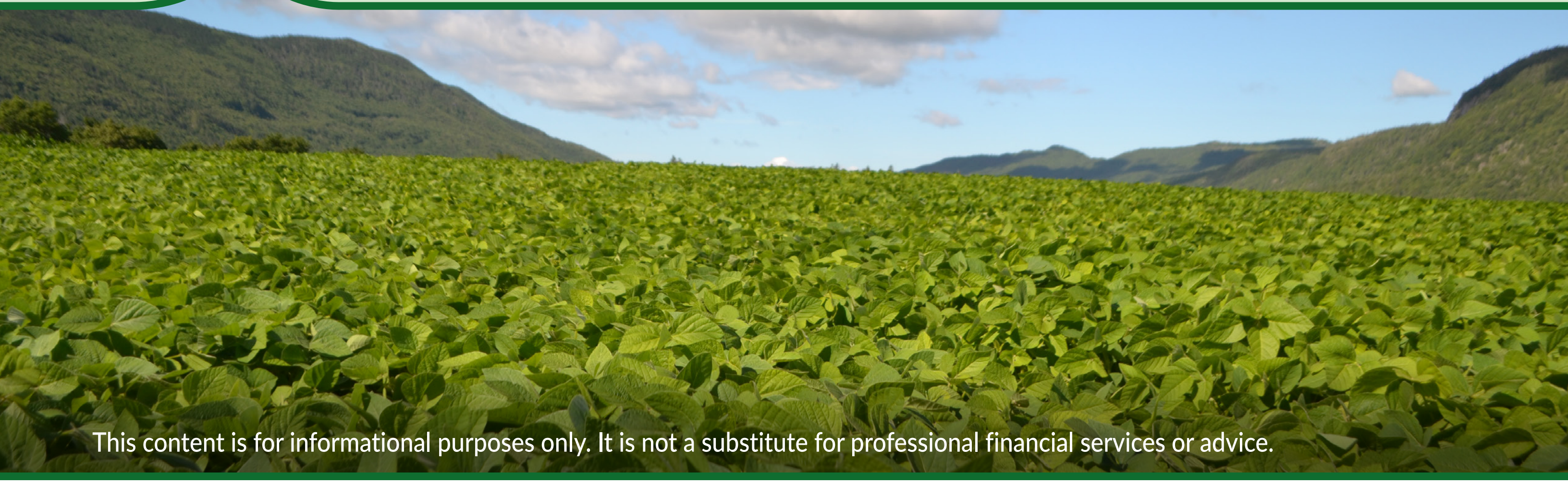
Farm Management Fact Sheet

Financial Contingency Planning



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Even when carefully monitoring a farm budget and business operations, there may come a time when cash flow, or liquidity, is negative and you can't meet your cash obligations within the set timeframe. It may be unexpected, and you may not know how long it will last. This uncertainty makes it important to have a **financial contingency plan** for times when your cash flow is in the red.

If cash flow is more outgoing than incoming (i.e. negative), you can take steps to improve liquidity. Here are some of the options, in order of expediency:

1. Use cash surpluses from previous years such as funds from your savings accounts, or sell off some financial assets like stocks or bonds.

2. Sell assets from working capital, such as livestock or crops. This should be a short-term solution, and inventories should be rebuilt when profit levels allow.

3. Access credit reserves or borrow funds to cover current expenses and long-term obligations through a credit line or low-interest loan. Lenders will limit how much debt you can accumulate.

4. Use equity from long-term assets such as land, buildings or machinery to refinance debts. Schedule payments over a longer period, rather than within one year, to help future cash flow. Lengthen the repayment period on term loans by refinancing a three-year payment plan to six years, payments will be cut nearly in half. The drawback to this is that you will have to pay more interest.

5. Put off making big purchases until cash flow improves. Do you really need a new tractor, or can you fix up the old one? Do you need to buy five replacement heifers this year, or can you purchase three and keep Bessie and Sue for one more year?

6. Shop around for better prices. Check with different insurance companies or suppliers to get the best rates possible. Make sure you are not comparing carrots to potatoes – check the specs before you commit.

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7. Use low-interest loans wherever possible. Ask your bank about the Canadian Agriculture Loans Act (CALA) for loan guarantees that may help improve repayment terms and interest rates.
8. Increase non-farm earnings. Working full- or part-time off-farm can bring in income and potentially reduce insurance/healthcare expenses. You can also use farm assets to perform outside services, such as renting out equipment or land, snow clearing, custom planting/harvesting, or mechanical repair.
9. Decrease non-operating expenses. Can you put off buying that new vehicle? Do you have to travel to meetings or can you take in a conference call instead?
10. Cancel or renegotiate leases. If you are renting land or buildings, you may consider finding alternative agreements, such as custom farming, crop-share arrangements, or flexible cash renting.
11. Identify which assets are less productive and sell them. Use partial budgeting to identify which assets will have the least negative impacts on total profits. If you decide to lease less land, perhaps you can downsize equipment as well.
12. Form partnerships or cooperatives to jointly purchase equipment, or trade equipment and labour with other producers. Be sure to have arrangements in place ahead of time to reduce conflicts when competing priorities arise.
13. If selling off assets results in a large taxable income, check with your accountant to see if averaging income might reduce your tax liability.
14. Lease assets instead of buying. Lease payments are usually lower than loan payments; look into selling assets and leasing them back to increase cash flow without downsizing. This could be for land, equipment, or even livestock.
15. Seek outside resources. You may ask personal contacts for emergency financing, or low rate/free use of buildings and assets. You may also be able to sell shares of your business to non-farm investors.

Rising costs and volatile prices affect all Newfoundland and Labrador farming operations. These options should not be substitutes for operating a profitable farm, but they may help get you through tough times. You may even have to make hard decisions that are not profitable in the long-term to cover short-term obligations. Depending on your case, any of these options may help continue operating until profits increase.

Financial stress can be tough on you and your family. Be sure to talk to qualified advisors and do not be afraid to ask for help.

Adapted from: https://www.extension.iastate.edu/agdm/wholefarm/html/c3-58.html

The Agriculture and Lands Branch of the Department of Fisheries, Forestry and Agriculture offers resources to assist with farm management, including short courses, consultations, publications, and financial assistance for eligible applicants.

For more information, please contact the Agriculture Business Development Division Farm Management Specialist in your area.

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Business risk management programs (BRM) are critical for agriculture businesses to mitigate risk from adverse weather, climate change, and dynamic market conditions. For more information on how BRM programs can be implemented into your financial contingency planning, please refer to the BRM factsheet or contact the Agriculture Business Development Division Farm Management Specialist in your area.

Newfoundland & Labrador