

# Recovering from Drought

## Business and financial management considerations

Recovering from drought is a challenging period, particularly as many businesses find themselves in a tight financial position. The cash crisis after drought will come with the need to rebuild your business while continuing to service debt and other cash flow demands. Proactive financial and business planning during this time will ensure your business is in the best position to return to a positive cash flow and profitable operation as quickly as possible.

This document has been prepared to help producers make informed decisions on how to effectively manage their business through the drought recovery phase. It is not designed to provide a comprehensive analysis of all financial and business management options but provide a first look at actions producers should consider when planning for recovery. Producers should always seek further advice relevant to their situation from an authorised financial advisor.

### Understanding your financial position

When the drought breaks it is important that you take stock of your financial position to better identify your short and long term business structure and borrowing needs (how much and how long). Having this information readily available will also help negotiations with your creditor.

### Cash flow projections

One of the first steps is to develop a cash flow projection and debt servicing plan for the next few years - at least up until you have restocked or replanted and are again producing the commodity that is most profitable. Your cash flow projection should take into consideration income, expenses and fixed costs, as well as variable costs.

- *Income*: don't use averages – average seasons don't exist. Include two or three bad years in a five to eight year period. Have realistic expectations. Use past records (compare past yields with rainfall, use 100 year rainfall records). Work from a current crop and/or livestock business plan.
- *Expenses and fixed costs*: work from past records on things like rates, power, phone, allowing for any changes that you may be aware of. Cross-check with the previous year's financial statement (tax records).
- *Variable costs*: work from your income plan, relating your costs to your planned crop program and/or livestock numbers. Research major items like fertiliser or fuel costs – ask suppliers for latest prices, expected price movements etc. Make sure that you have not used the absolute bare minimum input costs, but those that are required to meet production targets.

## Improving cash flow

When you meet with your creditors, consider what options you may have to improve short-term cash flow.

- Discuss ways of restructuring or refinancing your debts so that you pay less interest.
- Negotiate for better payment terms. If they aren't willing to budge be prepared to shop around for a better deal.
- Defer or pay bills in instalments (e.g. rates, electricity, phone, registrations) where possible. Just make sure you find out what interest is being charged and at what rate.
- Investigate different forms of post-drought financial assistance (grants, loans, subsidies) that are relevant to your location or industry.
- Consider sourcing off-farm income by taking advantage of existing skills and/or qualifications
- Re-evaluate your need for non-essential capital items. Consider selling (watch out for capital gains) or contract them out.
- Consider selling off-farm investments that aren't generating income.

## Other options:

If your equity has declined to a point where your chances of recovery are marginal and your medium term cash flow projection doesn't allow servicing of debts and living expenses, it may be time to consider selling in order to preserve the equity you still have. While this may be a difficult decision to make, it is a decision that is best made early.

Rural financial counsellors and agribusiness consultants can assist you in navigating your options; whether that be selling your property, if you are facing bankruptcy or receivership or you require farm debt mediation services.

## What are the banks looking for?

No matter how challenging your current financial situation is, developing a good working relationship and communicating regularly with your bank is critical for positive future dealings and discussions.

- Banks have extensive experience reviewing financial data and understand the impact of drought on rural business, so make sure that any cash flow forecasts you provide are realistic. Be open and transparent with your bank – burying your head in the sand may be detrimental to future negotiations.
- Regular communication is key. Make contact with your bank to report changes to your business and financial situation – good or bad. It is better to communicate bad, but real news to your bank manager than avoiding the conversation and have the bank chase you. The information you provide, or lack thereof, can be recorded in your file for future reference.
- Make sure your tax records are up to date. If your current income tax return is not yet available, make sure your bookkeeping records enable you to provide your income and expenses for the current financial year.
- Most banks are very supportive during droughts or other natural disasters; however you need to remember that they are bound by legislative requirements and in some cases will be unable to support a proposal or lending request. If you find the bank is not supportive of your proposal, seek clarification on why, and work with you bank manager to see if you can negotiate an outcome.

## Developing a business plan

Having a well thought out business plan is critical if you are seeking finance for your business. The business plan is the “who, what, where, when and why” of your business and will help banks determine if they should invest in your business.

When compiling your business plan, assume that the person reading it has never met you before and has no idea of how capable you are at running your own business or what you may have invested in your business to improve it. This is your opportunity to sell it to them!

Your business plan should include:

- Description of your core business, its activities and history
- Who is involved in your business and what experience they bring to the rural industry
- Goals you have for your business – whether this be expansion, downsizing, selling to retire, succession planning etc.
- What business risk plans you have in place.

If you need support to develop your business plan, there are resources such as the Rural Financial Counselling Service who are able to assist free of charge if you meet their eligibility criteria.

## Planning for the next dry

The one guarantee with drought, is that this will not be the last one. Forward planning in preparation for the next drought may help reduce the adverse impacts and improve the resilience of the business into the future.

- Make time to document your experiences from the drought. Memories are short, and documenting your learnings will help focus and refine business management plans in future drought events.
- Your business plan is a living document – make sure you review and update it regularly.
- While the immediate focus during the drought recovery phase is on generating short-term cash flow, including plans for the medium to long term that will help prepare your business for the next drought. *For example:* do I need to improve my water infrastructure, is there a better business structure that is more profitable and better suited to my land type (e.g. consider herd structure, age of turnoff, crop rotation/selection, enterprise mix).
- If your planned activities requires funding, review your cash flow forecasts to determine the best opportunity to undertake these activities and discuss with your bank manager well in advance of when you intend to commence the activities. What is your fall back plan if funding is declined?
- If conditions change for the worse again, communicate with your bank manager early. Banks are able to offer hardship provisions in particular circumstances to help producers through drought.

## Additional Resources & Support

**Queensland Rural and Industry Development Authority ([www.qrida.qld.gov.au](http://www.qrida.qld.gov.au))** - Grants, Subsidies, Low Interest Rate loans

**Regional Investment Corporation ([www.ric.gov.au](http://www.ric.gov.au))**

**Rural Financial Counselling Service ([www.rfcssq.org.au](http://www.rfcssq.org.au))** – Provides free, impartial, confidential rural financial counselling services across Queensland for eligible farmers who are experiencing financial hardship



### **Industry specific support:**

#### **Forward projection models & gross margins:**

Breedcow & Dynama Software – [www.futurebeef.com.au](http://www.futurebeef.com.au)

Gross margins for broad acre & horticulture crops – [www.agmargins.net.au](http://www.agmargins.net.au)