

Cash Flow & Financial Management on Dairy Farms

A Dairy Forum initiative in collaboration with Teagasc's 'Get Farm Financially Fit' campaign

Low milk price, increased costs and the unfavourable weather conditions this spring have severely affected plans on dairy farms. This has already had major implications for cash flow.

Recommendations:

Act early, even the best dairy farm 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 worksheets to get a fuller picture.
3. Contact your adviser or accountant to help you complete a more detailed monthly plan if required.

The 5 Minute Cash Flow

Name:

Date:

	This Year	Last Year
Cow Numbers (number)	<input type="text"/>	<input type="text"/>
Other Stock (number)	<input type="text"/>	<input type="text"/>
Bank Balance Today	€ <input type="text"/> A	€ <input type="text"/>
Milk Sales to year end litres	<input type="text"/> litres	<input type="text"/> litres
Milk Price to year end (your estimate)	<input type="text"/> cent	<input type="text"/> cent
Milk Output to year end (total €)	€ <input type="text"/> B	€ <input type="text"/>
Animal Sales to year end	€ <input type="text"/> C	€ <input type="text"/>
Direct Payments to year end	€ <input type="text"/> D	€ <input type="text"/>
Total Cash Inflow	€ <input type="text"/> B+C+D	€ <input type="text"/> X

Once Off Investments to year end

E

€

€

Tax Bill to be paid

F

€

€

Contractor

G

€

€

Feed Costs to year end

H

€

€

Vet & Other costs to year end

I

€

€

Loan Repayments to year end

J

€

€

Family living costs to year end

K

€

€

Total Cash Outflows

E+F+G+H+I+J+K

€

Y

€

NET CASH FLOW

X - Y

€

Z

€

Predicted Bank Balance on 31 Dec

A + Z

€

€

(Accuracy of this years estimate can be gauged by comparing with last years 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?

€

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 before 1 st Dec 20___
Term Loans <i>(incl. house mortgage)</i>	€	%	€		€	€
	€	%	€		€	€
	€	%	€		€	€
	€	%	€		€	€
Overdraft & Stocking Loans	€	%	€		€	€
	€	%	€		€	€
	€	%	€		€	€
	€	%	€		€	€
Merchant Co-Op Debt <i>(+outstanding farm-to-farm debt)</i>	€	%				€
	€	%				€
	€	%				€
	€	%				€
	€	%				€
	€	%				€
Hire Purchase/ Finance	€	%			€	€
	€	%			€	€
Total Payments						€

Cash Flow Projection

Cash Out (to 31 st December 20____)	Current Outstanding	From today to 31 st December 20____	Total
Total Repayments from above	€	€	€
Feed & Fertiliser		€	€
Contractor	€	€	€
Vet	€	€	€
Other Operating Expenses	€	€	€
Health Ins/Policies (Pension etc.)	€	€	€
Tax	€	€	€
Living Expenses	€	€	€
Total Payments		A	€
Cash In (to 31 st December 20____)	To Date	Due from today to 31 st December 20____	
Farm Sales <i>(milk + other sales less exp. not included above)</i>		€	€
Direct Payments (SFP, AEOS, SWCS)		€	€
Off Farm Income (Net)		€	€
Child Benefit, Pension, Farm Assist		€	€
Total Net Cash Available		B	€
Balance Surplus/Deficit <i>(Deficit should not exceed available merchant credit and OD limit)</i>		B - A	€

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:**
 - 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. Volatility is likely to be a feature of the dairy sector in the future.
- 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'.

Cash Flow

Cash flow management is central to business success. It is even more important in times of volatile milk prices. In good milk 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 milk 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 Dairy Forum Financial Management Initiative

The Dairy Forum is a group of the main stakeholders from the Irish dairy sector comprising farm organisations, co-ops and processors, the Department of Agriculture, Food and the Marine and its agencies, as well as the banking sector. It is chaired by the Minister for Agriculture, Food and the Marine,

Michael Creed TD, and its main focus is on strategic issues for the sustainable development of Ireland’s dairy sector. One of the initiatives agreed by the Dairy Forum is a programme of cashflow and financial management training and advice for dairy farmers, including this booklet. This programme will run in conjunction with the existing Teagasc ‘Get Farm Financially Fit’ engagement.

Minister Creed commented, *“This initiative from the Dairy Forum is timely and responds to the need identified by all stakeholders for cashflow and financial planning training for dairy farmers. It represents a very positive example of stakeholder collaboration. I am fully aware of the pressures on dairy farmers right now and I am committed to working with all players in the sector, both at national and EU level, to address these issues and ensure that we continue to have a sustainable dairy sector. Equipping farmers with better financial planning skills is essential, and I would encourage all farmers to engage with this initiative”*

The Teagasc ‘Get Farm Financially Fit’ Campaign

Get Farm Financially Fit campaign is a joint initiative from Teagasc and industry partners to raise awareness and promote better financial management of Irish farms. Our aim is to improve farm financial management and up skill farmers so that they can use computer based or paper tools to assist them to take control of their finances.

Where to get further assistance

AIB Contact local branch www.aib.ie/farming Tel: 1890-478833	Bank of Ireland Contact local branch www.boi.ie Tel: 1850-202369
ICMSA Tel: 061-314677 Email: info@icmsa.ie www.icmsa.ie	IFA Tel: 1890-924853 www.ifa.ie
IFAC Accountants (Philip O'Connor) Tel: 052-7441772 Email: financiallyfit@ifac.ie	Mental Health Ireland Tel: 01-2841166 www.mentalhealthireland.ie
MicroFinance Ireland (Robyn or Mireille) Tel: 01-2601007 Email: info@microfinance.ie	Money Advice & Budgeting (MABS) Tel: 076-1072000 Email: helpline@mabs.ie www.mabs.ie
Teagasc Contact local advisor Tel: 059-9170200 Email: info@teagasc.ie www.teagasc.ie	Ulster Bank Contact local branch Tel: 1850-211595 www.ulsterbank.ie

