or new market industries; leasing space (storage; agistment; accommodation or workspace); and in extreme circumstances only, sale of stock; or non-essential assets.

All these reasons and more is why it is crucial that farmers update budgets with actual cash figures on a regular basis (at least monthly) to get an accurate picture of what is realistically ahead and make adjustments accordingly.

Farmers have a huge number of tasks to undertake on a daily basis, and therefore cash-flow management can often fall by the way side. If you need assistance, please contact RFCS Gippsland on 1300 045 747, a **free planning and business support service for Gippsland Primary Producers.**