



# MEETING THE CHALLENGES

## Key points for getting through droughts



### INTRODUCTION

The current drought is not the first, nor will it be the last to hit the farmers and growers of New Zealand. While droughts affect every farmer and grower directly, some survive, recover and prosper better and more quickly than others. Over the years, much has been written about why this may be so. It seems timely to revisit the lessons learnt from past droughts in New Zealand so that the farming industry and support services can collectively get through the current situation and recover when conditions improve.

This pamphlet outlines the key factors that contribute to improving the strength and sustainability of the recovery of farming businesses from droughts. Information is provided on the types of assistance available and where to go to get help.

### CONTACTS FOR INFORMATION AND ADVICE

**FEDERATED FARMERS** 0800 376 844

**RURAL SUPPORT TRUSTS**  
General Enquiries 0800 787 254

**WORK AND INCOME**  
Welfare Support 0800 559 009

**INLAND REVENUE**  
Taxation Matters 0800 227 774

**LIFELINE**  
Counselling 0800 543 354

### OTHER INFORMATION SOURCES

[www.mpi.govt.nz/environment-natural-resources/funding-programmes/primary-sector-recovery/droughts.aspx](http://www.mpi.govt.nz/environment-natural-resources/funding-programmes/primary-sector-recovery/droughts.aspx)

[www.beeflambnz.com/farm/tools-resources/dry-management-toolkit/](http://www.beeflambnz.com/farm/tools-resources/dry-management-toolkit/)

[www.dairynz.co.nz/drysummer](http://www.dairynz.co.nz/drysummer)

[www.irrigationnz.co.nz](http://www.irrigationnz.co.nz)

[www.mpi.govt.nz](http://www.mpi.govt.nz)

# LESSONS FROM PAST DROUGHTS

## BUSINESS MANAGEMENT

### Make decisions and set dates to implement decisions early

The key factor which separates high income earners from the rest is the ability to make timely decisions. Every farmer should have at least an informal response plan in their head even if it is as simple as a series of planned steps. Some decisions may turn out to be wrong, but more will be right. On top of that, recognition of a wrong decision will often reveal an opportunity.

For example, quitting stock just before rain falls may be viewed as a wrong choice (although it was the right one to make at the time), but one which could open a raft of opportunities, such as buying in trading stock, taking on grazers, allowing pastures to recover, and improving the performance of the remaining stock.

### What to carry over the next 6 months

It is a waste to feed stock for a period then decide that some have to go. They are likely to be worth less and in the meantime have consumed feed that would have carried forward for higher earning capital stock. Matching feed demand with cash and feed supply, while maintaining flexibility, is a characteristic planning exercise of strong businesses. Making early decisions is more likely to result in better "per-head" performance and better profit. Making decisions when being forced to by circumstances (when no choices remain and buyers are not looking for stock) can result in a poor financial outcome.

### Update and revise plans regularly

Circumstances will change and so must the plan. The important thing is there is a plan and decisions are made from the best assessment of events at the time. As conditions get tougher, reviews should be more frequent. It is also very important to keep up to date with book work. If book work is a "wet-day" job, ensure time is made despite the lack of wet days.

## ANIMAL WELFARE

The responsibility for ensuring the health and welfare of animals rests with the owner or the person in charge. Farmers are urged to seek advice to ensure they meet the welfare needs of their stock. Advice is available from Federated Farmers, vets, stock and feed agents and farm advisers.

When sending stock to slaughter or sale yards they must be in a fit state to travel – the animal must be able to walk up and down a loading ramp both before and after transport. If upon arrival at a slaughter plant animals are unable to walk off the truck or show evidence of a low body condition score they may be condemned in the yards, leaving the owner or person in charge open to prosecution. Animals that do not meet these criteria should be humanely destroyed on the farm rather than be subjected to additional pain or distress of transport.

To report an animal welfare issue or make a complaint call **0800 008 333**

### Restocking and future income

Immediately rebuilding stock numbers when everyone else is doing the same will inevitably raise stock prices. Identify and explore other suitable options. For example, if stock prices are so high there is no profit for the coming year, an option may be to put the equivalent funds into a term investment and bring in grazers, make hay, or grow crop, for example. Perhaps there are some non-farming options for the short term which are more profitable than buying stock at temporarily inflated prices. Some farmers may have the option of selling woodlots or farm plantations if they are close to maturity. This can smooth farm income and assist in rebuilding capital stock.

### Focus on profitability

Successful farmers, like other business operators, only have a few irons in the fire which are profitable and well-managed in their own right. The best option may be to exit any enterprises which are not. Concentrate on tax-paid cash, not on how much tax is paid. Look after your most profitable enterprise first and be prepared to sell the least profitable ones.

### Cut losses quickly

Businesses will individually have a point at which it is better to cut losses and sell stock rather than continue buying feed. It is likely that strong businesses determine this point during the earliest stages of a drought and before any feed is bought.

## FARM MANAGEMENT

### Drought indicator

Whilst droughts are difficult to predict, some farmers decide that a drought is occurring by identifying a specific indicator, for example, dry winter or spring, drop in spring pasture, or moisture status at a particular date.

### Feed budgeting

The balancing of livestock feed requirements with pasture availability is the basis of profitable pastoral farming. Successful farmers use feed budgeting to plan 2 to 6 months ahead, providing advance warning of feed deficits and identifying trigger points for de-stocking.

### Prioritise stock classes for de-stocking early

This is part of the plan, so farmers know in advance which stock will go when a trigger point is reached. For example, the order for many sheep farmers has been wether lambs, aged ewes, ewe lambs, ewe hoggets, mixed aged ewes, and finally two-tooths. The use of technology may help make this decision, for example, pregnancy scanning will allow removal of dry stock, and separation for reduced feeding of single-bearing sheep.



### Sell stock early

In previous droughts, high income earners have preferred to sell stock rather than buying in feed or grazing-off. A study showed 65 percent of above average farmers surveyed sold capital ewes which in normal circumstances would not be sold. They prioritise, plan sales and carry them out at predetermined dates, always matching feed demand to supply to maximise profit.

### Feed stock as well as possible

Concentrate on per-head performance to maximise profit in the medium term. The best stock, fed well, will produce better offspring, giving better growth rates of both trading and replacement stock, and therefore better future reproductive potential.

### Focus on maximising income rather than reducing costs

The scope to improve profitability by reducing costs is limited as most farm costs are fixed. With good planning and management, the small amount of money available during difficult times can be targeted to achieve the best return on each dollar spent. The result is a series of small improvements at low risk which together, over time, add up to a significant improvement. Top farmers spend relatively more on productive inputs, such as fertiliser, animal health, and weed and pest control.

### Use irrigation water efficiently and profitably

Where irrigation is used, make sure irrigation performance is top notch, use soil moisture budgeting and allocate water to the most profitable enterprise. Irrigate in the morning or evening to get the most out of the water applied and to prevent irrigation worsening sun damage. Keep irrigation systems up to date with maintenance and ensure intake pipes/pumps are clear of debris. Plan for the consequences of consent restrictions being imposed.

## TAX MANAGEMENT

The following advice comes from Andrew Vallance, Chartered Accountant, Roseingrave & Vallance Ltd, Masterton.

1. Do a reasonably accurate work-out of the operating cash result for the year. If this is too hard, write down what has changed – i.e. lamb price down \$10, sold an extra 500 lambs, for example.
2. Do a budget for the next financial year based on status quo, or get help from your accountant or advisers to do this.
3. Provisional tax can always be estimated up to the due date for the final instalment, and after that an early filed tax return will help.
4. Income equalisation deposits (generally using the main scheme) will allow farmers considerable flexibility in managing their tax affairs, particularly if Inland Revenue generically exercises its discretions. However, farmers can always, by specific application, ask for a discretion to be exercised on a taxpayer by taxpayer basis.

## MAKE DECISIONS FOR THE RIGHT REASONS

Decisions on the sale of livestock should be made for animal welfare and farm profitability reasons first and foremost. Talk to your accountant if you have any concerns about the tax implications from forced livestock sales.

5. Taxpayers in financial hardship can make arrangements with Inland Revenue to rearrange their taxation liabilities.
6. Talk to your accountant as early as possible to ensure that the various options which might suit you have been considered.
7. It's important to have a good grasp of what your true profits are. Tax is a secondary issue.
8. Many of you with dependent children will become eligible for family assistance, and can apply for fortnightly payments if you produce an estimate of the "family income" for the tax year.

## BUFFERING BUSINESSES FOR THE FUTURE

These steps cannot be taken immediately, but are important facts to examine with advisers and partners during times of relatively less stress so you are prepared for the next challenge.

### Financial buffer

Aim to establish a financial buffer of 10–20 percent of Gross Farm Income (GFI), once debt servicing has come down below 20 percent of GFI. Remove this buffer from working capital into, for example, a term deposit – this forces better cash-flow management.

### Type of business

Good business people recognise the separation between property investment, food and fibre production, and lifestyle, and weigh up the returns to each activity separately when making long-term strategic decisions on what business they should be in.



## HUMAN FACTORS

While drought affects the whole family no two people are the same and we all have different strengths at different levels. Studies show people who work on developing their strengths in the following factors tend to improve their overall performance.

**MOTIVATION AND DETERMINATION:** This is the key common factor found in studies of successful farmers. Do not lose interest during hard times – minimise losses and look forward to positioning yourself to take advantage of the good times with positive thinking.

**DECISION-MAKING SKILLS:** Develop an ability to plan, decide on which steps to take and stick with your plan while constantly updating it. This differs from continually changing your mind as circumstances dictate.

**RECORD, MONITOR, PRIORITISE:** Take pride in keeping useful records, focus on high impact priorities and look for continual small improvements.

**GRACIOUS WITH PEOPLE, RUTHLESS WITH MONEY:** Remember the people around you including partners and children can also be affected by the situation.

### SPOUSE/PARTNER CLOSELY INVOLVED IN DECISION-MAKING, CONSULTATION AND PLANNING

**A PROBLEM SHARED IS A PROBLEM HALVED:** Talk with friends, neighbours, Rural Support people, bankers, advisers, discussion groups, Federated Farmers, community support networks or anybody prepared to listen.

**SEEKERS OF INFORMATION:** High earners recognise it is what you learn after you know it all that counts. Listen to top advice, then make up your own mind whether to follow it.

**WORK HARD AND SMART:** Recognise that planning, discipline and goal setting are just as important as hard work.

**LOOK AFTER YOURSELF:** Make shade available and take extra breaks when doing physical work. Schedule any jobs requiring heavy protective gear for the cooler parts of the day.

## COMMON SIGNS OF STRESS

Some of these signs may be part of normal behaviour and even personality. We are the best people to identify changes relating to stress in ourselves, our friends, family members and neighbours. Keep an eye out for each other, we are in this together.

Angry outbursts	Increased smoking
Inflexibility	Lacking energy
Working long hours	Depressed
Impatience	Feeling hopeless
Physical complaints	Excessive denial
Fall off in communication	Making light of the problems
Neglect of physical appearance	Family problems
Overeating	Kids excessively naughty
	Spouse angry and tearful

## Warning bells

The following points have been identified as signs all is not well in a particular situation, whether there is a drought or not. If you can spot the warning signs then you can make changes before the worst happens – the old adage is true: A fence at the top of the cliff is better than an ambulance at the bottom of the cliff. The issues can then be addressed before the problems become unmanageable.

Signals and behaviour signs which farmers and farm families should recognise as warnings:

- » Less than total frankness with family and financiers.
- » Peak overdraft greater than 30% of GFI over several years.
- » Personal expenses always greater than 45% of net farm income.
- » Plant purchases always on hire purchase.
- » Debt servicing ratio climbing slowly but steadily.
- » Interest and/or rent payments greater than 30% of GFI.
- » Ratio of farm working expenses to GFI out of balance for number of years.
- » Tendency to spend on unproductive assets, such as cars or a house.
- » GFI to market value of plant (including car) is two or less, indicating too much of income is needed to replace plant.
- » Tendency to lack job satisfaction.
- » Not matching a structural problem with a structural solution.

Behaviour signs which friends, neighbours, and support people could recognise:

- » As stress mounts, withdrawal and a reluctance to plan medium to long-term is common.
- » Along with low job satisfaction, decision-making virtually stops.
- » Behavioural changes among children at school.

## HELP FOR AFFECTED FARMERS

Financial assistance may be available through Work and Income for farmers and farm workers suffering financial hardship as a result of the drought. The amount of money people may receive will depend on their circumstances. Generally assistance may take the form of payments for food, accommodation and other essential living expenses.

Assistance may include:

- » Special Needs Grants
- » Unemployment Benefit
- » Job Search Support
- » Access to Counselling Services
- » Rural Assistance Payments

Call **0800 559 009** to find out how Work and Income can help.