2009 planning guide for farmers with limited finances

Grains Research & Development Corporation

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In early 2008, the 'GRDC 2008 Planning Guide for Low-Risk Farming' was distributed throughout south eastern Australia to help farmers work their way through a decision-making process that was intended to lead to the best possible outcomes for the 2008 cropping season.

However, since that booklet was released, another major drought has hit many of the cropping districts of southern Australia. This has meant that the financial and emotional fabric of many farms has been further eroded, in many cases to the point where survival is now the issue. These guidelines have been developed from the 2008 version but have been tailored specifically for those businesses which have very limited finances to fund a program for 2009. They 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 in 2009.

For those businesses with sufficient resources to carry on in 2009 with relative freedom to operate, the 2008 guidelines and options are still relevant, providing any financial data is updated to current levels.

These guidelines 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 **minimise 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 2009 prove to be a 'bumper' season, but financially constrained businesses simply can't afford the costs and risks of a full program.

Before you plan

It is important to realise before planning for next 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. Counselling 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 2009? 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 financial adviser to consider the options and work through them with your family. How do the various options fit your succession plan? There is assistance available 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? Should you consider an arrangement such as those offered by Glencore and AACL?

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

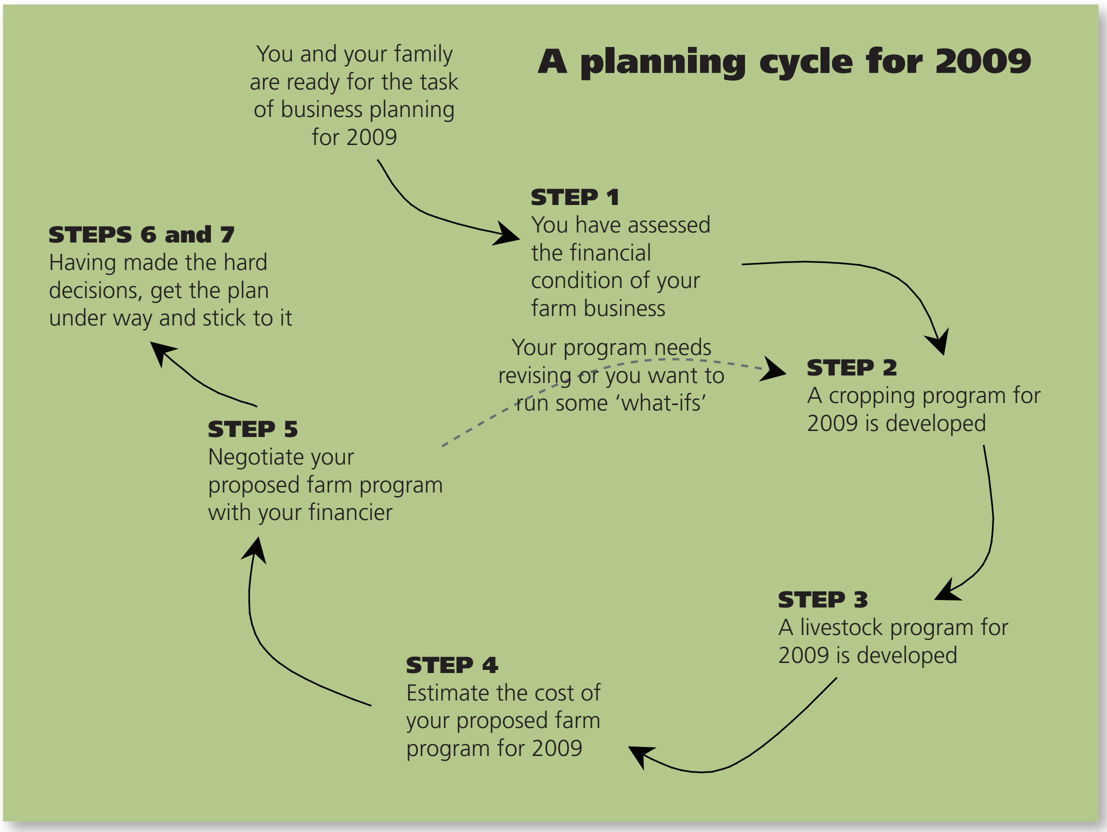
If you and your family are ready to plan your farm business for 2009, the following decision cycle and supporting notes will help you in that process.

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. It is unusual for any manager to get the program exactly right the first time around, especially in this era of rapidly-changing seasonal and financial conditions.

This guide to decision making concentrates on low cost/low risk options for farm businesses with little financial freedom to operate into 2009. 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.



Step by step

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

STEP 1. Work out 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.
  - Some of these financial services will be available for no cost, or at reduced rates, in EC-declared areas.
  - 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.
  - Most businesses will have commitments to repay borrowings. These should be clearly defined and all finance and repayment options discussed with the 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 in 2008. 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.

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. Plan your program so you get all the crop in as soon as rains allow. Late-sown crops are usually high-risk crops and there is no place for them in this strategy.
- A second essential is to check the germination of seed grain. With light seed weights from the 2008 harvest, germination might be low or variable.
- Group your cropping paddocks into three categories: definitely will seed, will seed with a good start, will not seed.
  - **Definitely will seed** (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 in 2009.

- should be the first seeded. Dry seeding some is a real option but avoid situations with variable moisture (re-seeding after poor establishment is expensive and untimely).
- should be seeded with high-value cereals (eg hard wheat, malting barley).
- should be monitored closely to avoid major yield-limiting constraints such as severe leaf diseases or nutrient deficiencies (N or trace elements most likely). Early interventions are usually the most effective and the cheapest.

◦ **Will seed with a good start to 2009** (average cropping paddocks; medium risk/ medium cost)

- These paddocks have one or two factors that will either increase the cost of production (eg low fertility, high weed or disease burden) or increase the risk of a good outcome (eg 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 seed 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 (eg 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 any more.
- A smaller cropping area will mean the entire seeding program will be more timely.
- Seed this category after the 'definite' paddocks to allow low-cost weed control options prior to seeding.
- Seeded these paddocks with cereals and manage them so they can be used for grazing or hay if necessary.

◦ **Will not seed** (difficult, high-risk cropping paddocks)

- These paddocks should be used to support the livestock enterprise.

- Control summer weeds only in paddocks to be cropped (ie, do not spray paddocks that will not be cropped.)
  - Do not spray early summer weeds in paddocks to be cropped unless trash flow is a critical issue. Summer weed control should be a higher priority on lighter soils than on heavy.
  - In late summer/autumn, 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 (eg, increase water rates, increase herbicide rate, switch to night spraying). Timely control is more important than perfect spraying conditions.
  - 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.
- 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 or in some cases leaving it off altogether.
  - One approach is to use no P 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 without P provided soil reserves are adequate. If there is any doubt about the available soil P reserves in a paddock or zone, soil test.
  - If you need to use P, apply it with the seed and use only enough for the 2009 crop.
  - With nitrogen, use only 0-10 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 (eg 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.
- **Long fallows**
  - Critically review the value of long fallows in 2009. Not fallowing next year may increase the risks of cropping in 2010 but will eliminate a cost that will return no income in 2009. Paddocks that were to be long-fallowed in 2009 may generate income in the form of extra grazing or a hay cut.

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.
- There is likely to be plenty of low-cost feed grain available in 2009 but it should be tested for nutritional value, particularly energy levels.

- Do a forward feed budget and ensure you have enough feed for existing stock until, say, 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 2009? If not:
  - nominate a paddock or two of cereal for grazing or hay.
  - secure more feed reserves early – preferably save your own.
  - improve infrastructure (fencing, watering) to allow more efficient grazing.
  - 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 (eg 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. However, if many people do it the profit margin will shrink. 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 in 2009.

STEP 4. Cost your proposed program

- Once you have established your work plan and stock 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.

STEP 5. Negotiate with your financier (eg bank) for funds to undertake your work plan.

- This is your major negotiation.
  - Do it early and be confident.
  - Go prepared with a commitment to make it all happen and information about:
    - the current financial status of your business.
    - a costed work plan for 2009.
    - some 'what-if' scenarios to demonstrate how the financier's investment will be protected if conditions change.

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 often more important than the product used.

STEP 7. Review your marketing options as the season progresses

- Make sure the marketing tools you use are the most appropriate. The goal is minimum risk, not maximum profit.
- Forward marketing transfers your price risk to the market but does not reduce your production risk.
- Committing more than 25% of your average crop tonnage before harvest can increase risk.
- Forward selling has little long-term benefit where yields are highly variable.
- 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. Storage can be done cheaply using facilities such as bunkers but care must be taken to ensure grain is kept free of insect pests.