

BUDGET

THE BEST FARM BUSINESS PLANNING TOOL

by **Tineil Hurter**

As most people know, a budget is a written plan for future action, expressed in physical and financial quantities. Future planning is based on forecasts, historical data, assumptions, and experience. However, nobody can accurately predict the future with all its risks and uncertainties. Thus, as the user of budgets, the farmer should bear in mind that budgets and the assumptions on which they are based are continually subject to change. Therefore, budgets should not be treated as rigid or fixed plans but rather as management aids.

MAIN OBJECTIVES OF A BUDGET

- The purposeful planning of a farming system and all its subdivisions.
- The comparison of various alternative plans.
- Facilitating capital investment decisions, that is, helping the farmer to decide where, when, and how to invest.
- Planning the cash flow position of the business to obtain credit at the right time and on the best terms.
- Its effect on long-term profitability and financial viability.
- The planning of future capital needs and the scope and timing of repayment.
- The determination of credit requirements and the repayment ability of the credit taker.
- Determining the timing and size of surpluses to optimise investment opportunities.

DIFFERENT TYPES

Zooming into the different types of budgets used during planning, we can distinguish between total, break-even, capital, enterprise, and cash flow budgets. While all of these are valuable to the farmer, the cash flow budget is probably the best in planning and preparing for future cash inflows and outflows.

In financial management, the future cash flow is of primary importance in respect of:

- The timing and extent of cash inflow and outflow.

An annual cash budget details cash received and cash expenses going out. It indicates if the business is sustainable and estimates any cash surplus or deficit for the season. A monthly cash budget takes your annual cash budget and spreads your income and expenses across the year, giving you a month-by-month outline of expected income and what you can anticipate spending. A monthly cash flow budget also helps you identify potential shortfalls in cash over the year that may impact your ability to carry out regular or planned activities.

It also informs how much overdraft (working capital) you may need to keep your business functioning over shortfall months. You can compare your actual expenditure with your monthly spending to monitor your cash flow position and take corrective action where necessary, reallocating money across expenditure items. All cash income and expenses are itemised monthly, and any surplus or deficit is shown progressively.

SHORT NOTES: SETTING UP A CASH FLOW BUDGET

The first step in developing a budget is planning milk income based on the estimated monthly milk production, milk payment schedules, retrospective payments, and dividends relating to the milk company you supply.

The second step would include determining all other income, such as livestock and colostrum

Table 1 Example of a cash flow budget

Income				R Total	R/kg MS	R/cow	R/ha
Dairy cash income	Share of milk cheque received		100%				
Milk solids (advance)	150 000 kg MS x R	4,00	/kg MS	R600 000	R4,00	R1 500	R4 138
Milk solids (retrospective)	155 000 kg MS x R	0,50	/kg MS	R77 500	R0,52	R194	R534
Milk solids (dividend)	155 000 shares x R	0,40	/share	R62 000	R0,41	R155	R428
Milk solids (previous season): May production and advance on season				R25 000	R0,17	R63	R172
Net livestock sales (calves + culls + other – purchases)				R70 000	R0,47	R175	R483
Other dairy income, e.g. colostrum				R6 000	R0,04	R15	R41
Other dairy income (tax paid), e.g. farm cottage rent, rebates							
Net dairy cash income				R840 500	R5,60	R2 101	R5 797
Other income, e.g. contracting, non-dairy income				R25 000	R0,17	R63	R172
Other tax paid income, e.g. off-farm salaries or wages				R20 000	R0,13	R50	R138
Total income				R885 500	R5,90	R2 214	R6 107
Expenses				R Total	R/kg Ms	R/cow	R/ha
Wages				R80 000	R0,53	R200	R552
Animal health				R30 000	R0,20	R75	R207
Breeding and herd improvement				R20 000	R0,13	R50	R138
Farm dairy				R9 000	R0,06	R23	R62
Electricity (farm dairy, water supply)				R17 500	R0,12	R44	R121
Supplements made (including contractors)				R100 000	R0,67	R250	R690
Supplements purchased							
Young and dry stock grazing				R40 000	R0,27	R100	R276
Winter cow grazing				R10 000	R0,07	R25	R69
Support block lease				R10 000	R0,07	R25	R69
Fertiliser (including nitrogen)				R65 000	R0,43	R163	R448
Irrigation				R5 000	R0,03	R13	R34
Regrassing and cropping				R6 000	R0,04	R15	R41
Weed and pest				R3 800	R0,03	R10	R26
Vehicles and fuel				R19 000	R0,13	R48	R131
Repairs and maintenance (land, buildings, plant, machinery)				R32 000	R0,21	R80	R221
Freight and general farm expenses				R7 500	R0,05	R19	R52
Administration (accountant, consultant, phone)				R14 000	R0,09	R35	R97
Insurance				R13 700	R0,09	R34	R94
Rates				R15 000	R0,10	R38	R103
Total farm working expenses				R497 500	R3,32	R1 244	R3 431
Other expenses, e.g. non-dairy expenses, off-farm expenses							
Rent, e.g. milking, land lease (excludes run-off), cow lease				R20 000	R0,13	R50	R138
Overdraft interest				R10 000	R0,07	R25	R69
Term interest (mortgage)				R195 000	R1,30	R488	R1 345
Principal repayments							
Tax				R10 000	R0,07	R25	R69
Drawings				R75 000	R0,50	R188	R517
Capital transactions (purchases less sales, e.g. land, shares, machinery)							
Total expenses				R807 500	R5,38	R2 019	R5 569
Cash surplus/deficit				R78 000	R0,52	R195	R538

sales. Dairy income and different types of income are split in the budget so that the dairy operation may be analysed independently. Only looking at dairy-related income allows for analysis of the dairy business.

Any revenue generated from the farm that is not related to the dairy enterprise (such as cropping, beef, and contracting) is included in other income. Income generated outside of the farming business should also be included in the budget, as this will impact your cash flow throughout the year. From all of these income flows, you can calculate a total income.

Step three is calculating the expenses related to the dairy enterprise; remember to split these into dairy and non-dairy categories for efficient

analysis. Total dairy farm working expenses can include wages, animal health, breeding and herd improvements, vehicles and fuel, and electricity and water.

In contrast, other expenses might be rent, overdraft interest, and tax, to name a few. Adding the expenses together will give you a value for the total expenses. Subtracting total expenses from total income will provide the cash surplus or deficit value. Table 1 is a simple example of how the cash flow budget can be structured.

The budget needs to be a living document. Prioritise time to update and monitor; use this as a key part of your farm business toolkit. A budget is telling your money where to go instead of you wondering where it went. 

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