

Financial Planning




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Today's Objectives



- To understand the concept of business planning
- To learn about records that will help in business planning
- To find out where to get information to help plan
- To understand how to prepare a farm budget

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‘Success comes as a result of planning’



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Why plan?



- The process of planning helps you to:
 - Assess and manage risk
 - Identify resource implications
 - Provides a framework for day to day decision making
 - Helps everyone in your business pull together in the same direction (provided that they are informed of the plan!)
- Operators manual for the business



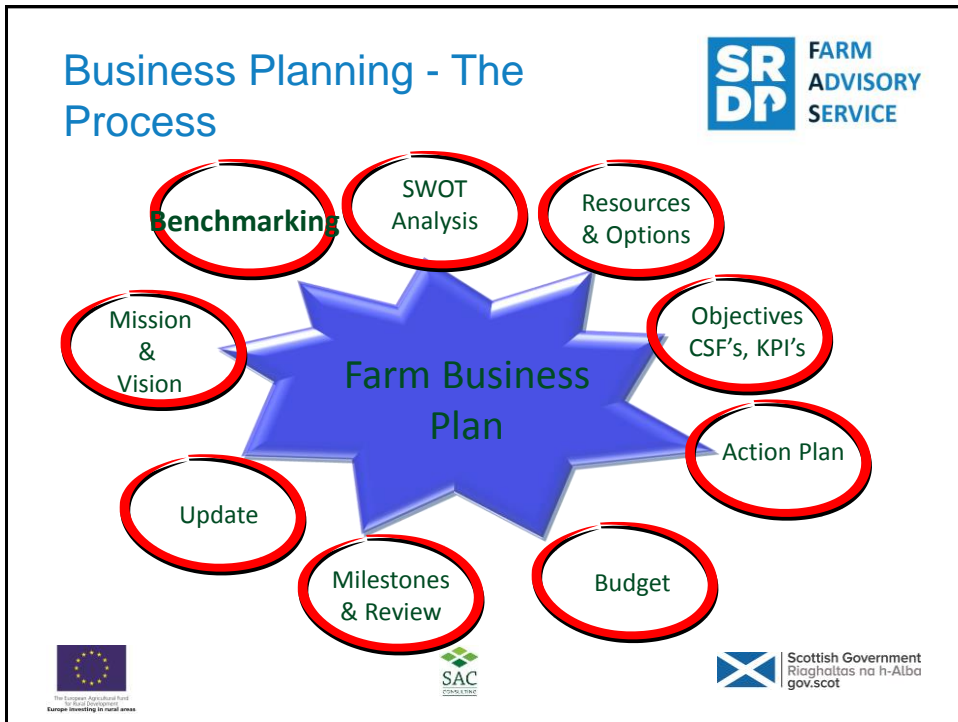
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Benchmarking

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- How do we become top performers?
 - Work out where you are now and where you want to be – what is the gap
 - Measure everything
 - Pay attention to detail
 - Keep things consistent
- See how small improvements in a number of areas can add up to a substantially more profitable enterprise – 1% here, 1% there

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Benchmarking



- Analysis of:
 - Profit and Loss Account
 - Balance Sheet
 - Cash Need
 - Technical performance

- Benchmarking tools
 - Gross Output Analysis
 - Comparative Analysis
 - Enterprise and technical performance analysis



Profit and Loss Account



Profit and Loss Account



Gross Output
(sales adjusted for purchases and valuations and other income)

-

Variable Costs
(feed, fertiliser, seed, vet/med, other crop and livestock costs)

=

Gross Margin

-

Fixed Costs
(labour, power and machinery, overheads, depreciation, rent and finance)

=

Net Profit (Loss)



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Balance Sheet



Assets

Liabilities



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Balance Sheet

Assets










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Liabilities











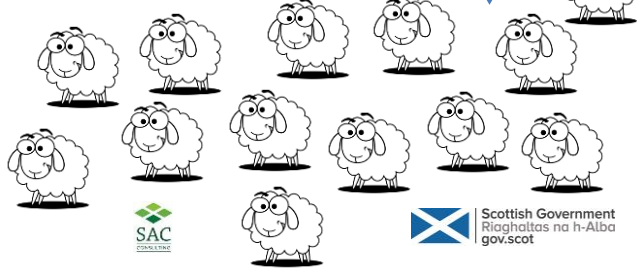

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Cash and Capital







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Cash and Capital



- Provision of a livelihood for persons involved in the business
- Maintenance of business assets and infrastructure in good working order
- Sufficient growth to enable survival in the long term



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Equity Ratio (% Owned)



- Medium to long term view
- Best and most commonly quoted

$$\text{Owner Equity (\%)} = \frac{\text{Net Worth}}{\text{Total Assets}} \times 100$$

- “Safe” Levels

- Owner Occupier > 70%
- Tenant > 50%



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What records do you keep?



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What records do you keep?



- IACS - Single Application Form (SAF)
- Nitrate Vulnerable Zone (NVZ) records
- Livestock movement records
- Spray records
- Purchase and disposal of veterinary medicines
- Livestock medicine records (incl. dog)
- Sheep annual inventory
- Agricultural survey and census returns
- HMRC - business annual taxation accounts, personal tax returns, VAT returns
- Employment - national insurance (NI), pay as you earn (PAYE), pensions
- Insurance - personal, employers, public
- Health and safety
- Quality assurance
- Animal health plan
- Nutrient management plan
- Farm waste management plan
- Crop records
- Pest control
- Livestock breeding records
- Calving and lambing records
- Livestock/crop performance records
- Livestock reconciliations
- Livestock feed use records
- Machinery records
- Training records
- Property repairs inventory
- SEPA licences e.g. sheep dipping, waste disposal, water abstraction/irrigation
- Enterprise financial records
- Complaints record
- Biosecurity plan
- Risk assessments
- Emergency contacts



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Benchmarking information



- Farm Management Handbooks – SACC, ABC, John Nix, Farm Office H'book, Organic Farm H'book
- QMS - <http://www.qmscotland.co.uk/publications>
- SG - <http://www.gov.scot/Topics/Statistics/Browse/Agriculture-Fisheries/Publications>
- Fertbench - <http://www.fertbench.com/>
- SAHPS - <https://www.sahps.co.uk/>
- BES - <https://www.ruralpayments.org/publicsite/futures/topics/all-schemes/beef-efficiency-scheme/>
- FAS - <https://www.fas.scot/>
- Yourself!
- The competition!



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How do you benchmark?



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LFA upland ewe flocks – financial performance measures




	Bottom Third	Average	Top Third
Number in sample	11	33	11
Flock size	575	525	458
£ per ewe			
Lamb sales	91.44	101.29	115.76
Wool	3.37	2.90	2.79
Gross Output	94.81	104.19	118.54
Less replacement costs	14.17	13.10	11.24
Net Output	80.63	91.09	107.30
Variable Costs			
Purchased concentrates	11.81	10.75	12.00
Home-grown concentrates	0.30	0.27	0.29
Other feeds	3.84	2.11	1.34
Forage	7.81	8.19	7.89
Total feed and forage	23.76	21.32	21.51
Veterinary	8.72	8.97	8.54
Bedding	0.81	1.02	0.65
Other costs	9.50	8.62	8.68
Total Variable Costs	42.79	39.94	39.38
Gross Margin	37.84	51.16	67.92
Fixed Costs			
Labour	10.79	9.65	8.17
Contractors	3.59	4.69	4.39
Power and machinery	9.83	9.79	10.48
Property maintenance and rent	11.61	10.44	9.97
Depreciation	11.17	9.06	6.71
Finance	2.11	2.16	4.05
Administration	3.33	3.33	3.69
Total Fixed Costs	52.43	49.11	47.46
Net Margin	(-)14.58	2.04	20.46
Flock replacements – Pence per kg lamb produced	25	22	17
Variable cost – Pence per kg lamb produced	75	66	60
Fixed cost – Pence per kg lamb produced	62	81	73
Unpaid family labour hours	1hr 20min	1hr 10min	1hr 5min

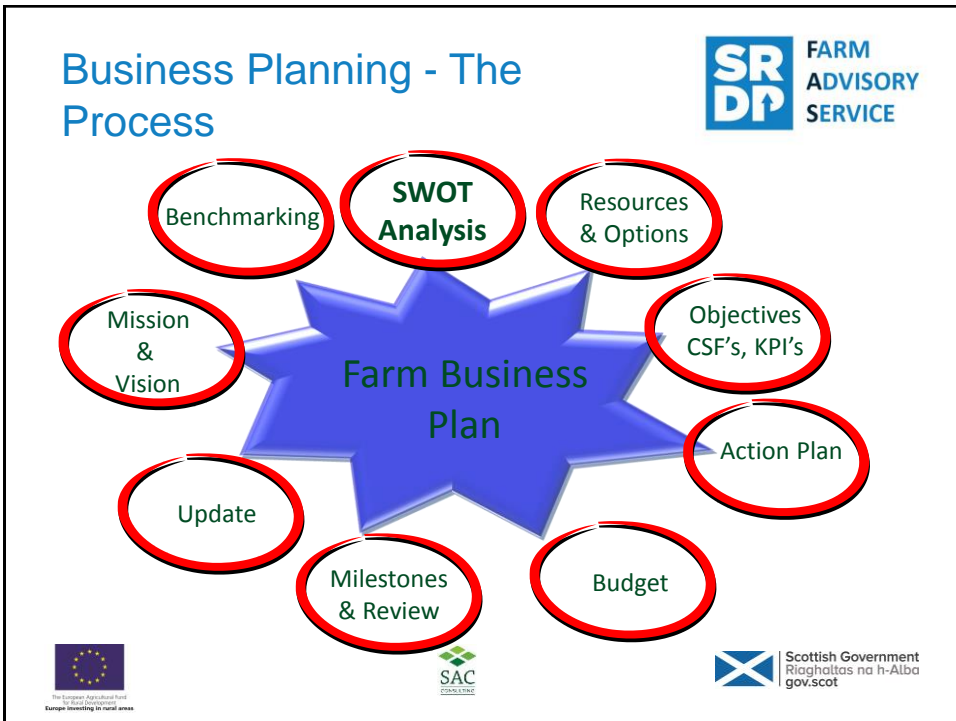


LFA upland ewe flocks – technical performance

	Bottom Third	Average	Top Third
Ewes per ram	28	32	33
Ewe mortality %	5.2	5.2	4.5
Ewe replacement rate %	24.3	22.9	16.1
Lambs born dead or alive per 100 ewes	160	160	174
Lamb mortality (inc. born dead) %	19	20	15
Lambs reared per 100 ewes	141	149	159
Average weight of lambs – kg	40.56	40.56	40.98
Weight of lamb produced per ewes – kg	57.27	60.44	65.07
Purchased concentrates – kg/ewe	44	47	65
Home-grown concentrates – kg/ewe	2	2	2
Lambs sold finished per 100 ewes	90	106	128
Value per lamb – £/head	67.19	67.59	69.91
Lambs sold/transferred store per 100 ewes	34	21	3
Value per lamb – £/head	51.90	53.93	55.57
Lambs sold/transferred for breeding per 100 ewes	17	22	28
Value per lamb – £/head	79.20	82.58	87.03
CO ₂ kg/net lwt kg produced	13.7	12.7	11.5

Source: QMS Cattle and Sheep Enterprise Profitability in Scotland 2016 Edition



SWOT Analysis








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SWOT Analysis






Understanding and identifying:

Strengths	Weaknesses
Opportunities	Threats

Why?

- Helps to focus on areas where you are strong and where greatest opportunities lie while making you aware of weaknesses and threat helping you to work towards minimising these.

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Objectives

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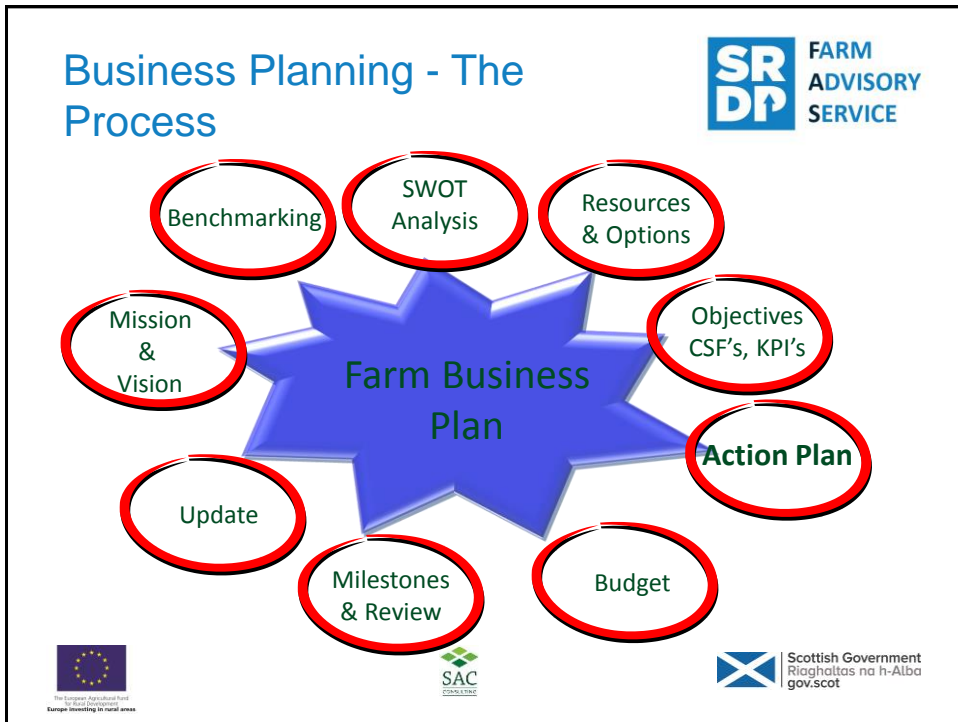
- Precise descriptions of what is expected to be achieved
 - Focus on improvement
- Stated in terms of outcomes and results
 - SMART
- Established early on in the planning phase
 - Milestones

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Action plans

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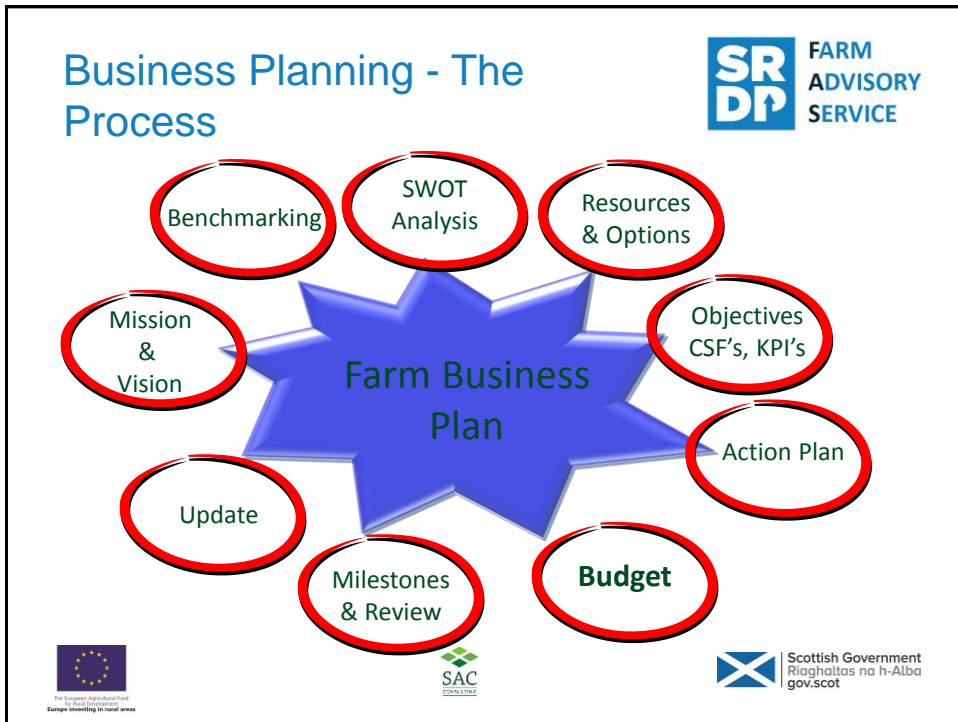
- A good way to identify and plan the actions you want to take
- Committing to paper makes it more likely that you will carry them through
- Main points
 - Identify issue
 - What do you aim to do
 - How are you going to do it
 - Who is involved
 - When are you going to do it
 - Progress/Monitor

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Budgeting Principles

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- **Partial Budget: Options Appraisal**
 - Examine the impact of relatively minor/straightforward changes
- **Established Year Budget: Gross Margin Based**
 - Estimate the future financial performance of a system and check out 'what if' scenarios
- **Annual Budget: Cashflow Based**
 - Detailed projection of future profit, cash and capital situation

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Partial Budget: Options Appraisal



- A rough, quick form of analysis to assess viability
- The Net effect will be:

sum of the positive economic effects
(additional income + costs saved)

-

sum of the negative economic effects
(revenue forgone + additional costs)



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Positive Effects		Negative Effects	
Extra Revenue		Revenue Forgone	
	£		£
	£		£
	£		£
	£		£
	£		£
Costs Saved		Extra Costs	
	£		£
	£		£
	£		£
	£		£
	£		£
Total Gains		Total Losses	
	£		£
Extra Benefit	£	Extra Loss	£

Partial Budget - Exercise




- 10 lambs – direct marketing lambs versus selling them at the market







Adding value to sheep production



Positive Effects		Negative Effects	
Extra Revenue		Revenue Forgone	
	£ 0		£ 0
Total Extra Revenue	£ 0	Total Revenue Forgone	£ 0
Costs Saved		Extra Costs	
	£ 0		£ 0
	£ 0		£ 0
	£ 0		£ 0
Total Costs Saved	£ 0	Total Extra Costs	£ 0
Total Gains (positives)	£ 0	Total Losses (negatives)	£ 0
Extra Benefit	£ 0	Extra Loss	£ 0

Adding value to sheep production



Positive Effects		Negative Effects	
Extra Revenue		Revenue Forgone	
10 butchered lambs sold direct to customers 18kg smy @ £8/kg	£ 1,440	10 finished lambs sold at mart 42kg lwt @ £1.67/kg (average)	£ 700
Total Extra Revenue	£ 1,440	Total Revenue Forgone	£ 700
Costs Saved		Extra Costs	
Mart comm 10 lambs @ £3/hd	£ 30	Killing 10 lambs @ £15/hd	£ 150
	£ 0	Butchering 10 lambs @ £30/hd	£ 300
	£ 0	Labour 0.5hr/lamb @ £10/hr	£ 50
Total Costs Saved	£ 30	Total Extra Costs	£ 500
Total Gains (positives)	£ 1,470	Total Losses (negatives)	£ 1,200
Extra Benefit	£ 270	Extra Loss	£ 0



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Building a shed vs Outwintering 100 cows



Positive Effects		Negative Effects	
Extra Revenue		Revenue Forgone	
FYM 800t @ £9.62/t	£ 7,696		£ 0
Total Extra Revenue	£ 7,696	Total Revenue Forgone	£ 0
Costs Saved		Extra Costs	
Labour and machinery 288 hours @ £25/hr	£ 7,200	Loan repayment on £120k @ 5% interest over 20 years	£ 9,600
	£ 0	Bedding 125t @ £85/t	£ 10,625
Total Costs Saved	£ 7,200	Total Extra Costs	£ 20,225
Total Gains (positives)	£ 14,896	Total Losses (negatives)	£ 20,225
Extra Benefit	£ 0	Extra Loss	£ 5,329



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Is it worth the effort?



- Financial impacts:
 - Bank lending restrictions
 - Interest rate changes
 - Taxation
 - Balance sheet

- Non financial impacts:
 - Weather
 - Disease
 - Market
 - Labour
 - Workload
 - Family
 - Timescale



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Business Planning - Summary



- Important to:
 - have focus
 - be realistic
 - know where you are now
 - identify what you do well
 - highlight what you can change/improve
 - know your limitations
 - know what you have
 - identify what you want to do
 - plan how you are going to do it
 - assess if what you want to do has potential
 - review if are achieving what you set out to do



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How does the Farm Advisory Service help smallholders?



- Grants
 - ILMPs, specialist advice, mentoring for new entrants, carbon audits
- Events and publications
 - Workshops, training, conferences, FMH, TNs, newsletters, guidance, reports
- Crofts and small farms
 - subscription service

National Advice Hub
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E: advice@fas.scot
W: www.fas.scot



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Crofts & Small Farms Advisory Service



- Crofts & Small Farms (<30ha)
- Annual subscription costs £69 + VAT (£82.80) including:
 - 2 hours advice
 - technical notes
 - newsletter
 - meetings/demonstrations
 - farm text



- <https://www.fas.scot/crofters-small-farms/>



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Take home messages



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Thank You



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