

farm management

Seven steps to better cashflow management

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With herd size and borrowings increasing on many farms, farmers need to know how much money they should have in their account to cover farm expenses, loan repayments, taxation and drawings. Also, with the volatility in weather, building a rainy day fund from cashflow is a seriously good idea.

A rainy day fund does not happen by chance and with this in mind a small group of Galway dairy farmers who were eager to learn how to manage their money more effectively approached me to work with them on cashflow management and budgeting. Seven steps describe how this group set their ground rules and how they operate.

1. Computer programmes

There are many software programmes available to store and analyse farm payment and expense data. To name a few, there are the Teagasc Cost Control Planner, Kingswood and Cashminder. It doesn't really matter which programme you select once it assists you to analyse your data and encourages you to take action.

For group members who are using Cashminder, we set up a "Teamviewer call". This option is very useful as both the farmer and programme provider can view the programme on screen at the same time. Also, a live tutorial of how to use the programme is available.

2. Group rules

Confidentiality was discussed by the group and they agreed that what's discussed in the room stays in the room. The group committed to a minimum of 80% attendance; any member not meeting this require-

ment has to resign from the group.

Many opportunities are lost by the failure to act upon good intentions. Putting aside time to act upon your good intentions to enter actual data into your programme of choice is crucial. The group decided when the data has to be allocated and we set an agenda for the year. The group decided to have four meetings per year and to meet every third month.

3. Support

As two heads are better than one, each member's accountant, group facilitator and the programme provider are given access to their cashflow reports and give support when required. The accountant was identified as key to success for helping members with their questions on data entry and also for using this data in terms of tax accounts. Group members felt very strongly that they did not want duplication and decided that data had to be in a format compatible with their Teagasc Profit Monitor.

4. Budget

At the first group meeting, the members agreed that by mid-January they would all have their 2019 budget entered into a programme. The budget is very important as it captures the entire predicted monthly cashflow for the full year.

In order to make sure the budget was completed thoroughly, each member agreed to audit their farmyard, machinery and grazing infrastructure and make a list of what capital investment needed to be done in 2019.

5. Data collection

To streamline data collection, a reduction in the number of cheques was discussed and a maximum target of 52 cheques written for 2019 was set. When that number is reached, the chequebook has to go into hiding. The reason for this is that the group are using an online programme which



works off bank statements. The programme won't recognise cheque numbers so the more you have, the more you have to manually allocate into this programme.

The number of traders was discussed, and again to make data allocation more streamlined, it was recommended to reduce the number of traders to a maximum of two. All farmers agreed not to use the farm account for personal spending (to reduce data recording and allocation); it was agreed that each month a direct debit would be set up from the farm account to a personal current account.

6. Data analysis

The group meetings last two hours in total and we use a maximum of three reports. At our last meeting through the use of the cashflow actual report the group worked out how much money they needed to bring forward from 2018 to 2019 to cover low milk receipts in the spring.

This figure is then benchmarked against their year-end budgeted and projected bank balance. The group also analyse their monthly surpluses and deficits and decide what action must be taken. From this analysis, group members decided if they have to make cut-backs, change payment structure, consult with their bank manager or if they can make additional purchases.



Tips to help take control of your future cashflow



- Year one: record all income and expenses per month. This includes full loan repayments, drawings and your tax bill. This can be done in a note book.
- When you have the 12 months recorded, total each income and expense per month and for the full year.
- Now, because you have the actuals for the farm recorded you can do a monthly budget for the year ahead.
- To complete the budget correctly, make a list of all the capital expenditure required and any repairs and maintenance. Double check your budget to make sure you haven't left any expenses out.
- Now add up the total income and expenses per month and for the full year. Take note of your closing bank balance on 31 December. This has to be added or subtracted from your monthly net cashflow.
- Identify surpluses and deficits and write down what options you have, e.g. change month of payment, overdraft and reduce capital expenditure. Also, take note of the year end closing balance. Will you have money to bring forward to help cashflow the following year?
- Record your actuals every month and benchmark against budget. Make changes where necessary..

7. Long-term goal

A rainy day fund would have been very welcome for many farmers in 2018. The group aims to build a fund for difficult years. With the volatility in weather and milk price, this should be a goal for all farmers. A figure of €300 per cow is a common target for dairy herds to carry over from one year to the next.

This €300 per cow is only to overcome low milk receipts in the spring. It will not get you through a bad spring, drought in the summer, increased family expenditure or expansion.

Benefits identified by group members

“Financial budgeting is like grass measuring; at the beginning you know you should be doing it and you know that there should be benefits but you don't fully see them until you have measured for the year,” said David Gannon.

“Instead of finding out how the year went when the year is over, I now get to assess how my finances are every three months and also project what money I will have to bring forward to pay for spring 2020 expenses,” said Niall Callanan. “I am already making decisions from using the actual and budgeting reports.”

Martina Gormley with Galway dairy farmers David Gannon and Niall Callanan.



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