

# Cash Flow and Financial Management on Dairy Farms

***Volatile market conditions combined with unfavourable weather can ruin plans on Dairy farms. These have major implications for cash flow.***

## Recommendations:

**Act early**, even the best farmer's plans and schedules are in need of adjustments. Delays will cause the situation to deteriorate and cause extra stress.

**Be realistic** and up front in developing your Cash Flow plan using the worksheet overleaf.

**Consult** and draw up a plan with your Teagasc Advisor, Agricultural Consultant or accountant. They have the expertise and experience to help you develop a Cash Flow plan for your business.

**Decide** on a course of action using your Cash Flow plan to form the basis of negotiations with your suppliers and banks. Creditors will respond best to realistic budgets and up-to-date cash flow projections, supported by the farmers own records and accounts.

## First Steps

1. Complete the simple 5 minute Cash Flow sheet on the next page.
2. Move on to complete the Current Debt and Cash Flow Projection sheets to get a fuller picture.
3. Contact your adviser or accountant to help complete a more detailed monthly plan if required.

## Cash Flow

It is a measure of the movement of money in and out of the business. If the bank account is always in credit, the cash flow is positive. This is the ideal situation. Cash flow management is central to business success. In good price years, it is important that cash flow is managed so as to build a cash reserve and to undertake necessary on-farm improvements. In poor price years, cash-flow must be managed to ensure that all essential bills are paid (including living expenses) and that no long term damage is done to the business due to a cash shortage. Creating a cash flow budget can appear a daunting task. The '5 Minute Cash Flow' following is an ideal way to start to improve you financial management. Remember that budgeting is not an exact science but that in most cases a 'best estimate' is better than 'no estimate'.

# The 5 Minute Cash Flow

Name		This Year	Last Year
Date			
Cow Numbers (number)			
Other Stock			
Bank Balance Today		€ <input type="text"/> A	€ <input type="text"/>
Milk Sale to year litres	<b>Litres</b>	<input type="text"/> <b>Litres</b>	<input type="text"/> <b>Litres</b>
Milk Price to year end (your estimate)	<b>Cents</b>	<input type="text"/> <b>Cents</b>	<input type="text"/> <b>Cents</b>
Milk Output to year end (total €)	<b>B</b>	€ <input type="text"/>	€ <input type="text"/>
Animal Sales to year end	<b>C</b>	€ <input type="text"/>	€ <input type="text"/>
Direct Payments to year end	<b>D</b>	€ <input type="text"/>	€ <input type="text"/>
<b>Total Cash Inflow</b>	<b>B+C+D</b>	€ <input type="text"/> X	€ <input type="text"/>
Once off Investments to year end	<b>E</b>	€ <input type="text"/>	€ <input type="text"/>
Tax Bill to be paid	<b>F</b>	€ <input type="text"/>	€ <input type="text"/>
Contractor	<b>G</b>	€ <input type="text"/>	€ <input type="text"/>
Feed Costs to year end	<b>H</b>	€ <input type="text"/>	€ <input type="text"/>
Vet and Other costs to year end	<b>I</b>	€ <input type="text"/>	€ <input type="text"/>
Loan Repayments to year end	<b>J</b>	€ <input type="text"/>	€ <input type="text"/>
Family Living costs to year end	<b>K</b>	€ <input type="text"/>	€ <input type="text"/>
<b>Total Cash Outflows</b>	<b>E+F+G+H+I+J+K</b>	€ <input type="text"/> Y	€ <input type="text"/>
<b>NET CASH FLOW</b>	<b>X - Y</b>	€ <input type="text"/> Z	€ <input type="text"/>
<b>Predicted Bank Balance on 31 Dec</b>	<b>A + Z</b>	€ <input type="text"/>	€ <input type="text"/>

(Accuracy of this year's estimate can be gauged by comparing with last year's bank balance on the 31st December)

## Sensitivity Analysis

If your milk price estimate is off target by 1 cent per litre it will adjust your income by €100 per 10,000 litres. Based on the your milk volume completed above what is your figure?

 €

**A more detailed cash flow can be completed in the centre of this publication, or to get a more complete picture a Teagasc Cost Control Planner can be completed using your computer.**

## List of all current debt as of today \_\_\_\_/\_\_\_\_/20\_\_\_\_

	Loan Name/ Debtor	Current Amount Outstanding	Remaining Loan Term (years)	Current Interest Rate	Total Repayment per year	Payments due from today to 31st Dec. 20
Term Loans (incl. house mortgage)		€		%	€	€
		€		%	€	€
		€		%	€	€
		€		%	€	€
Overdraft & Stocking Loans		€		%	€	€
		€		%	€	€
		€		%	€	€
Merchant Co-Op Debt (+outstanding farm-to-farm debt)		€		%		€
		€		%		€
		€		%		€
		€		%		€
		€		%		€
Hire Purchase/ Finance		€		%	€	€
		€		%	€	€
<b>TOTAL PAYMENTS</b>						<b>€</b>

## Cash Flow Projection

Cash Out [to 31st December 20____]	Current outstanding to date	From Today to 31st December 20____	Estimate Cash Out to year end
Total Repayments From above	€	€	€
Feed & Fertiliser		€	€
Contractor	€	€	€
Vet	€	€	€
Other Operating Expenses	€	€	€
Health Ins/Policies (Pension etc.)	€	€	€
Tax	€	€	€
Living Expenses	€	€	€
<b>TOTAL PAYMENTS</b>			<b>€</b>
Cash In [to 31 st December 20____]	DUE NOW	Due From Today to 31st December 20____	
Farm Sales (Milk + other Sales less Exp. not included above)		€	€
Direct Payments (BPS, GLAS, etc.)		€	€
Off Farm Income (Net)		€	€
Child Benefit, Pension, Farm Assist		€	€
<b>TOTAL NET CASH AVAILABLE</b>			<b>€</b>
<b>BALANCE SURPLUS /DEFICIT (Deficit should not exceed available merchant credit and OD limit)</b>			

# Options where cash is tight

## Immediate Priorities

The main priority is to minimise non-essential spending until such times as cash income improves. The following are the main areas to examine to try and bridge the gap between income and spending

**1. Prioritise essential living expenses**

**2. Eliminate all non-essential expenditure - both farm and personal spending**

**3. Review Financial Repayments / Commitments**

- a. Examine the option of reducing bank repayments through either availing of a temporary interest-only period or extending the term on existing loans (where feasible).
- b. Where machinery leasing or hire purchase agreements are evident, consult with your finance provider to examine ways of reducing monthly repayments on a temporary basis where possible
- c. Engage with your merchants/farm input suppliers and keep them informed – examine potential for structured repayments to avoid paying excessive penalty interest on overdue accounts

**4. Review monthly pension, savings and life assurance payments:**

Look at pension / life assurance/ savings policies - can some of these payments be reduced? Before taking this course of action ensure you are fully informed of the implications of amending or cancelling existing insurance or assurance plans.

**5. Talk to your accountant NOW regarding Tax.**

What is tax bill liability on 31st October? – Plan now to avoid another cash flow shock.

Use their expertise to review your cash flow in relation to taxation / financing implications

**6. Involve all family members in analysis & solutions where possible.**

## Methods to bring in Cash

**1. Sale of trading stock or surplus breeding stock.**

- Target beef cattle /stores for sale/ early sale of cull stock especially where you may be tight for fodder

**2. Cash in policies/savings.**

Take advice from your broker/ accountant on this

**3. Off-Farm income/husband/wife.**

**4. Examine sale of assets in extreme circumstances.**

**5. Look into availing of Social Protection payments:**

- a. Family Income Supplement (if spouse / farmer employed off farm)
- b. Farm Assist
- c. Pension entitlement

## Other Issues to Address

- Take account of price volatility in all future plans (use forward selling of grain to maximise returns)
- Review the main efficiency factors on your farm, where can you get the best return for your efforts. Don't be forced to cut 'productive costs'.