

Dairy business management in and after floods

Creating a cash flow budget

You should make business management a priority if:

- You don't know what the position of your balance sheet is today.
- OR
- You don't know the cash position of your business over the remainder of the current financial year.
- OR
- You consider that the balance sheet position and the cash position of your business do not allow you to move forward into the future.

A cash flow budget shows the money flowing in and out of your business. Cash flow budgets are usually presented by the month (or year) for each income and expense category. This statement is particularly valuable for analysing the management of cash in the business and monthly cash flow budgets will usually be required by lenders to assess a finance application.

Creating a cash flow budget is as straightforward as listing the business's expenses (according to a Chart of Accounts) and income.

As a result of the floods, you might consider preparing two cash flow budgets to help you analyse the cash position of your business:

- one that looks at the position of the business over the next financial year; and
- one that looks at the viability of the business over the next financial year.

It is important to note that a cash flow budget is only as good as the information used to create it.

A cash flow budget can be divided into five broad areas:

- Income – from all sources, including off-farm income coming into the farm business.

- Operating costs – cash production costs, such as herd, shed, feed and overhead costs.
- Financing costs – debt servicing, such as interest payments and lease costs.
- Investing costs – on-farm cash investments in the form of capital (stock purchase, machinery and improvements) and/or off-farm investment.
- Personal costs – family drawings.

A good use of a cash flow budget is to use it monthly to compare your budgeted income and expenditure against actual income and expenditure. This involves setting up estimates on a month-by-month basis and then entering the actual figures at the end of each month.

Some people create overly optimistic budgets to impress a lending institution, however both lenders and borrowers should aim for realistic and accurate cash flow.

Importantly, a cash flow budget will provide an estimate of the peak cash deficit for the season that can be used to ensure this is accommodated within the current overdraft. This is particularly important when changes are occurring on-farm.

Creating a cash flow budget

Start with this Checklist ...

Calculating income

- Have you calculated milk income?
 - You need to have an estimate of milk production.
 - Your field officer/milk supply officer will be able to provide an income estimate using your estimated production.
- Have you calculated other farm income?
 - Consider what livestock might be sold and what prices they might receive.
 - Consider any other farm income streams.
- Have you calculated non-farm income?
 - Include any support payments such as Exception Circumstances payments and Flood Assistance.
 - Remember to include insurance recoveries.

Calculating operating costs

- Have you estimated herd costs?
 - Your historical herd costs will give an indication of the likely future herd costs.
 - Remember to make allowances for changes in herd size.
- Have you estimated shed costs?
 - Your historical shed costs will give an indication of the likely future shed costs.
 - Remember to make allowances if inventory that was on hand needs to be replaced.
- Have you estimated feed costs?
 - Have you done a feed budget that will provide an indication of the feed that is expected to come from the farm itself and feed that will need to be purchased as concentrate or forage?
 - Have you a pasture renovation plan that will provide an indication of the costs of resowing the farm?
- Have you estimated overhead costs?
 - Your historical overhead costs will give an indication of the likely future overhead costs.
 - It might be worthwhile making an allowance for increased repairs and maintenance costs due to the farm being flooded.

Calculating finance costs

- Your historical finance costs will give an indication of the likely future finance costs.
- Remember to make an allowance for any additional borrowings that have occurred as a result of the floods.

Calculating investing costs

- Remember to allow for the cost of replacing livestock, machinery and improvements.

Calculating personal costs

- Your historical personal cost will give an indication of the likely future personal costs.
- Remember to allow for the cost of replacing personal and household items damaged by the floods.

Your factory field officer, rural financial counselor or farm management consultant can help with constructing a cash flow budget.