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BUSINESS PLANNING GUIDE FOR FARMERS RECOVERING FROM DROUGHT

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GRDC contact details:
Ms Maureen Cribb
Integrated Publications Manager
PO Box 5367
KINGSTON ACT 2604

Email: Maureen.Cribb@grdc.com.au

Design and production: Coretext, www.coretext.com.au

COVER: Brad Collis

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PLANNING FOR RECOVERY

Introduction

This report was commissioned by the Grains Research and Development Corporation (GRDC) to assist growers and advisers in making the complex decisions that will be necessary in planning and implementing strategies to manage the threats and opportunities for the 2016 season given the effects of past and on-going climatic and financial challenges.

The guidelines in this report have been tailored specifically for those businesses which have very limited finances to fund a cropping programme for the coming season. It will also have some relevance to those businesses with better finances but who are also looking to reduce their risk in some parts of their enterprise.

They have been developed to help farm businesses plan a **low-cost/low risk-strategy** designed to return a modest profit while maximising the chances of the business continuing. The aim is to m**inimise costs and risks, not maximise profit** by carefully considering how much the business can afford to lose, rather than what it can potentially make. This approach will probably mean reduced profit potential, should this season prove to be a 'bumper' season, but financially constrained businesses simply can't afford the costs and risks of a full cropping program.

Before you plan

It is important to realise before planning for this year commences that it is very difficult to think logically and make rational choices when under extreme pressure.

Most people, farm managers included, struggle to make sound decisions if they are extremely stressed – it's only natural. Professional support services are a valuable resource during these difficult times. As the manager you are the most important asset of a farm business and need to be healthy for your business and for your family. External support for planning (such as counsellors, accountants, farm consultants, financial advisers) has never been more important.

Are you confident that you and your family are ready to face up to the task of business planning for 2016? If not, seek support from relatives, friends, your social network and/or professional counselling services.

If you do not want to keep farming, make an appointment with your accountant and/or farm business adviser to consider the options and work through them with your family. How do the various options fit your succession and retirement plans? There is assistance available from Rural Financial Councillors if you think it is time to leave farming.

If you just want a break from farming, is share farming or leasing out some of the farm an option? Do you take stock on agistment?

If you want to continue but your banker suggests you have a doubtful future, seek a second opinion.

If you and your family are ready to plan your farm business for 2016, the following decision cycle and supporting notes will help you in that process.

The decision cycle

Business planning is cyclical and it is good practice to revisit your plan on a regular basis to see whether it needs adjusting for new conditions.

This guide to decision making concentrates on low cost/low risk options for farm businesses with little financial freedom to operate into this season. It is about having a look at a range of options and considering their potential outcomes. Each key decision should be assessed for the likely benefits and costs of implementation, which will focus attention on those decisions that are critical for survival.

Don't overlook the importance of the personal perspective as well as the financial.

Common questions which arise when funds are limited include:

- What's the best strategy for cropping?
- Do you concentrate only on your 'best' paddocks?
- Do you spread your inputs more thinly over more paddocks?
- Do you remove high input crops from the program?
- Do you avoid crops with which you have limited management experience?
- Do you increase or decrease your cropping program?

This guide will help you, your family and your financier address these and other questions you might have.

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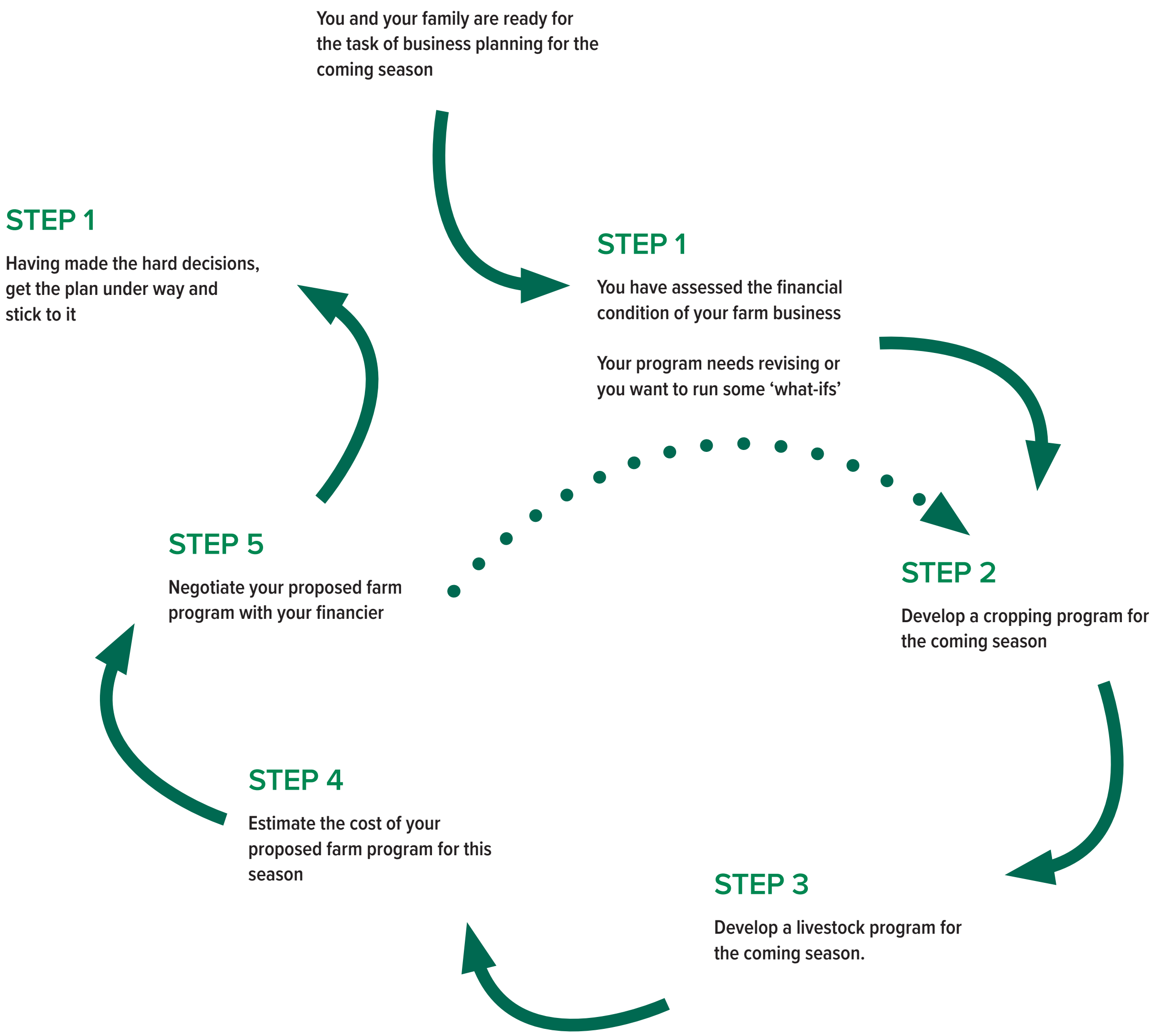
Figure 1 A decision cycle for the coming season



Step by step

Each section below relates to a step in the decision cycle.

STEP 1:

Assess the financial condition of your business and discuss it with your financier.

- Do it early.
- Work with your accountant and/or financial adviser to establish the financial health of your business, including off-farm investments.
  - Clearly identify your fixed costs (rates, taxes, interest on loans, school fees, living expenses, etc) and input costs (fertilisers, fuel etc.) separately and consider how they can be met. Completing a cash flow budget is a good starting point.
  - Most businesses will have commitments to repay borrowings. These should be clearly defined and all finance and repayment options discussed with your financier.
  - This is the first step in your plan and will give you and your financier a clear position of the real state of the business and possible options.
  - Remember, your financial issues are also your financier's. Communication is the key: act early and talk with your financier to see how potential problems can be managed or avoided.
- Next, work out the gross margins (income minus input costs) for each of your crops and livestock enterprises last year. This will give you a good indication of what did best in a poor season. Then do the same for average yields at current costs and prices, which will give an indication of what crops and paddocks will fit a low-risk strategy.

SEE KEY MESSAGES *RISK AND FINANCIAL MANAGEMENT* PAGE 11.

STEP 2:

Plan the detail of your cropping program

- The most important consideration is time of sowing because it is likely to be the main determinant of yield and profit. Being organised and ensuring proper machinery maintenance and paddock preparation will increase your ability to sow the crop on time.
- Avoid over-complicating the program – by keeping it simple will allow you to focus on the issues that have the greatest impact…timeliness and organisation.

Plan your program so you get all the crop sown as soon as rains and paddock conditions (consider potential weed burdens and disease risk) allow or commit to dry sowing those more reliable paddocks with less agronomic issues. Late-sown crops are usually high-risk crops.

- A second essential is to check the germination of seed grain. With light seed weights from last year's harvest, germination and vigour might be low or variable. It is also important to confirm the variety is what you believe it is – especially Clearfield or other herbicide tolerant varieties.
- Group your cropping paddocks into three categories: definitely will seed, will seed with a good start, will not sow.

1. DEFINITELY WILL SOW (BEST CROPPING PADDOCKS; LOW RISK/HIGH RETURN)

These paddocks:

- will have low weed and disease levels and good levels of carry-over nutrition.
- will usually be the ones that have performed well in the past. Your paddock records will reveal these.
- are dominated by soil types that reliably finish crops.
- have been set up to easily and quickly seed this season.
- should be the first sown. Dry seeding some is a real option but avoid situations with variable moisture (re-sowing after poor establishment is expensive and untimely).
- have had good paddock preparation – e.g. summer weeds controlled and no hogweed/bindii that may cause seeder blockages
- should be sown with high-value cereals (e.g. malting barley, milling oats).
- should be monitored closely to avoid major yield-limiting constraints such as severe leaf diseases or nutrient deficiencies (nitrogen or trace elements most likely). Early interventions are usually the most effective and the cheapest.

2. WILL SOW WITH A GOOD START THIS SEASON (AVERAGE CROPPING PADDOCKS; MEDIUM RISK/MEDIUM COST):

- Seasonal forecasts will be useful in determining whether to sown these paddocks.
- These paddocks have one or two factors that will either increase the cost of production (e.g. low fertility, high weed or disease burden) or increase the risk of a good outcome (e.g. major areas of a soil type that requires a good season to produce well or high weed numbers that require delayed seeding).
- Plan not to sow all of these, even with a good start. More cropped area means more risk and requires higher cash flow, both of which can reduce viability. The finances saved by reducing cropping area can be used to build the potential in the cropped paddocks as the season progresses (e.g. extra N). This keeps up-front costs low and reduces overall risk. The old adage that 'it doesn't cost much to put a crop in' is simply not true anymore.
- A smaller cropping area will mean the entire seeding program will be more timely.
- Sow this category after the 'definite' paddocks to allow low-cost weed control options prior to seeding.
- Sow these paddocks with cereals and manage them so they can be used for grazing or hay if necessary.

3. WILL NOT SOW (DIFFICULT, HIGH-RISK CROPPING PADDOCKS):

- Where possible these paddocks should be used to support the livestock enterprise.
- These paddocks may need to be sown to ensure adequate ground cover. Early/dry sowing will ensure early feed for livestock.
- Prioritise paddocks for summer weed control, spraying paddocks to be cropped first
  - Summer weed control should be a higher priority on lighter soils than on heavier.
  - Spray early after a major rainfall event with the lowest-cost effective chemical option under suitable delta-T conditions. This will minimise costs and kill the weeds before they suck out the soil moisture.
  - If spraying conditions deteriorate, adjust the operation to compensate (e.g. increase water rates, increase herbicide rate, switch to night spraying). Timely control is more important than perfect spraying conditions.
  - After spraying, use sheep to reduce bulky weeds for easy seeding.
  - Maintain high levels of crop residue to maximise infiltration of rainfall, slow evaporation and protect the soil. This is very difficult after a drought year.

- Grass control

  Due to the severe impact of high grass numbers on cropping profitability, the difficulty of keeping grasses under control and the long-term nature of seed bank management, grassy weed control should not be compromised. This includes pre-seeding weed control for crops.

- Control fertiliser costs
  - Substantial savings are possible on most farms by reducing P fertiliser rates.
  - Reduce P fertiliser rates unless reserves are known to be low as shown by the fertiliser and cropping history, or low levels indicated by a soil test. You will not fall off a production cliff with lower P provided soil reserves are adequate. If there is any doubt about the available soil P reserves in a paddock or zone, undertake soil testing.
  - Do not be afraid to put no P out if the soil test suggest adequate. Money may be better spent elsewhere. If it's a wet year, there will be enough mineralisation of P to satisfy crop demand.
    Apply P with the seed at 4 kg/expected tonne of grain.
  - With nitrogen, use only 15-20 kg N/ha at seeding. More can be applied mid-season if necessary when you have a better idea of the crop potential.
  - Do not apply other nutrients (e.g. K or S) unless you are confident they are deficient. Soil testing is the most reliable method of predicting these deficiencies.
  - Manage trace element deficiencies by using seed from a very fertile paddock, applying a seed dressing or foliar sprays in-crop.

STEP 3:

Low Cost Livestock Management

- Concentrate on livestock management to increase weaning percentage and growth rates, which can often be achieved with little cash outlay.
- Increasing livestock turnover is the key. Higher profitability and lower risk can sometimes be achieved by selling growing stock at lower weight ranges.
- Low-cost feed grain available in 2019/20 should be tested for nutritional value, particularly energy levels
- Do a forward feed budget and ensure you have enough feed for existing stock until one month after the average break of season when there is likely to be sufficient grazing available. (This step is critical for all livestock enterprises). If you do not have enough feed options include:
  - reducing stock numbers.
  - securing more feed. Consider saving feed grain for this purpose and cost the options of selling it now or value-adding through sheep. In any case, store on-farm and keep options open.
  - using existing stored fodder and paddock feed more efficiently.
- If you have enough feed to carry stock past the average break, will your current cropping plans ensure enough feed for your stock throughout the coming season? If not:
  - nominate a paddock or two of cereal for grazing or hay.
  - secure more feed reserves early – preferably save your own.
  - refine grazing management – including setting up for containment feeding.
- Know the real costs of feeding (grain, hay, machinery and labour).
- Containment feeding will improve efficiency.
- Grain feeding is still economic for breeding stock.
- Better grazing management (e.g. using larger mobs of stock moved frequently) will improve feed use without damaging paddocks. With less cropped area there should be more time to manage livestock better. One of the greatest errors in sheep management is to leave them in the same paddock for too long.
- If feed is short, consider weaning lambs early, giving them the best paddock feed and locking up ewes on a drought ration.
- Finishing lambs with cheap grain may be an option. If you can, lock in the selling price for a proportion of your lambs. Screenings are valuable for finishing - if used correctly.
- Do not fertilise pastures this season.

STEP 4:

Cost your proposed program

- Once you have established your work plan and livestock needs you can cost various 'what-if' scenarios and develop options to use depending on how the season unfolds, your available finance, and how much risk you are prepared to take.
- For businesses with limited funds available the emphasis should be on low-cost/low-risk options, even if some potential profit is foregone.
- Look at the gross margins and cash flows for the various options; not only the costs. If you don't know how to do this, seek help fast from an experienced farm business adviser.

STEP 5:

Negotiate with your financier (e.g. bank) for funds to undertake your work plan.

This is your major negotiation.

- Do it early and be confident.
- Identify when your overdraft peak will occur and some strategies how you are hoping to manage it – this is where a thoroughly developed cash flow budget will be useful and build confidence with your lender.
- Go prepared with a commitment to make it all happen with information about:
  - the current financial status of your business.
  - a costed work plan for the coming year.
  - some 'what-if' scenarios to demonstrate how the financier's investment will be protected if conditions change.
  - discuss the potential need to extend the overdraft to ensure key opportunities are not missed (e.g. ensuring sufficient nutrition to meet yield potential if the season warrants).

STEP 6:

Monitor all crops and pastures closely for weeds and diseases

- Early intervention is vital for cheap and effective control.
- Correct identification of pests and diseases is vital for effective control.
- Correct timing is important

STEP 7:

Review your marketing options as the season progresses

- Make sure the marketing tools you use are the most appropriate. The goal is to minimise risk whilst maximising profit.
- Forward marketing transfers your price risk to the market but does not reduce your production risk.
- Committing more than 35% of your average crop tonnage before harvest can increase risk.
- Of your crop types, opportunities may arise to use early maturing crops (barley/canola) or hay to ease cash flow pressure during harvest.
- If the price of grain is below your selling price now, consider selling smaller parcels periodically to generate some cash flow and guard against further price falls.
- Depending on the season, grain prices and your need for cash flow, on-farm storage may be an option. Buyers may pay more if you can store grain for a period following harvest. Storage can be done cheaply using facilities such as bunkers but care must be taken to ensure grain is kept free of insect pests.

FOR MORE INFORMATION REFER TO FARMING THE BUSINESS MANUAL, SECTION 8: GRAIN SELLING VS GRAIN MARKETING (KRAUSE, 2014) SEE REFERENCES SECTION IN THIS BOOKLET, SEE PAGE 29.

The following questions are worth discussing amongst the farm family or with your adviser.

1 Liquidating off-farm assets to provide cash for the cropping program isn't necessarily sound business. Where off-farm investments (e.g. shares, rental properties) are performing better than your farm investment it may be better to leave them alone, however if you have a non-performing asset, then maybe now is the time to cash it in.

2 Now is not the time to be investing in large-scale adoption of crops you have limited or no experience in growing.

3 Avoid complicating the system, the old saying "keep it simple" can go a long way to ensuring the business is properly managed.

4 Don't be too afraid to spend money. You need to spend money to make money. This season you may need to tighten your belt but its false economy to skimp on inputs (weed control, fertiliser) that can significantly improve yields or returns. Spend money on inputs that are likely to give you the best return (weed control, nitrogen fertiliser, fungicides).

5 Seek good advice and improve your technical knowledge about cropping and livestock.

6 Stay positive. Being positive has its own rewards and leads to better decision-making. Being too pessimistic and negative can lead to foregone opportunities.

7 Beware of 'one glove fits all' strategies. Each farm business has its own unique resources of soil, infrastructure, skills in enterprise management, machinery and labour availability and financial resources. Get advice tailored to your farm situation and discuss options with your family to ensure sound decisions are made.

Issues to Consider

Cost cutting can have a counter intuitive effect if the wrong costs are cut. Small reductions in costs that have a negative impact on production will lead to large reductions in profit.

Modifying management to improve farming efficiency is an effective way to reduce costs. Eliminating unnecessary operations and improving efficiency of operations leads to greater labour efficiency and fuel savings. Block farming, reduced tillage or the use of genetically superior varieties with improved disease resistance and yield potential are examples of efficiency improvements that can lead to reduced costs. If new varieties are not available at a reasonable price, continue with the same variety but try and improve management (e.g. sowing time, disease and nutrition). They will get to 90% relative yield by with good management.

Strive to optimise water use efficiency. A reduction in water use efficiency of 25% results in a reduction in profit of 70%. Timely operational crop management goes a long way to optimising water use efficiency.

In medium to high rainfall environment the probability of breaking even falls from 85% to 70% where WUE is reduced from 16 to 12 kg/ha/mm. Other implications are increased debt, reduced equity and lower interest cover. You must put yourself in a position to capture the benefits in the good years.

The trick to maximising profit in the good years and minimising losses in the poor years is to act tactically in those years. For example, in cropping enterprises input costs such as nitrogen and fungicide costs can be reduced when crop moisture is limiting, or increased when moisture is non-limiting. Understanding what drives disease or insect infection can help determine what strategy can be undertaken. If there is not a green bridge (living hosts that carry the disease over summer), the potential of an early infection of stripe rust maybe low, so later applications maybe more appropriate than up-front.

Most farm businesses are still asset rich, due to the rate of capital growth of their greatest asset – agricultural land- but many have not generated an operating profit for several years. Equity levels have not changed significantly over a ten or fifteen year period, except where farm expansion or severe losses have occurred, however the debt in absolute dollar terms, for most farms, has increased significantly. If land prices fall this could have major implications on equity.

Some agricultural advisers don't just supply technical input they also provide on farm investment advice. These recommendations could have a significant impact on the long term viability of the business, particularly if the business is carrying a high debt level. The technical advice given on a crop will have a range of flow on implications at the whole farm level.

One of the many challenges facing farmers is the limited capital (cash) for on-farm investments. During the coming years, due to the increased debt loads incurred over the last two droughts, cash will be even more limited so weighing the risk and return of on-farm investment decisions will become all the more critical. The manager's role is to evaluate the risk and to maximise the returns from each investment decision, be it new seed, fertiliser or additional livestock.

Building Emotional Resilience

Resilience is a process, not a trait of an individual or an event. It takes preparation, and even practice, to develop and maintain emotional resilience. Emotional resilience is your ability to:

- recognise and accept challenging times in life;
- recognise your own reactions and symptoms to challenging situations; and
- have strategies to enjoy life's ups and downs so you stay well, in control and feel energised.

Five key strategies to build resilience:

1. Positive self-talk and listening to your inner voice

Rather than focusing on the negatives, consider the vast array of attributes and skills you have that contribute to your business and family life. They might include advanced negotiation, practical problem-solving, high work ethic, technology skills etc.

2. Focus on the things you can control

Become adept at knowing what you can control, as opposed to wasting energy on the things you can't.

3. Planning

It is important to create a plan and continually build on it with mechanisms and strategies to deal with different situations.

4. Look after yourself

Living a balanced life requires taking the time to renew yourself and improve your personal wellbeing.

Although taking time away from the farm can create conflict amongst family members, consider taking a break of a few days even in busy times to recharge and increase your effectiveness when back at work. During 'down time' you should take a break for at least four days.

Physical health: Exercise, a balanced diet and rest are crucial.

Mental health: De-stress and maintain quality of sleep.

Connectivity and social networks: Stay connected with your friends, family and your community through local groups, clubs and online social networks

Spirituality: Try to connect with your spiritual dimension by spending time in nature, meditating appreciating music or art, or prayer.

5. Connecting with community

It is essential to stay involved with family, work and the community for many positive reasons, including being able to contribute, being valued and to maintain perspective. Look for ways to connect with the community through work, volunteering, sporting clubs or charity clubs, and get your friends involved in the activities as well.

Surround yourself with positive people and reap the benefits.

FOR MORE INFORMATION REFER GRDC *BUILDING EMOTIONAL RESILIENCE - FARMER HEALTH* FACT SHEET, SEE PAGE 25.

KEY MESSAGES

Risk Management

1 Effective management of risk and profitability is the key to success in farming. Manage to maximise whole farm profit, not yield.

2 Level of risk is a combination of the likelihood of a risk event occurring and the potential impact of that event.

3 Assess risk in terms of likelihood and impact then use these assessments to rank them in terms of relative importance.

4 Put strategies in place to manage the important risks.

5 Some risks, like drought, can't be managed but it is possible to adjust management to reduce their potential impact on the business.

6 Ensure you have or can access information on:

- Technical and financial issues
- Commercial and legal issues (leasing, succession)
- Economic issues (exchange rates, commodity prices)

It is important to understand and manage the potential impacts of these on the farm business.

7 Develop strategies and detailed plans to manage the top 5-6 risks. These plans will be influenced by the current strength of the business and attitude of the farm family to risk.

8 Review these management strategies with other members of the business every few months and be prepared to make changes in light of new circumstances.

TABLE 1 Example Risk Management Matrix

Risk Category			Consequence	Likelihood	Risk Index	Priority	Comments
Environmental Factors	Biological	Crop Insects					
		Pasture Insects					
		Crop diseases	Moderate	Likely	High	1	Develop plan
		Weeds	Moderate	Likely	High	3	Use consultant
		Herbicide resistance	Moderate	Moderate	Moderate	4	Develop plan
		Livestock Pests					
		Livestock Diseases					
		Vermin					
	Current environmental conditions	Water Table Salinity					
		Soil PAW					
		Wind erosion	Moderate	Almost certain	High	2	Stabilise sand rises
		Water erosion					
		Water supply					
		Soil structure					
		Soil fertility					

Financial Management

1 If you haven't done so already, assess the strength of the business and your options for the coming season. Try and put aside the emotional impact of last year and make an objective assessment of the current financial status of the business.

2 Important parameters include:

- Balance sheet (assets – liabilities)
- Equity (net worth/assets)
- Current budget or cash flow including actuals to date
- Details of financial commitments that must be met in the coming season, including repayment schedules on large capital items, payments to family members etc.
- Cash flow budget(s) based on your optional farm programs for this year.

These parameters must include peak debt and how you plan to cover that exposure.

3 Banks are interested in the 5-year future for the farm. They do not want to be farm managers or take over the farm but are starting to tighten up on their lending strategies. Banks want financial details.

- Identify best, average and worst-case scenarios and show the bank the impact of various lending outcomes on your and their investment. You are making the business decisions, not them. Their confidence in you as a manager is paramount.
- Banks work on averages but will look at sensitivities to various factors. Include your views on relevant sensitivities in your case to the bank.
- Banks need to be informed about the real agronomic and other changes that are happening on farm because these have big impacts on long-term financial viability.
- Having a good succession plan is important to the bank.

FOR MORE INFORMATION REFER TO GRDC *UNDERSTANDING A BANK'S APPROACH TO FARM BUSINESS* FACT SHEET, SEE PAGE 13.

4 Some farmers may be disinclined to carry on. In these cases selling or leasing are real options. Exiting the farm business may be an opportunity, not a source of embarrassment.

5 Seek outside advice. There is wisdom in discussing the options with an outsider who can be objective and may bring valuable new information.

6 Expert farm financial management is in short supply. Make sure any consultant you engage in this area has relevant training and experience.

PHOTO: BRAD COLLIS

GRDC

February 2014

UNDERSTANDING A BANK'S APPROACH TO FARM BUSINESS FACT SHEET

GRDC
Grains Research & Development Corporation
Your GRDC working with you

ARE YOU GETTING THE BEST DEAL FROM YOUR BANK?

Without access to finance, growing your business and even accessing adequate working capital can be very difficult. Reducing your finance costs by trying to pay as little as possible in interest and fees to your financier is good business practice.

KEY POINTS

- Sound, well-managed businesses should pay lower interest rates than poorly managed ones.
- Your lending interest rate includes an additional 'customer margin' especially for you!
- Banks need your business and are prepared to fight for it.
- Customer margins and fees are negotiable, except for government fees.
- Knowing how they are calculated will assist you to reduce your finance costs.

PHOTO: P2PAgri

Managing your bank relationship is a key strategy for business success.

Interest Rates

The language used to explain how banks calculate their interest rates can be complicated. In simple terms, banks obtain funds at wholesale rates and on-lend them to borrowers at retail rates. They quote a "base rate" which banks have a legal obligation to advertise weekly in major newspapers in order to keep their customers informed. This covers their costs of funds, operating costs and shareholder dividends. It will be affected by decisions made by the Reserve Bank of Australia (RBA) on the cash rate, the state of the economy and demand for money. Base rates are even differentiated on the basis of the loan – a fluctuating facility such as an overdraft tends to have a higher 'base rate' than a long term fully drawn loan.

Customer Margin

The interest rate which applies to your business borrowing is calculated using the quoted 'base rate' with an added '**customer margin**'. The customer margin is a reflection of the level of risk the bank perceives in lending money to your business – i.e. the likelihood that the bank may lose money out of the deal. The higher the perceived risk, the higher the 'customer margin' charged.

When calculating your 'customer margin', banks consider the 'Five Cs':

1. **Cash flow:** Cash (also often referred to as 'capacity') is king and always will be! The business must be able to demonstrate capacity to generate adequate cash to meet all costs, including interest payments. Revenue calculations need to be determined using reasonable and achievable assumptions for yields, commodity prices and costs. Historical averages are a great place to start – any significant variation should be justified.

Level 1, Tourism House | 40 Blackall Street, Barton ACT 2600 | PO Box 5367, Kingston ACT 2604 | **T** +61 2 6166 4500 | **F** +61 2 6166 4599 | **E** grdc@grdc.com.au | **W** www.grdc.com.au

2. **Character:** Your management expertise, integrity and honesty. Previous and future conduct with the bank is important here. What kind of person are you to deal with? A poor credit history makes you a much higher risk. Proven ability to handle difficult times and capitalise on opportunities reduces perceived risk. Sound profit results and improving equity figures year-on-year are the best support you can offer.

3. **Capital:** The financial position of yourself and the business - your assets, liabilities, net worth, equity position and debt ratios. The higher your equity, the lower the risk.

4. **Conditions:** What is happening at a macro level to the industry in which you operate? Global markets for rural commodities are generally strong at present and demand for land is sound. How does the business manage external risk: interest rates, exchange rates, variation in climate and commodity prices? You cannot control them, but good management can reduce the downside risk.

   For example, consider the change in perceived risk by a bank who had loaned funds to a live beef exporter in 2011 when the federal government banned live exports to Indonesia.

5. **Collateral:** The quality and adequacy of the assets you provide as security for the loan. Quality is determined by saleability - are there potential purchasers and how likely are prices to fluctuate? Adequacy is simply the amount of security, and banks express this as Loan to Value Ratio (LVR). A loan of $600k against a farm worth $1m gives an LVR of 60% - the lower the LVR, the lower the risk. Banks will then equate this LVR to a **Security Category** (A-E).

   While your overall equity position is important, banks are more focused than ever on the value of the real estate assets they hold as collateral and this is what the LVR is calculated on. Assets such as livestock, grain and machinery tend to be less appealing forms of security, as they are more risky and therefore attract a higher interest rate when used as collateral.

Figure 1 Customer Margin Calculator

Customer Rating	Customer Margin				
10	0.9	2.4	3.9	5.4	6.9
9	0.8	2.3	3.8	5.3	6.8
8	0.7	2.2	3.7	5.2	6.7
7	0.6	2.1	3.6	5.1	6.6
6	0.5	2.0	3.5	5.0	6.5
5	0.4	1.9	3.4	4.9	6.4
4	0.3	1.8	3.3	4.8	6.3
3	0.2	1.7	3.2	4.7	6.2
2	0.1	1.6	3.1	4.6	6.1
1	0.0	1.5	3.0	4.5	6.0
	A	**B**	**C**	**D**	**E**
	Security Category				

This chart is for example only. The numbers contained within it are fictitious, designed only to illustrate the concept of calculating 'customer margin.'

Source: *Tony Hudson, Hudson Facilitation*

The first four 'C's – Character, Cash flow, Capital and Conditions - tend to be considered collectively, to arrive at a number or **Customer Rating** (1 to 10) of you as a borrower.

Collateral (expressed by banks as loan value ratio, or LVR) tends to be considered in isolation. If the business fails in all other areas, collateral is all the bank has to rely on to recoup your debts. Your LVR will be given a Security Category.

Figure 1 is an example of how a customer margin is calculated. It assumes the following Loan to Value Ratios apply to each security category:

Security Category A: LVR: < 30%
Security Category B: LVR: 30 - 50%
Security Category C: LVR: 50 - 70%
Security Category D: LVR: > 70%
Security Category E: No security offered

It illustrates a borrower with very good security, denoted as Category A, and a very good Customer Rating, say Rating 1, receives no additional interest rate margin beyond the quoted Base Rate. However, a borrower with less security, say Category C and with little proven experience in their industry, may have a Customer Rating of 6 and an additional margin beyond the Base Rate of 3.5%. This can amount to substantially greater interest costs to your business if you have a significant level of debt!

Case Study:

A farmer who has existing debt of $700k and a farm worth $2m that is held by the bank as collateral, would have an LVR of 35% - a 'Category B' security level. If the other 'C' factors taken into account arrived at a Customer Rating of 4, the 'customer margin' applied would be 1.8%. So if the Base Rate was quoted at 9%, for example, the total lending rate for the farmer would be 10.8%.

Now consider the situation where the same farmer has additional real estate assets, such as other farm land or off-farm assets worth $400k, which do not form part of the security for the farm debt. By offering this to the bank, the security category then becomes Category A and with all other factors being equal, the customer margin becomes 0.3%, making a total rate of 9.3%. This would result in a saving of 1.5%, or $10,500 per year on the $700k loan.

What does this mean for my business?

Now you know how interest rates and particularly customer margins are calculated, there are a number of things you can do to reduce them:

- Be open and honest with your bank – surprise lending needs count against your character.
- If you have additional collateral, use it as a negotiating tool.
- Ask what your customer rating is and how you can improve it.
- Negotiate hard, but recognise the value of relationships with lenders. If banks don't lend money, they don't make profit.
- Make it known you will shop around for the best deal - it's a competitive market. However, also consider the costs involved in moving facilities between banks.
- Target a fee reduction as well as lower interest rates – many fees can be negotiable for the right borrower.
- Be familiar with your cash flow projections. Don't provide information to the bank on the basis it was prepared by your consultant. It is your business; you have to deliver on the numbers.
- Understand clearly your historical financials. Your accountant may have prepared them, but you need to know your own business.
- Be aware of your trading environment – what is happening at a trade and policy level?
- Mitigate external risks where possible.
- Know your cost of production and price projections.
- Have a medium term plan for your business (3-5 years), understand what to show in terms of costs and returns, and present it to the bank.
- If needed, employ expert support - use your consultant, agronomist or accountant to help sell your plan if you need it. Take them to the bank with you.
- Always remember, banks need customers and it's easier for them to keep a customer than to replace one. This is your negotiating strength!

FAQs

Is there a difference between banks when it comes to managing the tough times?

Observers of the way different banks manage financially troubled clients state there are differences. These can change over seasons depending on each bank's view of the future of agriculture, their current exposure or debt to any given sector and region, and empathy of the staff in the region. It is difficult to say which banks are the hardest on farmers who find repayments difficult. The best strategy that a farmer can use is to communicate with the bank through both good and bad times. This will help the bank to understand that the farmer is doing their best to manage the risks to both the farm and the bank.

How significant is the interest rate to a farmer's cost of production?

This is a good question, as a great deal is made in the media of what interest rates banks charge and, as a general observation, most farmers do not freely share this information between themselves. Essentially, the less equity a farmer has in the business, the greater the impact of interest rates on cost of production. However, modelling of farm businesses indicates that yield per ha has the greatest effect on the cost of production, followed by cash costs. Of less impact is interest rate expense.

Prior to banking deregulation in the late 1980s, the bank manager was seen to be the trusted farm business adviser and the relationship with the banker was important. At that time, there were monthly limits on how much credit could be lent and you wanted to be the farmer that the manager had great confidence in. However, since banking deregulation, competition between banks has intensified, farmers tend to switch between banks more, and some state a long-term banker relationship has become less important. It is also important to understand that the front-line banker you know and developed a relationship with may not be the bank officer making the final lending decision on your loan request. So, the long-term relationship with a banker has become less important, but it is still in your best interests to maintain clear and honest communication with your banker, as they represent your best interests to their higher banking management.

How often should I communicate with my banker?

There are no hard and fast rules here in communicating with your bank. However, banks do not like to be kept in the dark about your business, especially when things get tight. Remain proactive with your bank and demonstrate you are in control of your business by keeping them updated with your business developments and strategies.

PHOTO: P2PAgri

Understanding how banks calculate your 'customer margin' may save your business significant money.

Ask your banker how often they would like to hear from you and then follow through by contacting them more than what they suggest! Use the following guidelines to help you form a communication strategy:

- If all is going well, then twice a year is recommended: Once at planning time prior to the season starting and then 6 months later once the season is in full swing.
- If a poor season seems to be in the making, then talk to the banker 2 months before harvest as their life will probably become busier after that as more clients report they are experiencing difficulties.
- If financial difficulties are occurring, then monthly up-dates of how the farm business is going would help your banker to understand your circumstances.
- It is really important to remember that banking is about taking risks: the better you are able to communicate with the bank and demonstrate you are in control of your financial affairs, the lower the perceived risk of lending to your business and consequently, the lower interest you will pay.

Should I use a professional adviser to put my figures together, so the bank has a greater understanding of my business?

A banker's requirements for business performance data can be different to a farm manager's. It can be a challenge to determine what data requirements a bank views as adequate for their needs. Two main strategies that may help the farm manager in this area are to:

- Hire a professional adviser who understands banking requirements to put together reports needed for improved communication with the bank, or
- Attend training activities to improve management skills in financial monitoring, planning and reporting.

Both strategies are legitimate and depend on the personal preference of the farm manager. However, the bank is very interested in the management capacity of the farm manager. If a professional adviser develops the reports, these need to be fully understood by the farm manager and actively used to guide the business.

It does not matter how professional the reports appear; if the farm manager has no understanding and ownership of the information, the bank will not value the reports and their confidence in the manager's ability will not be improved. As a general rule, the higher the confidence the bank has in the farm manager, the lower their lending margin and interest rate will be.

How easy is it to shift banks?

While the competition between banks has increased since deregulation of the banking sector, care needs to be taken when considering shifting between banks as there can be considerable expense in the form of government and bank charges. While bank charges can be negotiated, government charges are fixed. In talking to the bank you are proposing to change to, ask them what costs you will incur in shifting. Depending on how keen the new bank is to have your business, they may offer to absorb some or all of the cost of shifting, but it is wise to know this up-front.

You should note that banks find it cheaper and easier to retain customers than to gain new customers to replace the customers they lose. So you have some negotiation power to ask your current bank if they can offer you a better deal. Before you follow through and leave a bank, it is a good strategy to test your current bank and see if you have their best offer. If they can match or better other bank offers, it may be cheaper and easier to stay with your current bank.

Some farming businesses put their finance business up for tender every 3 to 4 years as standard management practice. In this way, the banking relationship can be regularly checked to see if the business still has the best financial deal. When comparing tenders, be careful to compare the interest rate and all fees, so that an accurate comparison can be made.

USEFUL RESOURCES

Related GRDC Fact Sheets

Other related fact sheets in this Farm Business Management series are: Cost of Production (Order Code: GRDC912), Benchmarking (Order Code: GRDC931) and Key Financial Ratios (Order Code: GRDC911).

Copies of all the above fact sheets are FREE plus P&H and available from:

Ground Cover Direct Freephone: 1800 11 00 44 or email: ground-cover-direct@canprint.com.au

These can also be downloaded from www.grdc.com.au/fbm

Plan to Profit (P2P), a whole-farm financial management program with a financial ratio calculator for all commodities: www.P2PAgri.com.au

Financing Your Farm– A practical guide to financial growth. 4th Edition.

Published by the Australian Bankers Association, written by Alan Blackburn and Rod Ashby.

This book takes a practical approach to managing farm finances.

MORE INFORMATION

Tony Hudson
Hudson Facilitation Pty Ltd
0407 701 330
tony@hudsonfacilitation.com.au

Mike Krause
P2PAgri Pty Ltd
0408 967 122
mike@P2PAgri.com.au
www.P2PAgri.com.au

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GRDC

November 2013

WHAT YOUR TAX RETURN TELLS YOU

FACT SHEET

GRDC
Grains Research & Development Corporation
Your GRDC working with you

SOUTHERN REGION

HOW MUCH DOES YOUR TAX RETURN TELL YOU ABOUT YOUR BUSINESS?

One of the few legal obligations on a farm business is to have an annual tax return completed, so by default, tax returns remain the number one financial record of a farm business. However, as few farmers know how to read and use them, they are one of the most under-utilised resources in a farming business. Are you getting the most out of your tax return?

KEY POINTS

- If you do nothing else with your finances, at least understand what your tax return is telling you!
- Know what your tax return is not telling you!
- If you don't understand your tax return, at least know what questions to ask your accountant.
- If you want a better business, move your financial understanding beyond your tax return.

PHOTO: P2PAgri.

Your tax return shows only part of the financial picture of your farm business.

The annual tax return

An annual tax return is required by law to be undertaken on each Australian business entity. For some farm businesses this means numerous tax returns as they can have a partnership and a number of trusts, each requiring a tax return. Usually, a qualified accountant is used to complete the tax returns.

Prior to the advent of the Goods and Services Tax (GST) in 2000, many farmers used to take their 'shoe box' full of receipts to the accountant annually for the tax return to be completed. Now, with having to submit the Business Activity Statement (BAS) at least quarterly, farm business finances are being recorded better than ever, and usually with an accounting software package.

The big challenge for farmers is to spend about 20% more time and develop a sound set of farm business management budgets from the financial recording that is already being completed for the tax return(s). The benefit of a tax return is that it is a legal requirement and so these records have to be completed. It sets up a sound financial recording discipline in a business. The main problems with tax returns is that they are completed using the Australian Taxation Office (ATO) guidelines and rules, and so do not provide a very good set of accounts needed to more effectively manage the business. Tax returns are only undertaken to assess tax liability, not vital business information like management profit, business equity and business efficiency.

With a little extra targeted effort, the information collected for tax returns can be turned into a complete set of farm management budgets, which provide the fundamental measure of farm performance and sustainability.

However, as we have tax returns completed, we might as well understand what they are telling us about the business.

Level 1, Tourism House | 40 Blackall Street, Barton ACT 2600 | PO Box 5367, Kingston ACT 2604 | **T** +61 2 6166 4500 | **F** +61 2 6166 4599 | **E** grdc@grdc.com.au | **W** www.grdc.com.au

Table 1 Information from a tax return

	Profit and Loss	Balance Sheet
What your tax return DOES tell you:	• The **profit and loss** in the tax return gives some indication of the true management profits to the business. • If the business is making taxable 'losses', then this is an indication the financial performance in that financial year may not be good! • They can indicate financial trends in the business. For example, if taxable losses have occurred over the last few seasons, then these indicate the business is heading in the wrong direction to maintain financial viability. • Note with dryland farming, the use of a financial year means income of one season is lined up against the costs of the next season. So, tax profits are not representative of the same season.	• The **balance sheet** in the tax return does show what the **total debt** is on the 30th June each year. • Again, if total liability is increasing from year to year, it indicates an increased reliance on the bank to maintain the business. • This may also not be a good sign for the business, depending on the reasons why the debt is increasing.
What your tax return DOES NOT tell you:	• The **profit and loss** does not take into account the **family drawings** on the business, because these are not tax deductable items. • In a financial year where the farming business showed taxable losses, the financial performance could be far worse as family drawings have not been taken into account.	• The balance sheet does not have the most valuable capital item, land, included at the current market value. • So, the business's **true net worth** is not measured in a tax return's balance sheet. • Net worth is the most valuable benchmark that needs to be accurately measured each year in a farming business, to see if real progress is being made. • It is certainly important to your banker – just ask them!

What is your level of business understanding?

There is a chronic need for farmers to understand the financial performance of their business. There is a great saying, 'If you can't measure it, you can't manage it!' So, if you're not measuring business performance, how do you know how well you are doing?

The annual tax return, while it's not the best source, is at least a start in understanding your business better.

Unfortunately, few farmers know how to 'read' their tax returns. For example, recent farming businesses had taxable losses in each of the last 5 years and yet had not grasped the financial difficulties they were really facing. No, it doesn't mean they had used good accountants who had constructed the books to allow them to pay 'no tax'. This is a dated way of thinking how well their accountant is performing!

Five taxable losses mean that these businesses are not travelling at all well. Yet the business owners had no idea this had occurred, and what is even more damning is that their accountants had apparently not brought this 'downward financial spiral' to their attention! The really challenging question is who is responsible for this lack of understanding? The answer isn't 'totally the accountant's fault'. After all, someone in the business had to sign off for the tax returns to be submitted! And perhaps the business owners did not ask the right questions.

What information is in a tax return?

Simply, a tax return essentially tells you what tax, if any, has to be paid to the ATO. Also, importantly, banks put reliance on tax returns because they are legal documents, and are expected to be accurate.

The other two most useful pieces of information are the profit and loss budget, and the balance sheet. However, as these two budgets are not fully reported in a tax return, they should not be relied upon as the sole measure of business viability or performance. Table 1 highlights what your tax return does and does not tell you about profit and loss, and balance sheet.

What a good accountant or financial advisor can answer

The main question arising from Table 1 is whether you or your accountant track profit/loss and total debt from year to year in order to understand the trends in the business. As a prudent business manager, you should be actively seeking this information.

A good set of farm business management budgets should be able to answer the following questions of your business:

- Was my business profitable in the last year?
- What enterprises on the farm performed well and what did not?
- Was my business efficient, in terms of return on capital? If not, why not?

- What was the cost of production of each enterprise?
- How did my farming business perform compared to other forms of investment?
- What was the growth in net worth of the business?
- Given these performance results, what could I learn from last season to help improve my management in the coming season?

A sound set of farm business management budgets can be used to record the 'actual' business financial performance and also be set up to estimate the next season's expected performance. In this way, the business is being correctly monitored.

A good accountant or financial advisor should be able to assist with developing a sound set of farm business management budgets to provide answers to these vital questions.

If your accountant or financial advisor cannot answer these questions and/or do not consider this information vital to the running of your business, then find an accountant or financial advisor who can help you.

How do I get a better understanding of my business?

If you wish to have the knowledge to do this vital business analysis and answer these questions yourself, or the confidence to ask these questions of your business advisors, the GRDC may have some answers for you. The GRDC has been actively putting resources into a number of farm business management areas by:

- Working with farm systems groups (especially in dryland areas), establishing small groups to analyse the profitability and risk of farm businesses based on real figures and then using this information to assist consultants and other farmers. This includes short courses using local consultants and accountants.
- Conducting 4-day 'Advanced Farm Business Management' courses for agronomists and farm advisors.
- Conducting 1-day 'Farm Business Management Essentials' for farm businesses.
- Running 'Farm Business Management Updates' for farm advisors and accountants.
- Developing a number of farm business fact sheets that will be released progressively from late 2013 to mid-2014 to help develop farmer and advisor thinking in this valuable area.
- Developing an e-book manual on 'Farm Business Management'. This will be available mid-2014.

PHOTO: P2PAgri

FAQs

What is the benefit of using farm management budgets over tax return information?

To help manage a farming business, you should have information that tells you the relative profitability of each enterprise on the farm, the efficiency of the whole farming business, the state of the cash flow and balance sheet of the farm, and an understanding of profitability, so you can assess how well risks are being managed. A sound set of farm management budgets will give you this information. A tax return at best can only provide an approximation of business profitability, and that's all.

So to clearly steer your business to continual success and sustainability, it would be better to see all the instruments clearly on the 'business dashboard'. This is what a sound set of farm management budgets will give you. Relying solely on tax return information is like steering your business with a 'fog affected' windscreen with little idea of what is on the dashboard!

Should my goal be to increase profits or go for a lower profit so I don't pay tax?

This is an old 'chestnut' as I have heard farmers say a 'good accountant is one where you don't pay tax'!! Essentially, if you haven't paid tax in the last few years it is highly unlikely you have made any money and the business has probably gone backwards.

So, your goal should be to make as much profit as you can. In this way, you can build the business financial wealth and improve its ability to weather poorer seasons when they come. Once you have made profits, look at ways with your accountant to minimize the tax you need to pay. This is a legitimate and sound business strategy.

How do I find a good accountant?

Before you answer this question, you will need to identify what you need your accountant to do. Understanding the main goals for running the business will guide what accountant and/or farm advisor you should use. An accountant's core skill is in completing tax returns. If that is all you want your accountant to do, then most accountants will fulfil this need. If you wish to have the improved farm business

PHOTO: P2PAgri

A tax return gives a 'rear view' or historic view of your business. To plan for the future of your business, you need to develop good management budgets.

management information outlined in this fact sheet to guide better management decisions, then ask your current accountant if they can provide these services. If they can't, then take this fact sheet to other recommended accountants and ask if they can provide you with this service. It will be a matter of inquiring of enough accountants until you find one who does.

Why do I have so many legal entities to run my farming business?

Some farming businesses have a number of legal entities such as partnerships, family trusts and maybe a company to run the business. If you are one of these businesses and do not understand why you have so many, then the answer may be that you have too many! A business structure needs to be understood for it to be well managed. Ask your accountant to help you understand the need for these entities. Accountants help farmers set up these multiple business structures to assist with tax minimization and family succession, and in some cases, to protect the farm assets from the effects of divorce. Just remember, the more legal entities you have, the more you will pay in accountancy fees to complete the necessary tax returns.

What does the tax return tell me about the future?

By definition, a tax return is an historic record of what has happened in that particular financial year. So, it is directly influenced by the season and the commodity prices experienced in that financial year. As a financial tool to help predict the future it is restricted, and depends on how well it models the seasonal and commodity prices outcome for the coming seasons. For predicting possible outcomes, it is far better to use a good set of farm management budgets with conservative expected yields and commodity prices. You could also go one step further and model both a poor and good season, which will give the range of possible results and help judge the financial risks to the business. Information on these management budgets is available through other fact sheets in this series.

USEFUL RESOURCES

Related GRDC Fact Sheets
Other related fact sheets in this Farm Business Management series are: Marketing and Selling (Order Code: GRDC932), Leasing and Share-Farming Land (Order Code: GRDC933) and Valuing Family Drawings and Your Management (Order Code: GRDC936).

Copies of all the above fact sheets are FREE plus P&H and available from:

Ground Cover Direct Freephone: 1800 11 00 44 or email: ground-cover-direct@canprint.com.au

These can also be downloaded from www.GRDC.com.au/fbm

Plan to Profit (P2P), a whole-farm financial management program that can help calculate a farm's financial budgets: www.P2PAgri.com.au

MORE INFORMATION

Mike Krause
P2PAgri Pty Ltd
08 8396 7122
www.P2PAgri.com.au

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GRDC

JANUARY 2014

GRDC Grains Research & Development Corporation

Your GRDC working with you

FARMER HEALTH FACT SHEET

SOUTHERN REGION

TAKING CONTROL OF YOUR PERSONAL HEALTH

Farming can be physically demanding, however with the increased use of machinery and technology it is no longer the active occupation it once was. Looking after your health is important for you, your family and your business. Can you afford to risk time off because of a serious illness or injury?

KEY POINTS

- The healthy lifestyle often associated with farming is largely a myth. In general, people living outside major cities are more likely to engage in behaviours associated with poorer health.
- Around 75 per cent of Australians aren't getting enough exercise to meet their recommended daily requirements. A lack of physical activity is the fourth leading cause of disease in Australia.
- An active person is less likely to develop cardiovascular disease, type 2 diabetes and osteoporosis, have a stroke or get certain types of cancers.
- Regular moderate activity can make a difference to your personal health. Participate in physical exercise that raises your heart rate for 30 minutes each day.
- Get a check-up from your trusted health professional annually.

Being active every day is vital to maintain a healthy body and mind, however, many rural people are not active enough and often struggle to include exercise in their daily routine. In fact, compared to people in major cities, those in regional and remote areas are less likely to report very good or excellent health, according to the Australian Institute of Health and Welfare.

Rural populations show a significantly higher burden of the major factors that contribute to disease, in particular, high blood pressure, obesity, physical inactivity and smoking. All of these factors link to major disease and lead to a lower life expectancy for people in regional and remote areas.

Maintaining a healthy body weight and being active decreases your risk of serious health conditions such as:

- diabetes;
- heart disease;
- some cancers;
- mental health problems; and
- musculoskeletal aches and pains.

The good news is that you can take control and help prevent some of these health issues.

"There is no point having a great bottom line if you are not around to enjoy it." SUSTAINABLE FARM FAMILIES™

Where do I start?

If you learn more about your personal health and risk factors, you can take preventative action.

Many physical injuries sustained on-farm result from doing work with unfit, unconditioned bodies. Putting aside the necessary time to improve general fitness will trim tummies and prevent injuries.

A health check from your GP or health professional is important to help find, prevent or reduce the effect of disease and ensure you are on the right track to good health. Getting an annual check-up is like getting the tractor serviced before it breaks down.

Key health indicators

Blood pressure

High blood pressure can strain your heart and speed up the process of coronary heart disease. Help lower your blood pressure by reducing excess body weight, being physically active, limiting your alcohol intake and adopting a low salt diet.

Blood cholesterol

There are three types of blood cholesterol. **Low density lipoprotein** (LDL) is known as 'bad' cholesterol because it can add to the build up of plaque in your arteries and increase your risk of coronary heart disease. **High density lipoprotein** (HDL), known as 'good' cholesterol, helps to protect against coronary heart disease. **Triglycerides** are the 'ugly' lipids and are found in many processed foods including alcohol. To control blood cholesterol levels you need to enjoy healthy eating, including eating foods low in saturated fats.

Healthy weight

Being overweight increases your risk of coronary heart disease, high blood pressure and cholesterol, diabetes and gall bladder disease, gout, arthritis and other joint issues, sleeping problems, including sleep apnoea, and certain types of cancers. Your risk of developing these health conditions also depends on other risk factors.

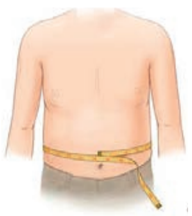
People come in all shapes and sizes, so what might be a healthy weight for one person isn't necessarily healthy for another.

Level 1, Tourism House | 40 Blackall Street, Barton ACT 2600 | PO Box 5367, Kingston ACT 2604 | **T** +61 2 6166 4500 | **F** +61 2 6166 4599 | **E** grdc@grdc.com.au | **W** www.grdc.com.au

Regardless of your height and build, excess fat around the waist can increase the risk that you will develop a chronic disease.

Tip: One of the health indicators is waist circumference. For most people, a waist measurement greater than 94 centimetres for men and 80cm for women increases their health risk. A waist measurement over 102cm for men and over 88cm for women can indicate that your health is at high risk.

Measuring waist circumference.



A healthy body mass index (BMI) can reduce the risk of type 2 diabetes and heart disease. BMI is a measure of your body weight in relation to your height (weight divided by height in metres squared). For example, if you are 165cm tall and your weight is 70 kilograms, your BMI would be 25.7 (70/1.65 x 1.65 = 25.7) and classified as overweight, (see Table 1).

Diabetes

Diabetes is a chronic disease with serious complications. About 275 Australians develop diabetes every day. The rates of mortality due to diabetes are two times higher in remote areas than in Australia's major cities.

Type 2 diabetes is the most common form of diabetes, and results from a combination of genetic and environmental factors. It is where the pancreas makes some insulin but not the amount your body needs. Diabetes Australia estimates that up to 60 per cent of type 2 diabetes can be prevented. You are at a higher risk of getting type 2 diabetes if you:

- have a family history of diabetes;
- are older (over 55 years of age);
- are physically inactive;
- have a large waist measurement; and
- have high blood pressure.

Respiratory illness

Farmers have a higher risk of developing respiratory illness than people working in other professions due to the organic and inorganic dust, toxic gases and agricultural chemicals they can inhale (see Table 2).

TABLE 1 Body Mass Index.

Waist measurement	Healthy weight BMI = 18.5-25	Overweight BMI = 25-30	Obese BMI = 30+
Men: 94-102cm Women: 80-88cm	Lowest risk of health problems	Increased risk of health problems	High risk of health problems
Men: more than 102cm Women: more than 88cm	Increased risk of health problems	High risk of health problems	Very high risk of health problems

ADAPTED FROM: WWW.CANCER.ORG.AU

The most common respiratory illnesses include asthma, chronic obstructive pulmonary disease, hay fever, allergic rhinitis, bronchitis and chronic hypersensitivity pneumonitis.

Respiratory protection should include wearing a mask, respirators or other protective equipment; following recommended guidelines when applying pesticides and agro-chemicals; using fans, exhaust blowers and filters to maximise ventilation in confined areas; and wetting down grain bins or dusty areas before cleaning.

Cancers

People living with cancer in regional and rural areas have poorer survival rates. Factors that contribute to lower survival rates include:

- reduced rates of physical activity;
- increased rates of high risk alcohol consumption;
- higher rates of smoking;
- increased sun exposure;
- later diagnosis; and
- poor access to early intervention.

Skin cancer

Approximately two in three Australians will be diagnosed with skin cancer before the age of 70. There are three main types of skin cancer (see Figure 1):

- **Melanoma.** These are the most dangerous types of cancers, spreading throughout the body. They often start as a mole and become darkened and have an irregular border.
- **Basal cell carcinoma.** This is the most common, but least dangerous form. It grows slowly usually on the head neck and upper torso. It may appear as a lump or a dry, scaly area.
- **Squamous cell carcinoma.** This type can spread to other parts of the body if not treated. It grows over some months and appears on skin exposed to the sun. It can be a thickened, red, scaly spot that may bleed easily or ulcerate.

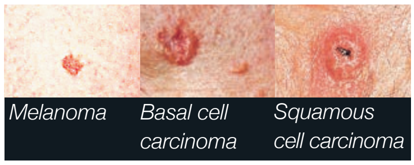


FIGURE 1 What does skin cancer look like?

Diet

To address diet-related health problems you should limit foods containing saturated fat such as biscuits, cakes, pastries, pies, processed meats, commercial burgers, pizza, fried foods, potato chips, crisps and other savoury snacks.

The Australian dietary guidelines feature five principal recommendations:

1. To achieve and maintain a healthy weight, be physically active and choose nutritious foods and drinks to meet your energy needs.
2. Enjoy a wide variety of nutritious foods from these five groups (see Figure 2) every day: vegetables; fruit; grain foods; lean meats, poultry, fish, eggs, nuts and seeds; and milk, yoghurt, cheese and their alternatives.

TABLE 2 Respiratory hazards for grain farmers.

Exposure type	Source	Environments
Organic dusts	Grain, hay, cotton, silage, animal feed, microorganisms, animal particles	Machine sheds, livestock buildings, silos
Inorganic dusts	Silicates, asbestos, plastics	Field work, harvesting
Gases	Ammonia, hydrogen, sulfide, nitrogen oxide, methane, carbon monoxide	Animal houses, manure pits, silos, fertiliser, bushfires
Pesticides	Organophosphate, paraquat, methlbromide	Field work, storage
Fertiliser	Ammonia	Field work
Welding fumes	Ozone, metals	Welding
Solvents and fuel	Diesel fuel, detergents	Vehicle exhaust, storage

ADAPTED FROM: SUSTAINABLE FARM FAMILIES – RESPIRATORY HEALTH, 2009.

3. Limit intake of foods containing saturated fat, added salt, added sugars and alcohol.
4. Encourage, support and promote breastfeeding.
5. Care for your food, prepare and store it safely.

Be a label reader

Find out more about what you are eating by learning to read the information on food products (see Figure 3). Sometimes it is not clear from the ingredients list if a product is a healthy choice and so it is helpful to understand how to read the nutritional information panel.

Building exercise into your daily routine

The great thing about exercise is that it is easier to build into your every day life than you may think. Physical exercise can benefit your cardiovascular system, immune system, brain function and improve quality of sleep.

Regular exercise can be effective in preventing and alleviating the symptoms of depression. Physical activity also burns up stress chemicals, like adrenaline, which promotes a more relaxed state of mind.

There are lots of ways to incorporate activity into your daily routine:

- walk or ride a bicycle to check crops or stock;
- do some stretches before you start work and throughout the day;
- wash the car or machinery by hand;
- do some gardening, mow the lawns with a push mower, dig a vegie patch; or
- participate in a structured recreational activity like golf, tennis, water-skiing and so on.

You don't need expensive equipment and physical activity does not have to be a structured exercise. Make a point to go for a 30 minute brisk walk every day. Walking is an activity that everyone can do regardless of age, sporting ability or fitness level. It's free and good exercise if you keep up the pace.

Tip: Aim for 10,000 steps per day, which is roughly equivalent to eight kilometres. Use a pedometer to count your steps, you might be surprised how quickly they add up. There are some useful phone apps that can do this for you.

FIGURE 2 Recommended serves per day of the five food groups and examples of serving size.

Vegetables and legumes/beans

Serves per day	19–50 years	51–70 years	70+ years
Men	6	5½	5
Women	5	5	5

Fruit

Serves per day	19–50 years	51–70 years	70+ years
Men	2	2	2
Women	2	2	2

Grain (cereal) foods, mostly wholegrain and/or high cereal fibre varieties

Serves per day	19–50 years	51–70 years	70+ years
Men	6	6	4½
Women	6	4	3

Lean meat and poultry, fish, eggs, tofu, nuts and seeds, and legumes/beans

Serves per day	19–50 years	51–70 years	70+ years
Men	3	2½	2½
Women	2½	2	2

Milk, yoghurt, cheese and/or alternatives, mostly reduced fat

Serves per day	19–50 years	51–70 years	70+ years
Men	2½	2½	3½
Women	2½	4	4

SOURCE: WWW.EATFORHEALTH.GOV.AU.

FIGURE 3 General guidelines for making healthy choices.

Nutrition Information

Servings per package – 16
Serving size – 30g (2/3 cup)

	Per serve	Per 100g
Energy	432kJ	1441kJ
Protein	2.8g	9.3g
Fat		
Total	0.4g	1.2g
Saturated	0.1g	0.3g
Carbohydrate		
Total	18.9g	62.9g
Sugars	3.5g	11.8g
Fibre	6.4g	21.2g
Sodium	65mg	215mg

Ingredients: Cereals (76%) (wheat, oatbran,barley), psyllium husk (11%), sugar, rice, malt extract, honey, salt, vitamins.

Total Fat
Generally choose foods with less than 10g per 100g.
For milk, yogurt and icecream, choose less than 2g per 100g
For cheese, choose less than 15g per100g.

Saturated Fat
Aim for the lowest, per 100g. Less than 3g per 100g is best

Other names for ingredients high in saturated fat: Animal fat/oil, beef fat, butter, chocolate, milk solids, coconut, coconut oil/milk/cream, copha, cream, ghee, dripping, lard, suet, palm oil, sour cream, vegetable shortening.

Fibre
Not all labels include fibre. Choose breads and cereals with 3g or more per serve.

100g Column and Serving Size
If comparing nutrients in similar food products use the per 100g column. If calculating how much of a nutrient, or how many kilojoules you will actually eat, use the per serve column. But check whether your portion size is the same as the serve size.

Energy
Check how many kJ per serve to decide how much is a serve of a 'discretionary' food, which has 600kJ per serve.

Sugars
Avoiding sugar completely is not necessary, but try to avoid larger amounts of added sugars. If sugar content per 100g is more than 15g, check that sugar (or alternative names for added sugar) is not listed high on the ingredient list.

Other names for added sugar: Dextrose, fructose, glucose, golden syrup, honey, maple syrup, sucrose, malt, maltose, lactose, brown sugar, caster sugar, maple syrup, raw sugar, sucrose.

Sodium (Salt)
Choose lower sodium options among similar foods. Food with less than 400mg per 100g are good, and less than 120mg per 100g is best.

Other names for high salt ingredients: Baking powder, celery salt, garlic salt, meat/yeast extract, monosodium glutamate, (MSG), onion salt, rock salt, sea salt, sodium, sodium ascorbate, sodium bicarbonate, sodium nitrate/nitrite, stock cubes, vegetable salt.

Ingredients
Listed from greatest to smallest by weight. Use this to check the first three ingredients for items high in saturated fat, sodium (salt) or added sugar.

The following activities have similar health benefits:

- walking 3km in 30 minutes;
- swimming laps for 20 minutes;
- cycling 8km in 30 minutes;
- washing and waxing the car for 45 to 50 minutes; and
- digging or weeding the garden for 45 to 60 minutes.

Stretching is another important element to include along with aerobic exercise and strength training. Flexibility improves your body's range of movement and helps improve balance, counteracts muscle tension and stiffness and may help to relieve stress.

Remember to exercise with care and protect yourself from the sun. If you are over 35, seek professional advice from your GP before beginning a new diet or exercise regime.

Your health checklist

Do you know your:

- *waist measurement?*
- *body mass index (BMI)?*
- *blood pressure?*
- *blood glucose level?*
- *cholesterol level?*
- *risk of heart disease?*
- *the disease history of your family? For example, has a direct family member suffered a cardiac event prior to 65 years of age?*

Do you:

- *visit your GP for a check up annually?*
- *visit your dentist annually?*
- *get your eyes checked if you are over 40?*
- *get screened for skin or bowel cancer?*
- *have a pap smear or breast screen test at the recommended intervals if female?*
- *have your prostate checked at the recommended intervals if male?*

Remember: Screening tests help doctors detect many diseases such as cardiovascular (heart) disease, diabetes and some cancers in their early stages.

How do your health drivers stack up?

- *How often do you exercise?*
- *How many serves of vegetables do you eat each day?*
- *How many pieces of fruit do you eat each day?*

Do you:

- *wear a broadbrim hat, long sleeves and use 30+ sunscreen to protect yourself from sun damage?*
- *smoke?*
- *have any alcohol free days in a week?*
- *take time out for yourself?*

FREQUENTLY ASKED QUESTIONS

What should I do with my health records?

It is a good idea to keep all you health records and information in one place. The Australian Government has launched eHealth.gov.au, which is a secure online summary of your health information. You can control what goes into it, and who is allowed to access it.

Should I see a health professional?

It is important to seek professional help and advice when it comes to your health and wellbeing. You should get a check-up from your GP before making any significant changes to your exercise routine or the food you eat. They might even help you set up a program to improve your overall health and fitness level and reduce your risk of getting a preventable illness.

Having a regular doctor or practice that you visit can have several advantages, including building a relationship over time and feeling more comfortable talking openly. Your doctor will get to know you and understand your health needs and concerns, working with you to meet your goals.

How much exercise do I need?

The National Physical Activity Guidelines (2010) recommend at least 30 minutes of moderate-intensity physical activity on most, preferably all, days. A good example of moderate-intensity activity is brisk walking, that is at a pace where you are able to comfortably talk but not sing. Other examples include mowing the lawn, digging in the garden or medium paced swimming or cycling.

Short bouts of around 10 to 15 minutes each can be accumulated to reach the recommended 30 minutes (or more) of moderate-intensity physical activity. To prevent weigh gain as well as manage cardiovascular health, the Australian Dietary Guidelines suggest a minimum of 45 to 60 minutes per day.

USEFUL RESOURCES

Australian Dietary Guidelines
www.eatforhealth.gov.au

Building emotional resilience Fact Sheet
www.grdc.com.au/GRDC-FS-EmotionalResilience

Diabetes Australia
www.diabetesaustralia.com.au

Exercise and depression Fact Sheet
www.blackdoginstitute.org.au/docs/exerciseanddepression.pdf

Heart Foundation
www.heartfoundation.org.au

Life! Helping you prevent diabetes, heart disease and stroke
www.diabeteslife.org.au

National Rural Health Alliance
ww.ruralhealth.org.au

National Centre for Farmer Health
www.farmerhealth.org.au

Rural and Regional Health Australia
www.ruralhealthaustralia.gov.au

MORE INFORMATION

For more information contact your local GP or health professional.

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This Fact Sheet is produced as part of the GRDC's Farm Business Management initiative.

THE INFORMATION PROVIDED IS INTENDED ONLY FOR GUIDELINE PURPOSES. PROFESSIONAL MEDICAL/HEALTH ADVICE SHOULD BE SOUGHT WHERE APPROPRIATE.

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NOVEMBER 2013

FARMER HEALTH FACT SHEET

GRDC Grains Research & Development Corporation

Your GRDC working with you

SOUTHERN REGION

BUILDING EMOTIONAL RESILIENCE

Emotional resilience is the willingness and capacity to accept that there will be good and bad times ahead, and to understand your reactions to these experiences and have strategies to manage them.

KEY POINTS

- Accept where you are in life and what life is throwing your way.
- Listen to your inner voice and, if negative, change your 'self-talk'.
- Look for ways to be connected within the community.
- Learn to get comfortable with feelings and be able to express them openly.
- Surround yourself with positive people.
- Look after your health.
- Resilience can be planned for, developed and practised.

The facts up front:

- *One in five Australians will experience a mental illness.*
- *13 per cent of Australians will experience some form of anxiety disorder.*
- *20 per cent of Australians will experience depression at some time.*
- *Stress-related illnesses are estimated to cost Australian businesses around $30 billion per year.*
- *Suicide and attempted suicide rates in Australia are the highest in the world.*
- *An estimated 31.1 million prescriptions for anti-depressive drugs were issued in Australia in 2009-10.*

Resilience is a process, not a trait of an individual or an event. It takes preparation, and even practice, to develop and maintain emotional resilience.

Being resilient does not exclude you from experiencing difficulty or stress. However, it means you will have a tendency to cope as a result of processes, behaviours, thoughts and actions that 'bounce you forward' to a more normal state of functioning in the midst of adversity.

Emotional resilience is your ability to:

- recognise and accept challenging times in life;
- recognise your own reactions and symptoms to challenging situations; and
- have strategies to enjoy life's ups and downs so you stay well, in control and feel energised.

Seasons will be volatile; good things and unfortunate things will happen; change and challenges will occur. It is not *whether* these things will happen or to what extent, it is just a matter of *when*.

If you lack resilience or strategies to respond appropriately, you may display flight, fight or freeze behaviours.

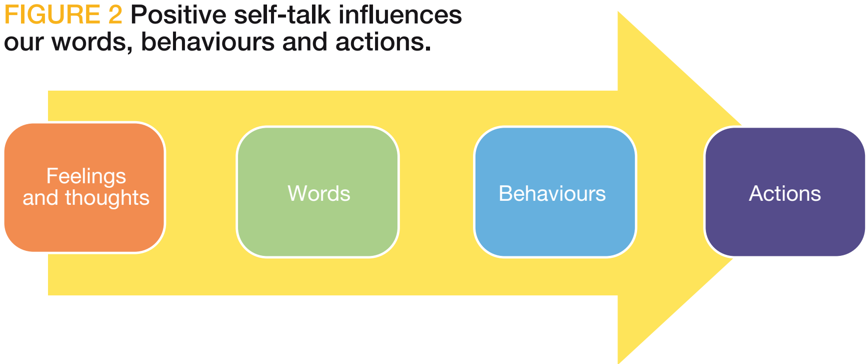
- **Flight:** Avoidance behaviours where individuals do not talk about the situation, deny the nature of it and even lie about its seriousness.
- **Fight:** Individuals get annoyed or angry and often 'shoot the messenger' rather than addressing the message.
- **Freeze:** Individuals feel overwhelmed and don't know what to do.

The way individuals react, and what they need to do to manage their reaction in a positive way, will vary from person to person.

FIGURE 1 **Five key strategies to help experience emotional resilience.**

Level 1, Tourism House | 40 Blackall Street, Barton ACT 2600 | PO Box 5367, Kingston ACT 2604 | **T** +61 2 6166 4500 | **F** +61 2 6166 4599 | **E** grdc@grdc.com.au | **W** www.grdc.com.au

FIGURE 2 **Positive self-talk influences our words, behaviours and actions.**



Five key strategies to build resilience

1 Positive self-talk and listening to your inner voice

Your self-talk reflects how you feel and think about yourself. When challenged, what is your self-talk? What do you hear yourself saying when you are facing a tough situation? If you have a negative self-talk, does it influence your actions and how other people interact with you?

Work at changing your self-talk so it is positive. Try and describe the situation in another way. Simply reframing your self-talk won't make the problem or challenge go away, but a change in self-talk may move you away from the flight-fight-freeze responses and into problem-solving behaviour.

During difficult times it can be hard to remember all the skills it takes to run a farm business. Rather than focusing on the negatives, consider the vast array of attributes and skills you have that contribute to your business and family life. They might include advanced negotiation, practical problem-solving, high work ethic, technology skills and so on.

2 Focus on the things you can control

Sometimes it can be difficult to know the difference between things that can and can't be controlled.

Become adept at knowing what you can control, as opposed to wasting energy on the things you can't. Be realistic and ask yourself, 'what can be done about this, or at least part of this?' It might be overwhelming but consider if there are parts that can be addressed to get some positive return.

3 Planning

It is important to plan and have mechanisms in place to apply in difficult times.

Begin by understanding what 'pushes your buttons' and might threaten your resilience. Knowing what reaction you have when your 'buttons are pushed' enables you to make a plan to counter any adverse reactions and adopt a different strategy or reaction.

Find out what works for you, create a plan and build on it continually.

Time management is also important to help create a stable and certain environment so you can better handle any surprises. Having a plan, even a simple to-do list, will remind you of the steps you are taking and the progress being made.

4 Look after yourself

By looking after yourself you increase your capacity to handle the challenges around you.

- **Physical health:** Exercise, a balanced diet and rest are crucial. Make it a priority to see a doctor and dentist. This may be difficult in some rural areas, but schedule them at least twice a year, every year.
- **Mental health:** De-stress and maintain quality of sleep. Think about whether you get a good night's sleep, are able to wind down and de-stress. If not, consider why.
- **Connectivity and social networks:** Stay connected with your friends, family and your community through local groups, clubs and online social networks.
- **Spirituality:** We each have a spiritual dimension. Try to connect with it by spending time in nature, meditating appreciating music or art, or prayer.

What type of self-talk do you have?

Think of a major change you would like to achieve or a challenge you will face in the future. When you think about the change or challenge, what do you hear yourself say?

- *Is it positive? **'I can do this.'***
- *Is it negative? **'No I can't.'***
- *If it is negative, is it realistic?*
- *If it is negative, can it be reframed?*

Feeling good doesn't just happen. Living a balanced life requires taking the time to renew yourself and improve your personal wellbeing. Remember: every day provides a new opportunity to recharge and look after yourself.

Give yourself a break. Taking time away from the farm can be a source of stress and potential conflict among family members. Even during busy times, consider taking a break of up to four days to recharge and increase your effectiveness when back at work. During 'down time' you should take a break for at least four days.

Tip: If you can't look after yourself, you can't look after your family, your mates or the business.

5 Connecting with community

It is essential to stay involved with family, work and the community for many positive reasons, including being able to contribute, being valued and to maintain perspective. The more people you interact with, the greater the likelihood that you will meet people who have experienced, survived and grown through similar experiences.

Look for ways to connect with the community through work, volunteering, sporting clubs or charity clubs, and get your friends involved in the activities as well. There is scope for positive engagement through the virtual community. Social media, such as Twitter and Facebook, is a valuable tool to stay connected and engaged both locally and further afield.

Make the choice to be positive. Positive people attract positive people and all the benefits that come with that. Negative people attract negative people and everything that goes with that. Surround yourself with positive people and reap the benefits.

What is depression?

Depression is a mood disorder that is characterised by an ***unusually persistent*** *sad mood that does not go away, a loss of enjoyment and interest in once pleasurable activities and a lack of energy and tiredness.*

It is helpful for people to understand what depression is and what it isn't.

It is not something to be ashamed of or to feel guilty about. It is not a character flaw or a sign of weakness, or a lack of discipline or personal strength. It is not just a mood that someone can 'snap out of'. More importantly, depression is not permanent and the chances for recovery are very good.

Some risk factors for depression include:

- *loneliness;*
- *lack of social support;*
- *recent stressful life experiences;*
- *family history of depression;*
- *marital or relationship problems;*
- *financial strain;*
- *early childhood trauma or abuse;*
- *alcohol or drug abuse;*
- *unemployment or underemployment; and*
- *health problems or chronic pain.*

Why are farmers more vulnerable? Reasons include:

- *intense periods of work;*
- *lack of sleep;*
- *isolation;*
- *lower exercise levels;*
- *services not readily available;*
- *self-sufficiency and independent attitude;*
- *'just get on with it' attitude; and*
- *the stigma around mental illness and a general reluctance to seek help.*

Spotting the early warning signs

"Mental health is a state of wellbeing. It refers to our emotional, psychological and spiritual health, and how we feel about ourselves and the world around us" *Dennis Hoiberg, Lessons Learnt Consulting.*

Emotions and feelings can get out of balance. If they remain so for an extended period of time they can cause significant impairment, affecting your ability to function, and can become a clinical condition.

It is important to be able to recognise the signs and symptoms that indicate your resilience is slipping. They can be different for each individual.

Some signs resilience may be slipping include:

- declined productivity, quality of work;
- increased tardiness, lateness;
- missed deadlines, incomplete tasks, carelessness, mistakes;
- lack of cooperation;
- withdrawal from activities;
- increased irritability and frustration with minor events;
- increased sensitivity to criticism;
- increased alcohol consumption or abuse;
- complaints of aches and pains;
- constant lethargy; and
- individuals appearing ill at ease and not themselves.

Tip: As a guide, if someone experiences these symptoms for more than two consecutive weeks with no explanation and it is affecting their ability to function, they should seek professional help.

How to build a resilient lifestyle

Maintaining resilience is an ongoing exercise. Having a plan and looking at it once is not enough, it needs to be part of your life.

- Get comfortable with feelings. Have the courage to ask the question, 'How are you going?' and follow up with 'I am concerned for you,' and 'I am here for you if you need.'
- Care for your mates, colleagues and families. Keep connected in the community and talk yourself, and your mates, up.

Watch the kids

Children hear and interpret far more than most of us realise. In times of adversity or stress, communicate clearly with your children and reassure them. Be conscious of the conversations you have with your spouse, business partners or others when your children are around.

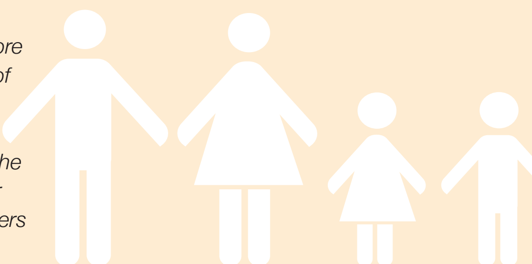
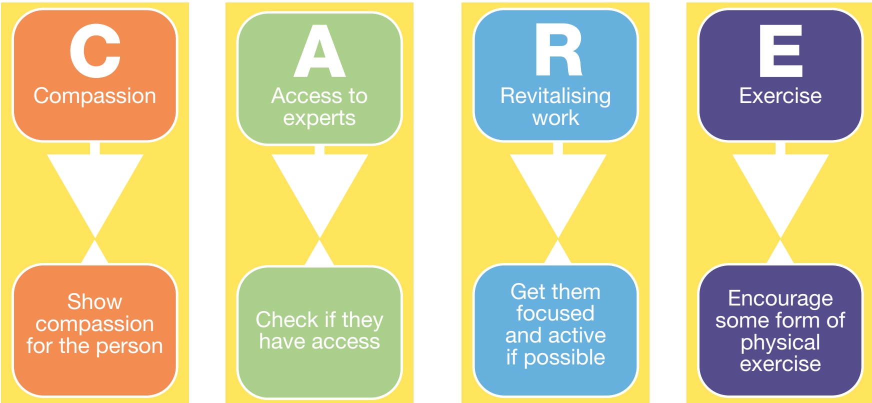


TABLE 1 Symptoms of reducing resilience.

Emotions
Sadness
Anxiety
Guilt
Anger
Overwhelmed
Irritable
Mood swings
Lack of emotions
Helplessness
Hopelessness
Lacking confidence
Indecisive
Thoughts
Frequent self-criticism
Self-blame
Pessimism
Impaired memory and concentration
Indecisiveness and confusion
Tendency to believe others see you in a negative light
Thoughts of death and suicide
Behaviours
Crying spells
Withdrawal from others
Worrying
Neglecting responsibilities
Loss of interest in personal appearance
Loss of motivation
Not doing usual enjoyable activities
Unable to concentrate
Physical symptoms
Chronic fatigue
Lack of energy
Sleeping too much or too little
Overeating, loss or change of appetite
Constipation
Weight loss or gain
Irregular menstrual cycle
Loss of sexual desire
Unexplained aches and pains

SOURCE: LESSONS LEARNT CONSULTING.

FIGURE 3 If you are worried about someone you CARE for, remember these points.



- Give yourself a break, take some time out and get away. Get good quality sleep.
- Don't suffer from the 'I wish I had a…' syndrome.

Remember, a resilient mindset and dealing with everyday life issues in a calm and balanced manner consists of:

- **accepting** yourself for who you are and accept responsibility for looking after yourself;
- listening to your inner voice and having **positive self-talk**;
- understanding what 'pushes your buttons', how you respond and what you can do to change your response – it's our **reactions** that cause the stress;
- **empathy** and viewing life through the eyes of others;
- communicating **effectively**;
- robust **decision-making mechanisms**;
- dealing with **mistakes**;
- dealing well with **success** and knowing what you're good at;
- being **reinforced** in the environment that you are in; and
- **following through** in order to maintain a resilient life.

FREQUENTLY ASKED QUESTIONS

We know how important it is to look after ourselves, but why aren't we doing more about it?

Sometimes it is difficult to know where to start because there are so many messages out there. Small and regular changes to habits can have a positive impact over time. You don't need to go overboard, but remember to be patient and allow time to look after yourself.

Looking after yourself first doesn't mean you are less focused on your business. In fact, being healthy and looking after your wellbeing will mean you are more effective with your time and energy so you actually get more done in less time or achieve the goals you set out to.

Am I going to be perceived as weak if I work on building my emotional resilience?

No. You are more likely to be admired for focusing on this skill and with experience and over time you are likely to attract others who are managing adversity.

USEFUL RESOURCES

Beyondblue
(depression and anxiety)
1300 22 4636
www.beyondblue.org.au

Black Dog Institute
www.blackdoginstitute.org.au

Centre for Rural and Remote Mental Health
www.crrmh.com.au

Clinical Research Unit for Anxiety and Depression (CRUfAD)
02 8382 1408
www.crufad.com

Lifeline (crisis support and suicide prevention)
13 11 14
www.lifeline.org.au

National Centre for Farmer Health
www.farmerhealth.org.au

MORE INFORMATION

Dennis Hoiberg
Lessons Learnt Consulting
1300 365 119
or 0418 384 619
dennis.hoiberg@lessonslearntconsulting.com
www.lessonslearntconsulting.com

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P Level 4, 4 National Circuit, Barton ACT 2600 | PO Box 5367, Kingston ACT 2604
T 02 6166 4500 **F** 02 6166 4599 **E** grdc@grdc.com.au