



Aoife and Hughie Hannon.

# Why Cash is still King

Cash is the lifeblood of every farm business and cashflow management is critical to success.

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Put simply, cash flow is the measure of the movement of money in and out of your farm business. Years with lower product prices, higher input costs or unfavourable weather conditions can lead to serious negative implications for cash flow.

Where a major farm investment has taken place, or is planned, there can be significant additional pressure on cash flow. Monitoring cash flow will mean you have a clearer understanding of how your farm is operating financially, and will help with business decisions.

Monitoring cash flow can identify potential problems or risks early, allowing remedial actions to be taken. Cash flow should be assessed over the entire year as well as over the shorter term on a monthly or quarterly basis.

Cash flow should be managed to ensure living expenses and all essential bills are paid to avoid any longer term negative implications for the farm. All farm businesses should have a system in place to monitor cash flow.

For drystock and tillage farmers a large portion of income from product sales and direct, and other, scheme payments generally arrives in the last quarter of the year.

For these farms it is critical to have a plan in place and a clear understanding of how this situation will be managed. For dairy farmers there tends to be a more even flow of cash into the business over the course of the year through milk and stock sales.

## '5 minute cashflow'

Creating a cash flow budget for a farm can be a daunting task. The '5 minute cash flow' is a simple and fast way to start monitoring and improving financial management on your

farm. There is a separate worksheet for dairy, drystock and tillage farms reflecting the different sources of income and expenses for each enterprise. There are three main sections to be completed within the worksheet.

The 5 Minute Cash Flow			
Name	This Year	Last Year	
Date			
Cow Numbers (number)			
Other Stock			
Bank Balance Today	€	A	€
Milk Sale to year litres	Litres	Litres	Litres
Milk Price to year end (your estimate)	Cents	Cents	Cents
Milk Output to year end (total C)	B	€	€
Animal Sales to year end	C	€	€
Direct Payments to year end	D	€	€
<b>Total Cash Inflow</b>	<b>B+C+D</b>	X	€
Once off Investments to year end	E	€	€
Tax Bill to be paid	F	€	€
Contractor	G	€	€
Feed Costs to year end	H	€	€
Vet and Other costs to year end	I	€	€
Loan Repayments to year end	J	€	€
Family Living costs to year end	K	€	€
<b>Total Cash Outflows</b>	<b>E+F+G+H+I+J+K</b>	Y	€
<b>NET CASH FLOW</b>	<b>X - Y</b>	Z	€
Predicted Bank Balance on 31 Dec	A + Z	€	€

(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 year 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.



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The first section allows you to compare cash flow for the current year with the previous year.

Cash inflows will include milk, cattle and crop sales together with direct

payments for the year.

Cash outflows will include living expenses, tax due, loan repayments, once off investments and all farm production costs.

With net cash flow for the year calculated, a predicted bank balance at year end can be estimated by adding net cash flow for the year to the bank balance at the start of the budget.

Where the estimated bank balance for the year end is satisfactory, no further action is required. Alternatively, if there is concern regarding the state of cash flow for the full year or bank balance at the end of the year the other two sections within the worksheet can be used to gain a more detailed picture of the cash flow situation within the farm.

The second section allows the farmer to document all current debts for the farm. Who is owed? How much is owed? What is it costing? How long is left to pay? This should include all term loans, overdraft and stocking loans, merchant debt and any hire purchase or other finance arrangements. Having all this information in one place provides clarity on the short, medium and long term commitments of the farm business.

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 from to farm debt)	€		%	€	€
Hire Purchase/ Finance	€		%	€	€
<b>TOTAL PAYMENTS</b>					€

The third section is a 'cash flow projection' which can give a more detailed outline of cash flow from the date of completion to the end of the year, with an estimate of bank balance at year end.

Current outstanding bills for living expenses, tax, farm production expenses and any other expenses are included separately to payments and income expected for the remainder of the year to build a clearer picture of the farm business.



Develop a cashflow plan for your farm

### Teagasc Cost Control Planner

The Teagasc Cost Control Planner is a computer based programme used for recording cash flow. It is a Microsoft Excel spreadsheet which is used to record, analyse and budget farm cash movements in and out of a business. The programme will record cash in, and cash out, on a monthly basis including standing orders, direct debits and bank charges.

By completing the Cost Control Planner you will have totals for all cash received and paid under the relevant categories. It will also provide a net cash position each month and a 'year to date' position. Also all livestock / crop / milk sales and purchases will be recorded in one place.

There is also a facility within the programme to prepare a monthly or annual cash flow budget at the start of a year. As an added bonus, a completed Cost Control Planner provides a Profit Monitor input sheet which is 95% complete at the end of the year.

### Recommendations where a potential cashflow issue is identified

Act early to make adjustments

as delays can lead to the situation deteriorating. This could include altering the timing of payments to match with periods of cash surplus.

Be realistic when preparing cash flows using the tools available. Include all relevant spending to develop a full and clear picture of the farm cash flow for the period.

Consult with an advisor and/or accountant who has the necessary experience to develop a cash flow plan for your farm. Be fully prepared and have all the necessary information to hand if meeting suppliers or lenders.

Decide on a course of action most suitable for your own farm which can form the basis for discussion with suppliers, banks and other relevant parties.

This might include changing loan repayment times to match cash inflow events or making appropriate use of short term credit options such as overdrafts or merchant credit.

## Some options where cashflow is under pressure

### 1. Prioritise living expenses.

This is often the single biggest cash outflow for farm households. Assess all direct debits for life assurance, other savings policies or pensions and check if these could be reduced in the short term...but be careful to establish whether harsh penalties may be incurred by reducing or stopping payments.

2. A separate farm and household account is essential for good cash management as it provides clarity between farm and household spending.

### 3. Talk to your accountant regarding tax commitments.

Consider setting up a monthly direct debit with Revenue or making payments into a separate bank account.

### 4. Eliminate all non-essential farm spending.

Defer farm purchases or spending which will not provide a return on investment.

### 5. Review financial repayments.

Develop a plan on how the farm will make repayments in advance of meeting with lenders.

### 6. Review the main efficiency factors on your farm and identify areas where the best cash return can be achieved.

Consider bringing forward the sale of some trading stock or surplus breeding stock to bring in additional cash early.

### 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>Cash In [to 31 st December 20___]</b>	<b>DUE NOW</b>	<b>Due From Today to 31st December 20___</b>	
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>BALANCE SURPLUS /DEFICIT (Deficit should not exceed available merchant credit and OD limit)</b>			

# Farmer focus – the Hannon family, Birr, Co Offaly



Back row: Eugene, Hughie and Aoife. Front row: Arya, Eoin and Ciara.

**H**ughie and Aoife Hannon milk 150 cows in partnership with his parents Eugene and Anne close to Birr in Co Offaly. Hughie and Aoife have three children. The family have used the Teagasc Cost Control Planner every year since 2015.

“At the start of each year we prepare a budget,” says Hughie. “This budget helps us make decisions for the year ahead as you have a clear knowledge of how money will move in and out of the business.”

“This is critical in times of volatility and provides us with certainty around meeting commitments associated with new investments.”

The completed budget is assessed

by all members of the farm business with everyone aware of what is achievable for the year ahead. The farm has expanded from 60 to 150 cows over the past 10 years which has involved significant investment. The Cost Control Planner has played a central role in this expansion programme.

### Data

“We record all income and payments for the farm on a monthly basis,” says Aoife. “Entering the data is fast and straightforward when all receipts, invoices and bank statements are kept in order.”

“The more detail that is entered in

the Cost Control Planner the more detail is obtained from the reports. The first years completing the programme were eye-opening, seeing where all the money was going out of the business.

“This really focuses our minds on farm spending and helps identify areas where the farm is getting value for money. The Cost Control Planner is impartial, no one can argue with the outcome as everything is recorded.”

Hughie and Aoife joined the South Offaly Dairy Discussion Group, facilitated by Teagasc advisor Jim Moyles, in 2015. All members of the discussion group complete the Cost Control Planner each year. The group have a nine month financial review meeting at the end of October each year.

“While the primary reason for completing the Cost Control Planner is for our own farm business, it is also very useful to benchmark against other members of the group,” says Hughie. “It highlights any strengths and weaknesses. As farmers we are running a commercial business and should be aware of how much it costs to produce every litre of milk on our farm.”



Jim Moyles and Hughie Hannon.