

BUDGET *IS A* LIVING DOCUMENT

Words by: **Anne Lee**

Set your budget using the best information you can find, be prepared to redo it as the season progresses if conditions change and monitor, monitor, monitor, Canterbury dairy farmer Alan Davie-Martin says.

Alan and his wife Sharron own a 141-hectare, 540-cow irrigated dairy farm near Culverden in North Canterbury and are consistently among the region's top performers across a wide range of metrics, especially profitability.

They share their budget and physical and financial performance throughout the season as one of DairyNZ's 15 regional budget case study farms.

It's a bit of a reciprocal thing, Alan says in that he too will look at others' budget numbers when drawing up the budget for their farm Beechbank Dairies.

"I do lots of comparisons – I'll look up previous years' figures – maybe I'll make some mental or written comments about them and note whether a line item is normal, abnormal and what was behind it if it was out of the ordinary.

"Then I'll make use of others' data that's been shared and see how we compare.

"I'll analyse that data because every farm has its own peculiarities – one farm might have particularly cheap irrigation for instance while another is more expensive so I look a bit more closely at why numbers are what they are."

Keeping budget notes on what's included in a line item can help when setting next year's budget.

"The budget is a living document so I'm revising it all the time as the season goes on.

"But what I've been advised to do, and have done more of late, is to keep the original so you can go back to it and use it as a reference."

Alan uses Cash Manager for his budgeting and uses the function that allows him to lock and save the original budget while also having the version that he can update. He often sets his budget in February or March for the coming season.

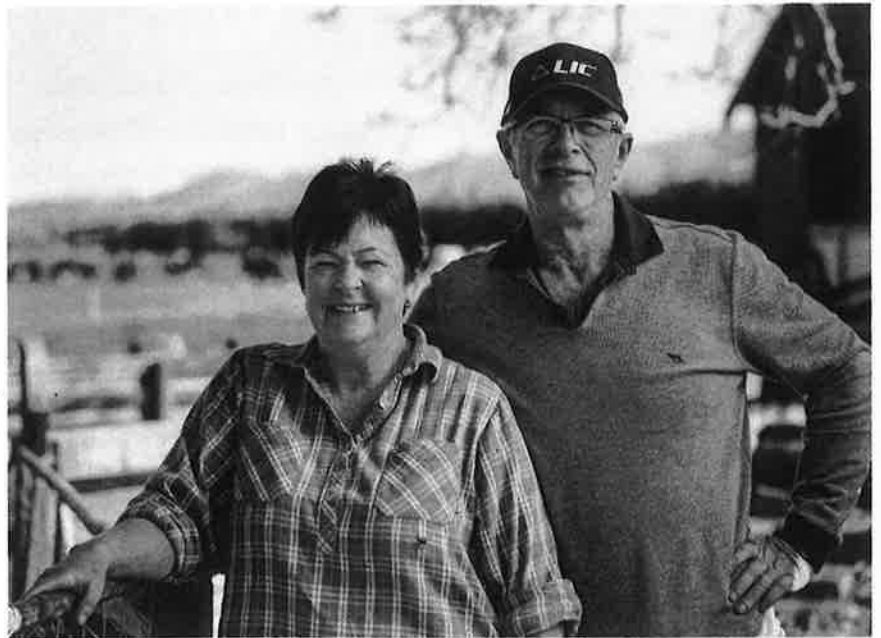
"I have to go on the information

available then for my original budget, whereas in my live document if I see milk price or cull cow prices moving, for example, I can adjust the budgeted figures."

His accountant and banker have access to his Cash Manager budget and Alan says it's vital it's as accurate and up to date as possible.

"Having quality information available for your rural professionals makes it easier for them to carry out quality analysis and give you quality advice in a timely way."

Take tax planning as an example.



Sharron and Alan Davie-Martin: "Trim the fat, not the bone" and "Always budget conservatively, err on the side of caution but be real."

"I don't want to pay any more or less tax than I need to pay so I need to make sure the budget is right.

"If I have a \$6 milk price in my budget and now it's looking like it's going to be \$7.10 I need to make sure tax payments are adjusted."

A more accurate budget will give your banker confidence in how you manage your financials.

"And that can mean they give you a bit of wriggle room."

If they're not confident in your numbers, they're going to keep you on a tighter rein.

Always do your own budget.

"I learned at an early age to do my own budget - years and years ago I let an accountant do my budget and it wasn't good. Each farm is different, each farmer does things differently.

"You should definitely let them cast their eye over it, seek their advice.

"But do your own budget and own it."

Know your breakeven milk price so at any time that number is firmly fixed in your mind, Alan says.

"Having quality information available for your rural professionals makes it easier for them to carry out quality analysis and give you quality advice in a timely way."

Breakeven milk price is the milk price you need to meet your operating expenses, interest, tax, principal repayments if required by the bank, drawings and an allowance for asset replacement.

In bad milk price years Alan says he looks hard at the areas he can cut back spending on without having a long-term effect on the business.

"Trim the fat not the bone.

"Don't prune costs on items that have long-term effects back so far it takes you



BEECHCROFT'S BUDGET

Here's a link to Beechcroft's budget for this year – check out the numbers and the notes that go with them or check out the other case study budgets for your region.

www.dairynz.co.nz/business/budgeting/budget-case-studies/north-canterbury-owner-system-4-2020-21/

till the next down cycle to come right again.

"Always budget conservatively, err on the side of caution but be real," he says.

It feels good to come out ahead of budget at the end of the year so be realistic - don't have costs pared back so far you can't achieve them but don't build so much fat

into the system you lose discipline on cost control. Monitor your actual spending against budget closely each month and interrogate the numbers.

"There will always be unders and overs, you'll never get it 100% right and in some cases it might just be a matter of timing if an expense has come forward for example.

"But if you're monitoring closely you can often make adjustments as you're going rather than getting a surprise at the

end." Knowledge is power and a good business person knows their financial position at all times, he says.

In tight times knowing where you're at is vital, it gives you time to take action.

Don't be afraid to talk to suppliers and say I want to do business with you but can we talk about terms of payment.

"Nine times out of 10 they'll accommodate that because you've talked to them upfront."

Protecting long-term relationships is important.

"It takes me all my life to build up a reputation and I can ruin it in five minutes so honouring contracts with people you've built a relationship with is important.

"Your people are important. I'll always wear the cost of a low milk price to keep good staff rather than being tight on people."

Involve the staff.

"It's up to you how much you disclose but involving them can give them a greater sense of ownership and can make them more careful about how they handle gear or maintain it.

"You might be amazed at the bright light moments that can come from even the most junior of staff on how something can be done differently to save money."

Try and be an autumn spender rather than spending earlier in the season.

"That way you have more certainty the money you expect to be there is."

Levies can be a reasonably significant cost that sometimes gets forgotten.

"Remember them, they can be one of those things you remember when you wake up in the night weeks after setting your budget. GST payments that need to be carried through from last year into the new budget are the same."

Review your budget and if there's a bigger surplus than you expect or things look worse than you thought - ask yourself - is it believable?

It can be daunting when you're starting out but they do get easier, Alan says.