GET FARM FINANCIALLY FIT

Making every euro count

Massive CAP payments are the preserve of a few — the majority of farmers struggle to make ends meet. **Anne Kinsella** has some timely advice on making the most of your finances

AFTER a week in which publishing of individual CAP payments to 130,000 farmers and businesses made the headlines, it is an opportune time for farmers to access their own payment receipts. How well do they manage this portion of their farm income and how much of it, if any, do they manage to retain for their household spending.

Much of the focus has been on the magnitude of these payments. But it is important to look at how many family members are supported by these payments, notwithstanding that many of the top recipients were various businesses, not just family farms.

A farmer receiving a lower than average payment of €10,000 may be better at retaining a larger portion of this smaller payment to run his household whereas a farmer with a €30,000 payment may re-invest the entire payment into running his farm and retain nothing for the household. Which is better off?

Of course this will also depend on the equivalent farm income each earns from the market and the equivalent size of the farm household.

Can we change the way we focus on these payments? Can we manage these payments and other income streams better so as to improve our farm and household finances?

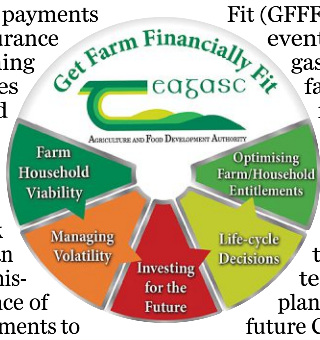
Does any of your 2014 SFP still remain in your bank account? And if so which bank account - farm or household bank account? These are the items that your focus should be on.

Who do you call rich – how much are farmers really raking in? Wealth does not equate with just looking at these payments alone. They are part of the bigger farm and household income picture. The existence of farm direct payments acts as an insurance device, smoothing farm incomes over time and giving farmers the confidence to maintain production.

The drystock sectors more than any other recognises the importance of these direct payments to farm household income.

For many farmers income continues to be highly reliant on the SFP/BPS and other direct payments, accounting for most of their farm income — 70pc on average in 2014.

In many cases farm costs of production are greater than farm income from the market place with direct payments making up the shortfall.



Maximising incomes

The first priority for any farmer is to maximise his farm income, of which farm scheme payments constitute a large proportion. The next goal with regard to these scheme payments should ideally be to try and hold onto as much of the direct payments for yourself and your household as is possible.

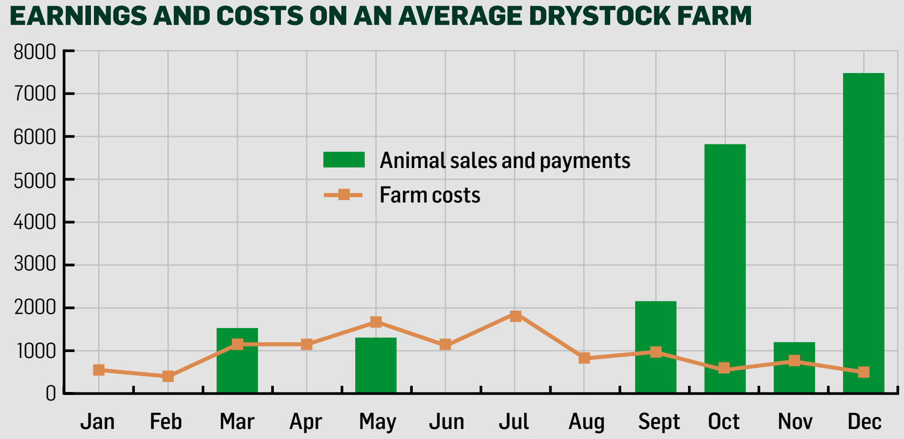
One way to achieve this is by managing farm costs. But there are many other ways to chip away at managing household income and expenditure.

The Get Farm Financially Fit (GFFF) campaign and events run by Teagasc aim to assist farmers in optimising current and future CAP payments, to raise awareness among farmers of the importance of long-term financial planning to optimise future CAP payments.

Farming is a job like any other, with the objective to have a reasonable quality of life and earnings.

A financially fit farm family understands that the farm and the household business can be looked at separately for daily cashflow management but must be linked and looked at together for forward planning. It is critical to divide the household and farm income to identify clearly where the money flows, and have a separate bank account for farm and household.

EARNINGS AND COSTS ON AN AVERAGE DRYSTOCK FARM



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	TOTAL
Animal Sales and Payments			1500		1265				2156	5820	1200	7480	**19421**
Farm Costs	550	400	1150	1150	1670	1120	1870	820	970	550	750	500	**11500**

Breakdown of sales and direct payments

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	TOTAL
Animal Sales			1500		1265				2156	2400	1200		**8521**
SFP										3420		4180	**7600**
DACAS												3300	**3300**

Typical Drystock Farm

If we take the farm financial situation on a typical drystock farm.

- Farm size is 32 hectares.
- Farmer's spouse is gainfully employed off farm.
- Both are aged 58, with 2 children, both in college.
- Receive SFP €7,600 and LFA €3,300 payments.

When direct payments are taken into account and farm costs deducted, the annual farm income is €8,000. Farm income is less than the total payments received, as is also typical.

On a farm income basis alone this farm would be classified as vulnerable, with a farm income insufficient to sustain the household and below the threshold to qualify for Farm Assist income benefit.

However, on this typical farm example the spouse has an off farm job so it falls into the sustainable farm category — it requires the off farm income to sustain the household.

Cashflow

Cashflow is the real issue here. Farms incomes are vulnerable to seasonal peaks and troughs in income.

Most drystock farm income occurs in the last quarter of the year when most direct payments are received and a large proportion of animal sales occur.

However farm costs are a continuous outlay throughout each month of the year. This farm would need to have a few thousand euro in the bank at the beginning of the year to cover the on-going farm costs.

Ideally the SFP should not be used to cover the costs of production but should be mainly used for the household. For many farmers this is not always possible but taking a more longterm perspective and planning ahead may assist in achieving this goal.

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Smart planning starts with monthly budgets

In order to be smart, farmers need to focus on their own Smart BPS or Budgeting, Planning and Spending, while also making smart use of their resources and skills.

These are the first steps to improving your long term financial situation and improving your quality of life.

WHAT IS SMART BUDGETING?

Smart Budgeting encompasses your earnings, spending, saving and investing.

- It is all about managing your short-term cash flow
- It is about understanding how you handle money
- It involves eeping a daily/weekly diary of income and expenses will reflect the reality. If you try and write down from memory – picture you paint will be inaccurate

SMART PLANNING

In order to budget correctly a plan is needed. Keep it simple, in that way you will be more likely to stick to the plan.

- Put a system of filing invoices/receipts in place – a dedicated place (dedicated office space if possible)
- Plan your spending in advance. Monitor your spending – check actual v planned spend
- A simple layout of incomings and outgoings will suffice – keep it simple, on paper or spreadsheet - whatever works for you is best.
- If differences, find out the reasons. Let there be no surprises. Modify the plan as necessary to better suit your needs
- Smooth cash flow. Is there a more efficient way to manage your short term cash flow?
- Cost of credit card verses overdraft?
- Would short or medium term loan be better? Match loan term to your cash requirements

SMART SPENDING

- How much do you need to run the house on a monthly basis? Insurance and utilities – can switch providers or save by paying online
- Bundle your debt – shop around for best rates
- Smart spending is essential. Savings can be made by paying utility bills on line, bundling utility bills, reducing energy costs. Spread bills over the course of the year, 'switch and save'.
- Claim tax relief on medical bills. Bundle your debts and shop around for best interest rates and watch out for hidden charges.
- Another useful website for price comparisons for goods and services is www.bonkers.ie
- Loyalty does not always pay. Remember every €1 saved is another €1 income.

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

Commit to a plan, stick to it, review and modify as necessary. Build on it gradually, like a paper marathon taking each paper mile at a time. You will get to that finish line in your own good time and be well on the road to financial fitness and sound household budgeting.