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Supporting Every Step

Cash-flow planning is critical to sustainable agricultural development

The Irish agricultural sector is at an important crossroads as it seeks to ensure it remains internationally competitive and yet resilient to volatility. As a significant exporter of food, Ireland is ideally positioned to leverage its competitive advantages and optimise the opportunities which exist. The abolition of milk quotes across Europe since April last year has literally opened up a world of global opportunities for our farmers. And yet as the door of opportunity opens, it also leads to increased risk, macro-economic dependence and the requirement for sound financial planning.

Over the past few years we have seen significant investment and development by farmers, as dairy farmers geared up for the milk quota changes, and beef and grain farmers continued to grow their land bases. Banks have seen an increase in farm buildings and development requests, in particular from the dairy sector, as we seek to play an active part in supporting farmers increase their outputs and capitalise on post quota opportunities to expand their businesses.

As Irish farmers invested in their businesses, the market has been mixed. Milk prices fell by almost a quarter last year, driven mainly by over-supply on the global market. Dairy farmers incurred an EU super levy for the final time in 2015 with the national bill of €69m payable over three years. Beef and lamb prices increased by 8% and 2% respectively during 2015, while a bumper global cereal harvest led to increases in grain stocks and similar grain farmer incomes to 2014. Pig farmers in general had a difficult 2015, with prices 11% lower and supplies 6.5% higher than in 2014. While pig feed prices also decreased, the reduction was not proportionate to the reduction in finished pig prices and margins fell in this sector. A volatile environment for farmers in general, with commodity price fluctuation and the weakened euro shaping the sector.

And how will the future shape up? We know the short term milk price outlook remains challenging, and with an increased supply of finished cattle likely to come onto the market later this year, beef prices are likely to come under pressure also. Looking beyond the current year, and with regard to price volatility, our view is that there will be continued peaks and troughs similar to those being experienced now, by the dairy sector in particular.

Milk production from Irish dairy farms will continue to grow during 2016, despite the current trough in commodity prices. We anticipate that dairy markets will recover from current levels, but acknowledge that it will be late 2016 at the earliest before this is likely to happen. Average farm incomes are strongly influenced by what happens within the dairy sector. With over 40% of Irish food and drink exports going to the UK and a further 28% going to non-EU markets, the strength of the euro to sterling, the US dollar and other international currencies, as well as Brexit uncertainty, will continue to play a key role in determining the competitiveness of Irish exports during 2016.

> *Investment requirement of €1.5bn for the dairy sector to achieve Food Harvest 2020 targets*

Last year, Bank of Ireland sponsored a Teagasc research report which identified an investment requirement of €1.5bn for the dairy sector to achieve Food Harvest 2020 targets. Aligned to the findings of the research, we continue to anticipate ongoing investment in the dairy sector. We have a €1bn investment fund in place to support development and expansion at farm level. Irish dairy farms have historically low borrowing levels relative to our European counterparts and have lower average costs of productions, in our view positioning the sector well to grow output and compete on the International export market.

While some farmers have turned to banks for assistance in developing and expanding their business, others have relied on existing cash reserves and grants. The Targeted Agricultural Modernisation Scheme (TAMS II) opened for applications in 2015 and this will encourage on-farm investment. The scheme has a budget of €170m to be utilised by 2020 and offers the standard grant rate of 40% on a wide range of projects up to an investment ceiling of €80k. Investment by farmers, wherever the funding originates, will be necessary for many as they compete in the global marketplace. However, the need for effective financial management and cash flow planning is now more critical than ever. With expansion, comes risk and business sustainability stresses. Cash-flow management is even more important when significant farm development, expansion or diversification is underway. Our team of agri managers have met with over 800 farmers nationwide since the start of the year to explore issues such as farm development and land purchase funding and their impact on cash-flow. Dairy farmers in particular don't tend to have significant cash reserves in place, having invested significantly in facilities and stock in recent years. In general however, overdraft utilisation levels remain low, at less than 25% of overall permission levels on average, but those farmers who have invested most heavily are the ones most likely to be in need of cash flow support this year. Funding aside, one of the other main concerns voiced by farmers in discussions with our managers is the lack of availability of skilled workers to help them grow their respective businesses.

Cash-flow management is a key element of making any business a success and farming is no different to any other enterprise in this regard. Planning helps farmers to predict the inflows and outflows of their farm business cash and is essential when they need to make an application for a bank loan or credit facilities. It also makes the credit application process as simple as possible and a completed cash flow planner is something your bank manager will appreciate when it comes to discussions about future funding needs. Effective cash-flow management also helps considerably when trying to set targets for future growth. Most farms across Ireland are family enterprises, so other considerations such as domestic mortgages, personal loans and family living expenses should also be incorporated into the planning.

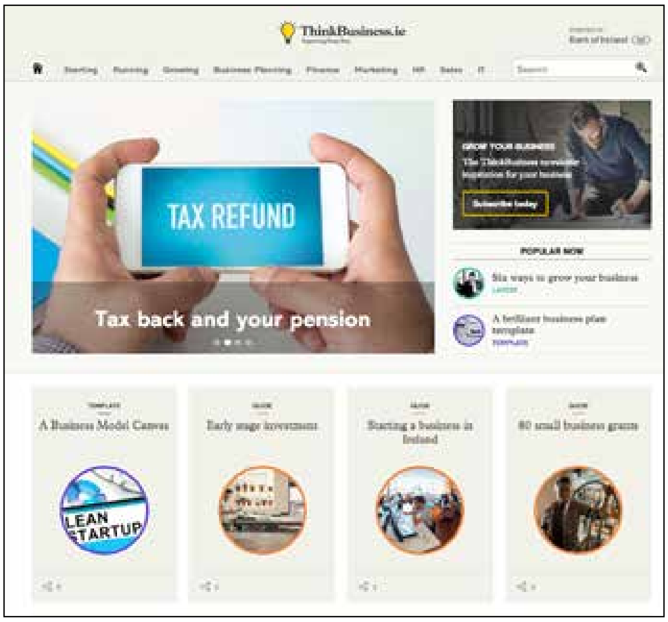
So what's the best way to start? A simple spreadsheet is one of the most effective cash-flow planning tools. Forecasting grain, milk and livestock sales and both fixed and variable costs including feed, fertiliser and contractor charges is essential and should be mapped out over the course of the year and ideally over a minimum three year period in the case of a significant farm expansion. Agri specific business plan templates and cash flow planners are available from Teagasc and Bank of Ireland has developed a cash-flow planning tool which can be downloaded from our website and is a key financial planning platform to assist farmers.

With regard to cash-flow supports, there are multiple options for farmers, from bank support through an overdraft facility or a stocking loan. At Bank of Ireland, 'AgriFlex' features have been introduced to our farm loan products and include the potential to avail of interest-only repayment periods in difficult situations and to accelerate repayments during times of surplus farm cash flow.

It is important for farmers to get in touch early with their suppliers or bank in relation to any cash-flow issues. For our part, the banking sector will be best served by supporting our farming customers through good times and challenging times, whether through quick decisions on loan applications or providing short-term cash-flow assistance. Similar to how we supported farmers during the fodder crisis in 2012 and 2013, and during the 2009 dairy market downturn, our sector will look to support viable farm businesses and farm families as necessary.

While farmers previously intent on investment may be currently considering whether to press ahead or not given current commodity prices, our view is that current price volatility should not of itself be a reason to suspend development plans, as those working within agriculture are fully aware of the cyclical nature of the sector, whether through seasonal troughs and peaks or price variation. We understand that financial ups and downs are part of farming today and we know that many farmers are looking to expand or change their farm businesses, but are also looking for the flexibility needed when faced with the challenges of fluctuating prices, variable weather patterns and increasing costs of doing business. Current prices should of course be taken into account and factored into business plans, but it is more important that farmers set clear objectives for themselves as to why they should engage in a particular development, define their short and medium term goals and identify what actions they need to take to meet these goals.

The sector will continue to face ongoing challenges which it is well equipped to deal with. Agriculture is the largest standalone sector within our Business Banking Portfolio, comprising over 50% of all front book business lending through our nationwide branch network last year. Cash-flow support requests from farmers are currently not much higher than this time last year, however we would anticipate an increase in the coming months. We take a medium term view on farm incomes and will play our part in helping farmers manage the impact of sudden price shocks, whether through falls in output prices or increases in input prices. Irish farmers are some of the most progressive and talented worldwide, and through effective financial and cash-flow planning they can compete and win in the global marketplace.



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