Six steps to get your finances sorted

January is the time to review your business and personal finances

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1 Get organised

The amount of office work is growing steadily, as there is an ever-increasing amount of administration involved in running a farm. In the past. a temporary space in the corner of a living room would often have been adequate, but this is no longer the case.

Set up a dedicated room in the house or farm buildings, the farm office, where you can leave work undisturbed. As a minimum, you need a desk, a fixed place to set up your computer and printer where it is easy to turn on and use. You also need a filing cabinet, a notice board, and an in/out tray.

The in tray is for paperwork that requires attention and the out tray is for paperwork that has been dealt with and can be filed. Post should be opened the day it arrives and be binned, dealt with straight away and either filed or put in the out tray for filing, or be kept in the in tray for further attention.

Once a week, go through both trays and clear them – dealing with all the outstanding paperwork in the in tray and filing all the paperwork in the out tray. It might be time to gear yourself up to use your computer to help with these admin tasks.

There are some excellent computer tools available to help you with financial records, grassland management, farm compliance tasks and livestock fertility management.

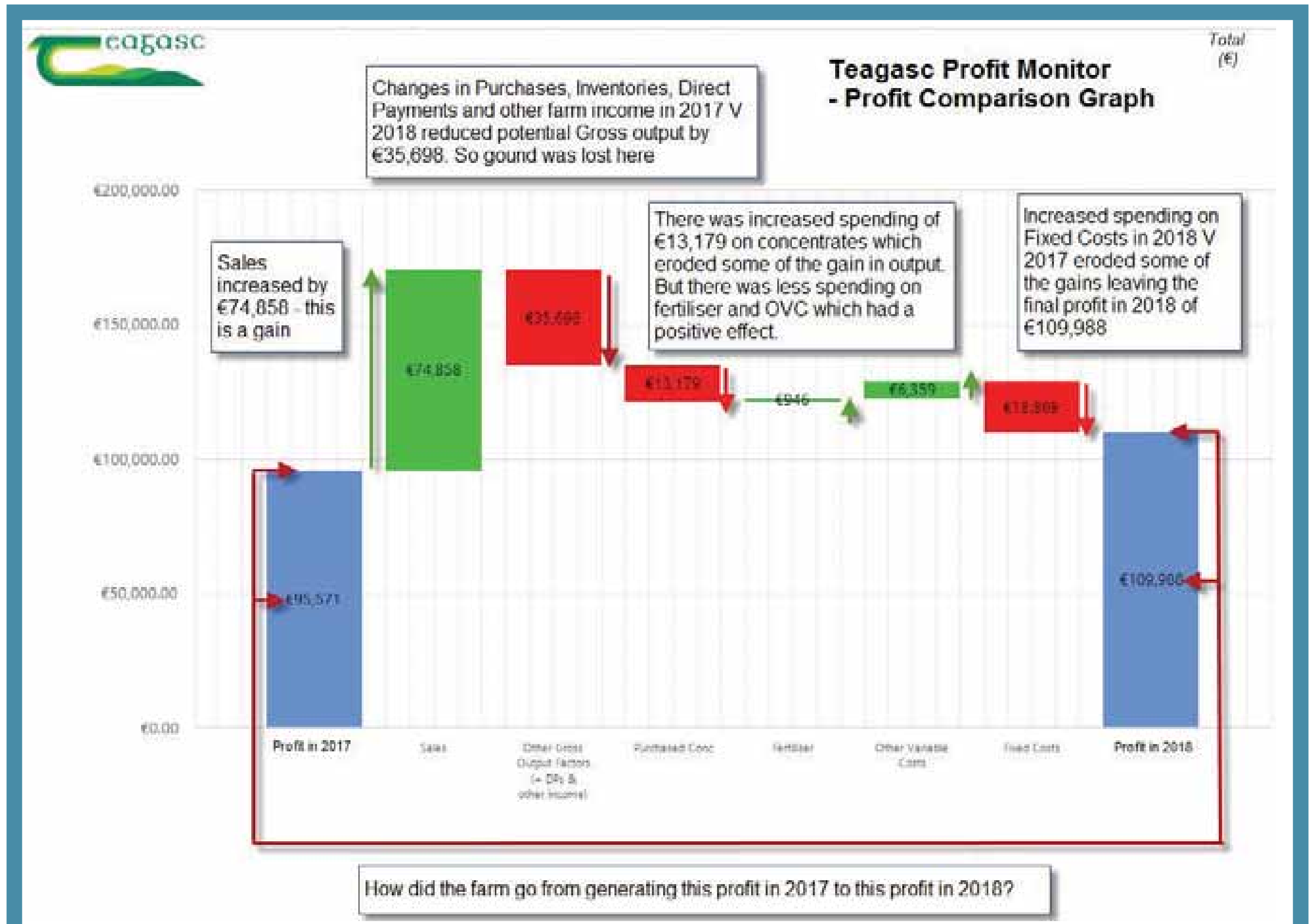
Ask others what they find useful and make a point of learning how to use them during the long evenings so that you are up to speed when the working day starts to lengthen.

2 Build your financial understanding

Review your farm's performance in 2018, a difficult and expensive year for many. The aim is to build your understanding of how the farm's finances reacted to it. The Teagasc Profit Monitor service can help you to look at the key components of what drove the farm's financial performance last year and previous years.

There have been some new reporting updates added to the Teagasc Profit Monitor – see figure in point three – which should help in getting an appreciation of the figures. Comparing last year's financial performance with the previous year can indicate how the farm coped with the financial pressures and highlight changes that could help you handle difficult years more effectively.

It is important to look at the trends in income and spending over a number of years. Are the trends in income and spending varying much or is there a pattern? Can you explain why certain years don't follow the general trend for your farm? 2018 might be one of those years where there are a lot of unusual figures showing on your Profit Monitor. Satisfying yourself that these figures are explained by the irregular circumstances last year will give you confidence for the year ahead.



3 Avail of the new Teagasc Profit Monitor benefits

For 2019, Teagasc has introduced a new feature called the multi-year report. This report addresses the need to know whether this year was better or worse than last year and by how much.

The report stacks together the data entered in the system from the last five years and allows breakdown of the figures by selected measures – per hectare of land, per head of suckler cow/dairy cow/ewe, litre of milk, tonne of crop sold – for each given year. This is similar to the dairy, cattle, sheep, tillage and pig detailed reports which users of the Profit Monitor are familiar with.

Key measures can be shown in bar charts to make it easier to spot trends. The new profit comparison graph helps to trace through the main changes in the factors that determine the farm profit.

4 Think about your succession plans

Thoughts about succession might seem premature if you see yourself as a young farmer, but the years fly by. Part of your planning process should be to prepare for an alternative income in retirement and to secure your estate in the event of your untimely passing.

One of the ways you can prepare is to contribute to a pension plan during your working years.

The less you need from the farm, the more freedom your successor will have to invest in the business.

As a minimum, every owner of assets of any kind should have a will in place outlining how they want their estate to be distributed on their death. Everyone knows about the importance of wills, but a high proportion of people don't have them in place on their passing.

If you haven't made a will, intestacy rules (meaning no will in place) kick in and rule how the deceased person's assets are to be divided.

Making a will involves some thinking and a visit to the solicitor, but it is a fairly straightforward process. If you haven't already done this, regardless of your age, do it now – your dependents will thank you for it.

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Become more familiar with the features and benefits of online banking

Most of us are now accessing information on our bank accounts online. The banks have put a significant effort into their online systems to make getting access to our accounts, safely, a little bit easier, although there are still some login and security password hurdles.

One of the main reasons for the level of security around online banking at the moment is that the scope of what can be done online is increasing beyond balance checking and viewing transactions online.

You can transfer money between your own accounts and to external accounts, you can set up regular transfers (also called standing orders) between accounts, you can schedule future transfers of funds from your accounts on a specific date and with some banks you can now set up additional new saving accounts, and in some cases basic current accounts, using their online systems.

It is important to check on the fees and charges applying to bank services with your own bank, but the ability to easily set up a savings account and quickly move money between accounts can be a useful financial management tool. An emergency reserve fund that can be used as a safety net for the business when cashflow comes under pressure is a useful thing to have.

Using online banking to access and manage these accounts helps greatly in cashflow management – keeping excess cash filtered out of your working current account and into a reserve account using a banking app or your PC desktop interface can be done in minutes.

Many people now use stocking loans or credit lines as a source of short-term credit during the year. These accounts require that funds are transferred to a current account when required and also that money is transferred back to pay down the debt balance and to ensure the general 30 days in credit rule is adhered to. Online banking using a computer or your mobile phone provides a quick way of doing this, which reduces the interest costs and gives a feeling of better control over the bank credit you use.

One other useful feature of most online banking systems is the ability to look at the sources and uses of cash flowing through your accounts. These systems now allow you to look at money flows by income or expense category using the information picked up by the bank when the transaction is registered.

A word of caution here – where cheques are used as the main method for paying bills, then there will be no information captured electronically relating to the payment.

Where a bank debit card is used, then the name of the payee is picked up and the main area of business of the payee is attached to the transaction. Try to use the debit card issued with your current account whenever you can – not only will it give you more information on your transactions which you can see on the statements, but it will also cost you less than using cheques, as the bank charges are lower.

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Get a financial review

If you haven't taken a serious look at your personal finances for a while, make an appointment with a financial advisor to do this early in 2019. Locating an independent advisor can be difficult, but should ensure that you get the most impartial advice on all the possible options available.

Before any meeting, gather details of savings accounts, insurance policies, pension plans, life assurance and illness cover policies you and your spouse are contributing to.

Get up-to-date balances of all the debts you owe – mortgage, credit card, car loans and finance commitments – make sure to note down the remaining years left and the interest rate being charged on each.

Pulling together this information could be an eye-opener in itself.

Try not to forget anything – check your bank statement (using online banking – see above) for any direct debits that are going out of your account towards these various commitments.

You will also need to put some thought into what you are looking to achieve as regards wealth creation or wealth security over the next number of years in the short term and longer into your retirement years.

This may centre around providing for children's education needs or being mortgage-free by a certain age or other targets. Being clear about what you want to achieve will help your adviser find the best options for you.