
NEW TO FARMING · PART 3 OF 6

Your first farm budget, step by step

By Nick Clunes · Updated 26 October 2026 · 10 minute read

SHORT ANSWER

Start with a gross margin for your one enterprise, using a NSW DPIRD budget as the template. Then take off your overheads, interest and loan repayments to get a whole-farm budget, and spread every line across the months to build a cashflow. The cashflow shows the lowest your bank balance will get, which is the number that matters most in your first year.

You've found a block to lease and you've got a price on some ewes. Now someone asks the question you can't answer yet: "Will it pay?" A first farm budget answers it, and it also tells you how much cash you need to get through the year.

I'm Nick Clunes from Farm CFO by Clunes Rural. I started as a banker at Greater Bank and have worked in commercial and equipment finance since 2018. Here's how I'd build a first budget, in order, with one invented farm all the way through.

The four parts of a farm budget

1. **Enterprise gross margin.** What one enterprise earns, less the costs that go up and down with it.
2. **Overheads.** The costs you pay whatever the size of the flock or herd.
3. **Whole-farm budget.** The gross margin, less overheads, interest and loan repayments.
4. **Monthly cashflow.** The same numbers, spread across the months they'll hit the bank.

Do them in that order. Each one builds on the one before.

Step 1: Find a gross margin budget to start from

NSW DPIRD publishes free farm enterprise budgets. They're a good template, because they list every line a new farmer tends to forget. NSW DPI defines a gross margin as "the gross income from an enterprise less the variable costs incurred in achieving it".

Variable costs are costs that change with the size of the enterprise. Think drench, shearing, feed and selling costs. Overheads, such as rates, interest, depreciation and permanent labour, are left out. Depreciation is the wear on your gear, spread over the years you use it. So a gross margin is not profit.

Pick the budget closest to what you'll run. For first-cross ewes joined to terminal rams, there's a 2025 budget for 1,000 ewes.

Step 2: Learn to read the budget

The DPIRD budget has four parts. Here's what each one tells you, using the 2025 first-cross ewe budget.

Assumptions. The farm the budget is built on. This one has 1,000 ewes on 299 ha at 10 DSE per hectare. DSE means dry sheep equivalent, a measure of how much feed an animal eats compared with a dry adult sheep. It assumes 118% of lambs weaned, 4% of the flock dying each year and prices averaged from April to September 2025.

Income. Every sale, with the number sold and the price. In this budget, total income is \$328,124. Of that, 1,156 lambs bring in \$270,348 and cull ewes \$42,945, with wool and cull rams making up the rest.

Variable costs. Grouped into replacement stock, shearing and wool selling, animal health, selling costs, pasture and feed. Total variable costs are \$167,504. The biggest single cost is buying 217 replacement ewes at \$248 a head, which comes to \$53,816.

The gross margin. \$160,619 including feed, which is \$160.62 per ewe, \$53.72 per DSE and \$537.19 per hectare. Per DSE lets you compare sheep with cattle on the same land.

The budget also has sensitivity tables. They show what happens to the gross margin if one thing changes, like the lamb price or weaning rate. Read across a row and down a column to find your own mix. For example, if the lamb price and weaning rate both stay as assumed, the gross margin is \$53.72 per DSE. If weaning falls to 89%, it drops to \$35.03 per DSE.

DPI says the budgets are a guide only. Change them for current prices, your season and your own place.

Step 3: Build your own gross margin

This is an invented farm, and the figures are illustrative. Sam leases 100 ha and runs 300 first-cross ewes joined to terminal rams. I've scaled the DPIRD budget down and rounded the prices. Sam assumes the same 118% weaning, so 354 lambs.

Income	Sum	Amount
Lambs	$354 \times \$230$	\$81,420
Cull ewes	$53 \times \$240$	\$12,720

Income	Sum	Amount
Wool	300 ewes × 4.5 kg × \$2.90	\$3,915
Total income		\$98,055

Variable costs	What's in it	Amount
Replacement ewes	65 × \$250	\$16,250
Replacement rams	2 × \$2,000	\$4,000
Shearing and wool selling	Shearing, crutching, packs, commission	\$4,800
Animal health	Drench, vaccine, lice and fly control, marking, scanning	\$7,200
Selling costs	Commission, cartage, levies	\$6,400
Pasture	Fertiliser on the leased paddocks	\$4,000
Feed	Grain for ewes in winter and lambs before sale	\$8,600
Total variable costs		\$51,250

Gross margin is \$98,055 less \$51,250, which is \$46,805. That's \$156.02 per ewe. It sits close to DPIRD's \$160.62, which is a good sign the numbers are sensible.

The 65 replacement ewes cover the 53 culls plus about 12 deaths. That's 4% of 300, which keeps the flock at 300.

Step 4: List your overheads

Overheads don't change if you run 250 ewes or 350. Make the list as complete as you can. These are Sam's.

Overhead	Amount
Lease of 100 ha	\$22,000
Vehicle and fuel	\$6,000
Insurance	\$2,500
Accountant and bookkeeping software	\$3,000

Overhead	Amount
Fence, water and yard repairs	\$3,000
Phone, internet and sundries	\$1,500
Total overheads	\$38,000

Sam's lease rate is invented. The NSW Young Farmer Business Program lease checklist suggests talking to advisers and peers about current lease rates, and budgeting best, average and worst years.

Step 5: Put together the whole-farm budget

Now take off overheads and the cost of borrowing. Sam has borrowed \$60,000 toward the stock. The loan is invented, at 8% interest, with \$500 a month paid off the loan.

Whole-farm budget	Amount
Gross margin	\$46,805
Less overheads	\$38,000
Profit before interest	\$8,805
Less interest ($\$60,000 \times 8\%$)	\$4,800
Profit	\$4,005
Less loan principal ($12 \times \$500$)	\$6,000
Cash left at year end	\$1,995 short

Principal is the amount you borrowed. Paying it off isn't a cost in the profit figure, but it still comes out of the bank. So Sam makes a small profit and still ends the year with less cash than at the start. Sam's living costs come from an off-farm job. I've left out depreciation to keep this simple, but your accountant will include it.

Step 6: Spread it over the months

This is the step most people skip, and the one that matters most. Put every income and cost line in the month it will actually be paid. Sam's lambs are sold in February and March, cull ewes in December and wool in June. The lease is paid in July and January. Sam starts on 1 July with \$60,000 in the bank.

Month	Cash in	Cash out	Bank balance at month end
Opening			\$60,000
July	\$0	\$19,225	\$40,775
August	\$0	\$4,025	\$36,750
September	\$0	\$3,825	\$32,925
October	\$0	\$4,825	\$28,100
November	\$0	\$3,025	\$25,075
December	\$12,720	\$3,325	\$34,470
January	\$0	\$33,675	\$795
February	\$40,710	\$5,975	\$35,530
March	\$40,710	\$6,275	\$69,965
April	\$0	\$6,025	\$63,940
May	\$0	\$5,925	\$58,015
June	\$3,915	\$3,925	\$58,005
Total	\$98,055	\$100,050	

The cash out total is the variable costs (\$51,250), overheads (\$38,000), interest (\$4,800) and principal (\$6,000). The year ends at \$58,005, which is \$1,995 less than the \$60,000 at the start. That matches the whole-farm budget.

Look at January. The second lease payment, the replacement ewes and the new rams all land in the same month, before a single lamb is sold. Sam's balance falls to \$795. That's far too close. One late lamb sale or a big vet bill and Sam is overdrawn.

Sam has three choices. Keep more cash in reserve, arrange an overdraft for the gap, or move the ewe purchase to after the lamb cheques. An overdraft is a limit on your account that lets you go below zero up to a set amount, with interest charged on what you use. My guide to overdrafts and seasonal finance explains how they work.

Step 7: Test a bad year

Change one number at a time and watch what happens. If Sam's lamb price is 20% lower, at \$184 a head, lamb income falls by \$16,284. Profit goes from \$4,005 to a loss of \$12,279. The year-end bank balance drops from \$58,005 to \$41,721.

Run a dry year as well. Double the feed bill and see if the January low point still holds. If a poor season would break the business, it's better to know that before you buy the stock.

Step 8: Check it every month

Once you're trading, put your actual income and costs next to the budget each month. If the bank balance is heading lower than planned, you'll see it months ahead, while you still have time to act.

Tools to do this yourself

- The free sheep gross margin calculator for steps 3 and 7.
- The free cattle trading margin calculator if you're buying and selling cattle.
- The free cashflow forecaster for step 6.
- Excel templates you can download and fill in.

Where to get help

- **NSW DPIRD** for the free farm enterprise budgets for sheep, cattle and other enterprises.
- **The Rural Financial Counselling Service** for free budget help if you're in or near hardship: 1300 771 741.
- **An accountant** for tax, GST and depreciation. The ATO has the official rules.
- **A solicitor** for the lease or agistment agreement behind the budget.

For the background, read getting started in farming and ways into farming without buying a farm. Before you borrow, read farm loans explained, livestock finance and RIC loans explained. My guide to building a farm cashflow forecast goes deeper on step 6.

If you'd like me to check your budget and cashflow before you take them to a lender, the Farm Health Check is \$850 plus GST. If you want them built from your numbers, ready for the bank, that's the Bank Review Pack at \$1,850 plus GST.

Common questions

What is a gross margin?

NSW DPIRD defines it as the gross income from an enterprise less the variable costs incurred in achieving it. Variable costs are the ones that go up or down with the size of the enterprise, like drench, shearing and selling costs. A gross margin is not profit, because overheads like rates, interest and depreciation are left out.

Where do I find a gross margin budget to start from?

NSW DPIRD publishes free farm enterprise budgets for sheep, cattle and other enterprises. The 2025 sheep budgets use average prices from April to September 2025. Treat them as a guide only and change the numbers to suit your farm, your district and current prices.

What's the difference between a budget and a cashflow?

A budget shows whether the business makes money over a whole year. A cashflow shows when the money goes in and out of the bank, month by month. You need both, because a business can make a profit for the year and still run short of cash in the middle of it.

How much buffer should I have?

Your monthly cashflow tells you. Find the month where your bank balance is lowest, then plan to have that much cash or an overdraft available, plus a margin for a poor season. Test what happens if prices fall or costs rise before you commit.

Do I need special software?

No. A spreadsheet is fine to start. You can use my free calculators and Excel templates, then move to bookkeeping software once you're trading so your actual figures can be compared with the budget each month.

Sources

1. NSW DPIRD, 1st cross ewes, terminal meat rams, farm enterprise budget 2025 (1,000 ewes)
2. NSW DPI, About gross margin budgets
3. NSW Young Farmer Business Program, Factsheet: Lease checklist
4. business.gov.au, Rural Financial Counselling Service (RFCS)

General information only, not financial, tax or credit advice. Worked examples use made-up figures.