

**Financial Sub-Committee Report to Northland Drought Committee  
meeting, 13 May 2010**

**Northland Drought Meeting  
Finance Sub-Committee  
13th May 2010**

***What work have you been busy with relating to the drought?***

- Review customer portfolio and prioritise reviews/visits to customers before they ran out of seasonal facilities and ensure awareness of the likely drought impact on the business, (financial and physical requirements) and aware of the emotional impact, (drought support network).
- Listening and supporting
- Calculating the cost of this drought on next season's performance?
- Making arrangements with the Inland Revenue Department for late payment of taxes and GST and trying to get peoples refunds fast tracked.
- We are also getting a lot of enquiry about getting peoples 2010 financial accounts done early so they can get any refunds and family entitlements early.
- Understanding how big the feed and cow condition "hole" is now, that will affect 2010/11 season.
- For 10/11 season two scenarios - less 5,000kg or less 10,000kg, (less 10,000kg is more likely now). Impact on this alone at \$6.00/kgMS, advance is \$60k
- Continued impact in 11/12 season if production is 10,000 kgMS behind this year?  
The above is a simplistic view and highlights how the drought has a long term impact!
- Clients are now starting to realise that they are running out of overdraft facility and will need more to get them through.
- The farmers need to do the work (review of position) initially, not the bank.

***What issues do you see ahead of Northland farmers?(of a financial nature)***

- Financial side is only part of an integral business so all aspects of the business need to be considered together.
- Understand and discuss the business strengths and weaknesses, and fall back options.
- The effect of reduced fertiliser inputs in favour of increased supplements fed
- Understand business performance, (what parts of the business perform better?)
- What are core business assets versus non core business assets?
- Other inherent issues caused by the world financial scene of the last two years:
  - Falling asset values, (property) impact on equity and security
  - the drought has shown up those less robust businesses
- In regards to finance, farmers need to do the homework themselves. ie what do they need and when?
- Beef farmers are going to have to stock up again coming out of winter into spring, & there could be some issues with cashflow in doing this.
- There is a lot of money not being spent, just cut, and that is going to catch up somewhere along the line

***What are some examples of best practice that you've seen adopted by farmers?***

- Good planning (at least 12 months ahead)
- Review of the whole picture – self / family, stock, feed, financial, review and monitor,
- Review performance to understand the variances and why they have occurred
- Reviewing the whole business and understanding asset, liability and equity positions

- Make key decisions early e.g. supplement price / quantity contracted, culling early, spread costs to stronger cashflow months
- Keeping people informed – bank, accountant, consultant
- Doing feed budgets now and getting PKE contracts in place.
- The organised ones have already advised the banks of the additional OD requirements that will be needed to get through next spring and have capitalised the direct cost of the drought into term debt.
- We have had little requirement from beef farmers. I think these farmers are used to tough times and just cut their cloth to suit.
- Budgets done properly by the client from a management plan – ie not just animal health at so much per animal.
- Monitoring financial and making sure they know EXACTLY what is due to be paid and when. No surprises. Making sure that they are in touch with their bankers so they are not being told things at the last minute. Some who have never used advisors before are starting to get a different perspective on what to do.
- Budgets done properly by the client from a management plan – ie not just animal health at so much per animal.
- Monitoring financial and making sure they know EXACTLY what is due to be paid and when. No surprises.
- Making sure farmers are in touch with their bankers so they are not being told things at the last minute.
- Farmers who have never used advisors before are starting to get a different perspective on their value and how to work effectively with them

***What one piece of advice / wisdom would you offer rural professionals' to convey to their clients over the next couple of months?***

- Take a breath now (good rain) but don't relax too much
- Keep planning ahead.
- Know your future requirements, so as to restore feed cover, cow condition etc, in order to mitigate excess stress in the spring.
- De-personalise the situation. Associate the difficult discussions required, to the "business," not to "you" personally - (soft on people hard on problem)
- Understand the true cyclical nature of the world and the environment – think about how you can mitigate these risks to your business
- Don't blame. Can't change past but need to address things now and plan for the future to avoid a repeat
- Make the right 'farming decisions' and don't make decisions for possible tax / banking reasons.
- It is crucial that livestock get back in condition before it gets too cold and hopefully reduce the carry over impact on next season.
- The tax side of it can be managed by the IED scheme so just get the farming decisions right.
- Do the budgets early and keep the bank informed early.
- Also keep them talking.....it helps !!!
- Need a month by month cashflow prepared for next 12 months to present to bank to ensure funding is in place to get them through.
- Additionally, farmers should be looking now to secure feed contracts to avoid being caught short.
- Whatever can still be done, do it early.
- Planning, planning and more planning.
- Using management plans to budget.
- Taking some of the stress away from clients by helping where you can with doing GST in a one off situation.
- Even opening mail for people and sorting it (yep we did this for someone because they did not want to see what was there and see what they owed!!).
- Remember, you are not alone with the problems you are facing, so talk with others