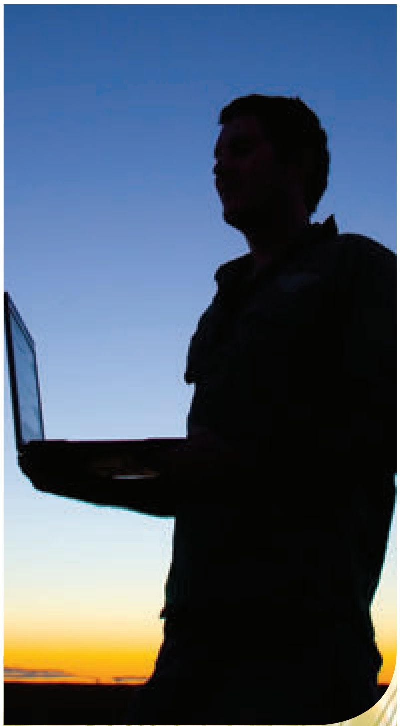

GRDC Farm Business Update Program

Welcome to the GRDC's Farm Business Update program for the Western Region.

This is the first time GRDC has invested in Farm Business Updates in the Western Region and this has been done in response to the priority RD&E issue 'growers understand profitability constraints' that was identified by the Kwinana East Regional Cropping Solutions Network. This event provides a unique opportunity to cover business management issues and hear from speakers not covered elsewhere.

Business management skills and knowledge is critical to running successful farm business. The decision making required is becoming increasingly complex as farm businesses strive to meet the key challenges of varying costs, prices and climatic conditions.

We trust that you find the Update and these proceedings thought provoking and a useful resource of information, networks and contacts in business management.

DARREN HUGHES

Manger Regional Grower Services - West

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Farm Business Update for Advisers

Supporting the Australian Grains Industry

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Department of Agriculture and Food
Nuffield Australia Farming Scholars
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AWWE Agricultural Women Wheatbelt East
AG Institute Australia
Australian Rural Leadership Foundation

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GRDC Farm Business Update for Growers and Advisers

Merredin, February 13th 2014

Program

9.00 am ***Welcome from GRDC and official opening***

9.15 **Key economic and political factors and the potential impact for the Western Australian grains industry** — ***Jeff Oughton,*** *Economics and Beyond*

10.15 **Dealing with the challenge of managing farm business – getting the right balance** — ***Mark McKeon,*** *Mischief, Motivation, Attitude*

11.15 **Round table introductions and networking facilitated session**

11.30 ***Morning tea***

Concurrent sessions

	Room 1	Room 2	Room 3
12.00pm	**Business structures, cash flow management and tax effective debt reduction** - what are some keys to ongoing business success? ***Brian Wibberley,*** *Wibberley Charted Accountants*	**Keys to farm business management success –** a successful grower's perspective ***Matthew Hill,*** *Nuffield Scholar and Farmer*	**Farm business continuity –** key factors for taking farm businesses into the future ***Judy Wilkinson,*** *Consultant*
12.45pm	**Achieving economies of scale in successful, vibrant family farming businesses** ***John Gladigau,*** *Nuffield Scholar and Farmer*	**The drivers of farm business success – key stories from farm business benchmarking** ***Geoff McConnell,*** *Planfarm*	**Weather models and their reliability for farm business decision marking** ***Neil Bennett,*** *Bureau of Meteorology*
1.30pm	***Lunch***		
2.15pm	**The drivers of farm business success – key stories from farm business benchmarking** ***Geoff McConnell,*** *Planfarm*	**Farm business continuity –** key factors for taking farm businesses into the future ***Judy Wilkinson,*** *Consultant*	**Business structures, cash flow management and tax effective debt reduction** - what are some keys to ongoing business success? **Brian Wibberley,** *Wibberley Charted Accountants*
2.45pm	**Achieving economies of scale in successful, vibrant family farming businesses** ***John Gladigau,*** *Nuffield Scholar and Farmer*	**Keys to farm business management success –** a successful grower's perspective ***Matthew Hill,*** *Nuffield Scholar and Farmer*	**Weather models and their reliability for farm business decision marking** ***Neil Bennett,*** *Bureau of Meteorology*

3.30pm **Final session**

The "flawless execution model" – applying the decision making principles of fighter pilots to business — ***Afterburners***

4.30pm ***Close & evaluation***

Using Agrimaster software is not just about the clever technology, it's about helping you use your farm software effectively to improve your business and financial stability.

Webinars: These are online interactive workshops using your own computer and phone. Learn everything you need in short, effective sessions. All the benefits of a classroom workshop without having to leave the farm!

Workshops: These are face to face classroom based sessions. Come along to our Perth office for the day and improve your Agrimaster skills. Workshops are focused, valuable learning accomplished in one day.

Courses	Outline	Cost
Getting Started with Agrimaster	Learn how to configure your Agrimaster code list and accurately record your transactions. Reconcile and maintain your cashbook and produce a BAS in Agrimaster for a more effective cash flow management system.	$770 workshop $660 webinar – 3 x 2 hour webinar sessions over 3 days
Intermediate Cashbook & Reports Management	Learn to correct errors from past months data, import RCTI's, create invoices, deal with harvest loans and more. Learn how to access the budgeting reports Agrimaster offers to help you keep in touch with your numbers.	$770 workshop $660 webinar – 3 x 2 hour webinar sessions over 3 days
Full Budgets	Construct a comprehensive agricultural budget report for your business. Use Agrimasters specialised worksheets for agricultural enterprises and report on your budget to actual comparisons. Learn how to produce 'statement of position' and 'gross margin' reports.	$770 workshop $660 webinar – 3 x 2 hour webinar sessions over 3 days
Quick Budgets	Successfully setup and use the quick budget facility in Agrimaster. Learn to prepare actuals in a budget format and produce a budget to actual report.	$220 webinar – 1 x 2 hour webinar session
Internet Banking	Learn how to setup Agrimaster with your own Internet Banking service. This will save you time, money and make it easy to perform all your internet banking needs – including making payments and importing your bank statements directly into you Agrimaster Software.	$220 webinar – 1 x 2 hour webinar session
Enhanced Invoicing	Learn how to use the enhanced invoicing facility on Agrimaster and create, print and pay invoices. In addition sort and find invoices and report using monthly debtor statements.	$220 webinar – 1 x 2 hour webinar session
Managing Grain Finance	Learn how to successfully set up and use the Recipient Created Tax Invoice Facilities and the Grain Income Calculator to deal with all types of loan, non-loan and cash contract scenarios. As well as how to incorporate this information into your Full Budget.	$220 webinar – 1 x 2 hour webinar session

How to Book:

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Agrimaster. It's why some farmers do better than others.

Getting the most out of your farm is as much about planning as it is about farming. Agrimaster, a program written by farmers for farmers, will easily handle your day-to-day accounts and cashbook. But it will also help you plan ahead, create accurate budgets, explore 'what if' options and even intelligently interface with your bank.

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Plans change with season

They say that most people don't plan to fail they fail to plan. Seeding is a good time for you to begin thinking about where you see the future of your business and how you are going to plan for this. The Agrimaster cashbook and budgeting software is used by the majority of West Australian farmers; this program provides the framework for solid planning which is key to getting the best out of your business..

Your historical financial data is applied not only to show what you have achieved in the past but also to help clear a path forward – to plan where you are going.

Good financial management provides you with a strong base on which to plan future direction in the event of sudden change.

It is constant and timely feedback that helps you go forward.

Agrimaster may have been considered a radical tool when it was developed in Western Australia nearly 30 years ago but farmers across Australia have adopted the technology at an exponential rate, and now it is considered the software package that is a pivotal driver of profit in farming businesses.

Integrating good planning and decisions

Having accurate up to date financials can help you confront the brutal facts about your business.

This is very important as it helps you feel the pulse of your business and identify any current or potential problems that are causing pain.

This provides you with a solid reference point from which to make changes.

Now – Where – How

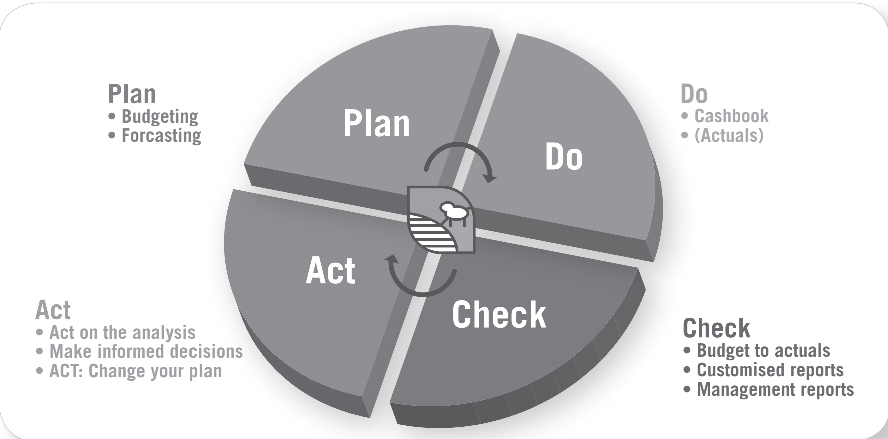
You should always know where you are now financially, be able to decide where you want to be and then have the ability to plan how you are going to get there.

Use the financial implications of production decisions as the backbone to successful change and volatility management.

At Agrimaster, we use a set of powerful business tools to breakthrough barriers so you can see where you are 'now', 'where' you want to go and 'how' you are going to get there.

A recent report from Australian Bureau of Agricultural and Resource Economics (ABARE) noted that, "farmers will require information to make cost-effective adaptation decisions."

Good operators invariably use systems that provide timely and accurate information, and form part of their monthly operational review.



Positive steps to help manage change:

1. Do your own books for business management not just compliance needs – FEEL your numbers.
2. Develop a strong financial frame of reference by getting close to your numbers on a regular basis.
3. Confront the brutal facts – stay resilient and use your facts and planning tools to NOW, WHERE, HOW
4. Plan, Do, Check, Act – constantly
5. Get a good Business Adviser, Coach, Mentor
6. Embrace change as an opportunity

For more information about Agrimaster go to **www.agrimaster.com.au** or phone **1800 110 000.**

JAZ- #5646

Why Choose Byfields?

With over 500 farmer clients from Geraldton to Esperance, Byfields are the premium provider of accounting services to the rural community.

At Byfields you will benefit from our service via:

1. **Our staff have an empathy and under-standing of the issues facing farmers and rural communities.**
2. **Byfields strive for earlier completion of tax returns so you know your exact tax liability at budget time.**
3. **Byfields can prepare pre-harvest tax estimates to assist in your decision as to which harvest delivery option is best for you.**
4. **After harvest tax estimates mean you have plenty of time to consider your tax planning alternatives.**
5. **Our succession planning specialists will guide you through this process, ensuring capital gains tax and stamp duty are minimised.**
6. **Long term retirement plans prepared in association with our financial planning specialists ensure a more comfortable retirement when the time comes.**
7. **Proactive service ensures your Wills, life insurance and off-farm investment needs are attended to.**
8. **Our close links to agricultural banks, consultants and legal advisers make life easier for you.**
9. **Byfields can assist you with the implementation and ongoing compliance of your Self Managed Superannuation Fund.**
10. **With our rural backgrounds we have a natural interest in the farming industry and will go the extra mile to help you reach your goals.**

Perth

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One-stop shop

for collaborative RD&E in Western Australia

The GGA supports and connects grower groups with the relevant people, information and skills to pursue grains RD&E to maximise the productivity of WA grain growers.

What is the GGA?

The Grower Group Alliance (GGA) is a non-profit, farmer driven organisation connecting grower groups, research organisations and agribusiness in networks across Western Australia.

The role of the GGA is to:

- Support and maintain a relevant network of grower groups and their partners to allow the exchange and application of knowledge and research results;
- Enhance the participation of grower groups in delivering research, development and extension through independent and collaborative projects;
- Support grower groups in becoming more relevant, sustainable and effective as a group.

Benefits for Grower Groups

- Increase information and knowledge exchange, through regional meetings, group exchange, annual forum, cross regional tours, study tours;
- Communications support: linking right people with right info, fortnightly industry Calendar, Newswire;
- Grower Group event support;
- Identification of RD&E project opportunities, developing collaboration, application support;
- Access to resources and training;
- Grower group operational support, including corporate governance, running events, sponsorship development, policy advice;
- Promotion of grower groups to the wider agricultural industry.

Benefits for Industry

- Access to state-wide grower group network;
- A central point of contact to reach grower groups;
- Conduit for project development and consultation;
- Opportunities for participatory action research, extension and communication, directly with growers;
- Opportunities to develop links with grower groups for collaborative projects;
- Adding value and impact to project activities.

Contact Us

Rebecca Wallis, T: 08 6488 3410, E: rebecca.wallis@uwa.edu.au, W: www.gga.org.au

EASTERN WHEATBELT GROUPS

Bodallin Catchment Group
Corrigin Farm Improvement Group
Merredin and Districts Farm Improvement Group
Kellerberrin Demonstration Group

Grower Group Alliance Resources – all resources can be viewed on the GGA website – www.gga.org.au/Resources

The Grower Group Toolkit Volume 3

The purpose of The Grower Group Toolkit is to compile the wealth of knowledge the GGA has gathered over the years to answer questions for both new and developed groups and be a valuable resource for new staff or members taking on a role in a grower group. Volume 3 of the Toolkit also includes useful templates, such as submission writing, strategic plan, risk management, evaluation, Executive Officer and Project Officer job description, sponsorship proposal and agreement, and incorporation.

The Grower Group Event Handbook

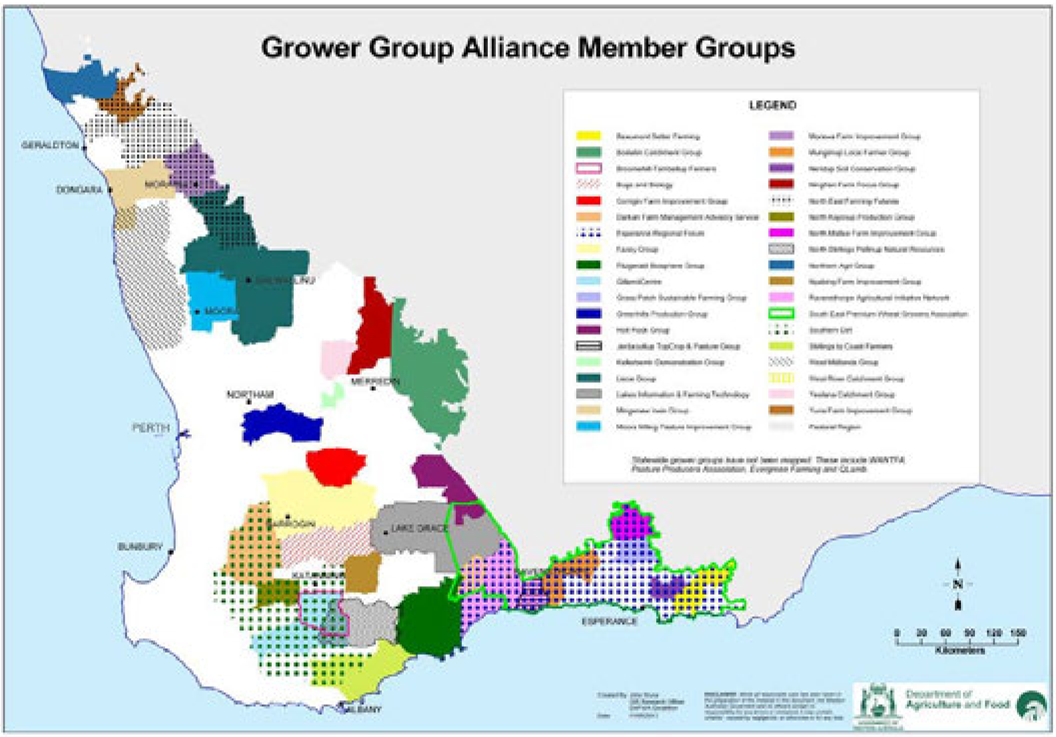
The Grower Group Event Handbook is a comprehensive guide for running a successful event, be it a field day, crop update, trial review or workshop. The booklet contains information concerning funding, sponsorship, service of alcohol, tips for planning and evaluating your event, as well as a 'Quick & Dirty' checklist to ensure your event is a hit. The booklet also contains handy templates for event risk management, the service of alcohol, a presenter briefing note, advice for advertising and developing a communication strategy, how to write a winning media release, and an evaluation template.

On-Farm Trials Resource Guide

The GGA has put together a series of resources to assist grower groups and growers in planning, running, analysing and communicating their on-farm research trials. It aims to enhance grower groups' capacity to question what trials they run and conduct the trials rigorously to effectively address the groups' needs.

GGA Policies and Procedure Guide

The GGA Policies and Procedures Guide aims to highlight the key policies and procedures grower groups may use in developing their own manual, and provide detail on each area of policy, how to format a manual and shows an example of a policy.



The Grower Group Alliance is a not-for-profit, farmer-driven organisation connecting grower groups, research organisations and agribusiness in a network across WA. It has been funded by the Grains Research and Development Corporation from 2002- 2014, administered by the Mingenew-Irwin Group, and hosted by The University of Western Australia.

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Thursday, 9 January 2014

Nuffield Australia – Backgrounder for GRDC Proceedings

Nuffield Australia awards scholarships each year to those in the agricultural and fishery industries in Australia. It provides an opportunity for scholars to travel overseas on a research scholarship relating to primary production. It is a 16-week program consisting of both group and individual travel.

The objectives of a scholarship are to increase production knowledge, personal and management skills. It is a unique opportunity to stand back from day-to-day business management and study a relevant primary industry subject of interest. Applicants do not need academic qualifications but need to persuade selectors they have qualities to make best use of an opportunity given to a few.

Professional Development

Nuffield's strategic approach is also to position itself as the catalyst for further, post-scholarship professional development. It has an agreement with the Australian Institute of Management (AIM) to provide support for scholars to participate in AIM's training courses. Additional opportunities include participation in the Rabobank Executive Development Program (EDP) and media training courses.

Further post-scholarship professional development is also available overseas through Nuffield. This includes the Executive Program for Agricultural Producers (TEPAP), which is run by Texas A & M University, a 'Farm Business Management Course' at Royal College Cirencester UK and the 'Challenge of Rural Leadership Course' at Duchy College in the UK.

These opportunities to continue enhancing knowledge, understanding practical management are at the forefront of Nuffield's strategic approach and highlight the opportunities given to Australian scholars – of which there are over 300 – to leverage off their scholarship for life.

How can I apply?

Scholarships are open to men and women, who are between 28-40 years of age, who must ordinarily be a resident of Australia and engaged in farming or fishing as an owner or manager or an active member of a farming business. The scholar must also intend to remain involved in primary production in Australia. Applications open on 1st April and close on 30th June annually.

How else can I get involved?

Nuffield Australia Farming Scholarships hosts a number of state and territory-based regional events throughout the calendar year and scholars, sponsors, stakeholders and potential applicants are all welcome. There is also a National Conference held annually which, in 2014, will be held in Tasmania from 18-22 September and will include two conference days and a regional tour.

More information about the 2013 Conference, which was held in Perth, can be found via the Nuffield Australia website. Go to: www.nuffield.com.au

More information:
Contact Jim Geltch: Ph: 03 5480 0755 or Email: enquiries@nuffield.com.au

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WORKSHOP

Technology, Tablets & Tips

Managing your business on the go

"Technology, Tablets & Tips" - *Managing your business on the go***

A one-day interactive workshop

TOPICS COVERED:

- Get the best out of your tablet and smart phone
- Quick tricks & getting to know your device
- Access & security
- Cloud computing – set up, filing & syncing
- Version control
- Social media & it's relevance to Ag
- Apps – downloading, buying & handy apps for business and agriculture
- Demo of useful apps such as: Dropbox, Google apps for Business
- Troubleshooting – question time / open forum

*** This is not a workshop for absolute beginners. It is expected that participants in this workshop will already own, and have a basic understanding of a smart phone or tablet, and its functions. It is aimed at people wishing to use their device for business & efficiency purposes. Participants will bring their own devices to the workshop.*

$165 (inc GST) for the first person from a business. **$110** (inc GST) for any other members of the same business.
A workshop manual and catering are included in your registration.

The workshop runs from 8.45am – 3pm.
A minimum of 10 farm businesses are required. Maximum of 20 participants.

Upcoming Locations for March:

Beacon, Merredin, Southern Cross, Northam, Quairading, Narembeen
Go to the WA Events section of our website to register for a workshop in your area.

Other workshops offered by Partners in Grain:

Farm Office Efficiencies – *More Organisation. Less Office Time.*
Being a Better Boss – *Part 1: Managing People (HR)*
Being a Better Boss – *Part 2: Legal Obligations (IR)*

Find out more at….

www.partnersingrain.org.au

Locally relevant, personalised training.

GOVERNMENT OF WESTERN AUSTRALIA

Department of Agriculture and Food

Farm Planning Workshops

Supporting the profitability and productivity of Western Australian farm businesses.

The Department of Agriculture and Food (DAFWA) is offering a suite of free Farm Planning Workshops to Western Australian farm businesses. The training in these workshops is directed at strengthening farm businesses, sustaining the farm family unit and supporting the growth of resilient rural communities.

agric.wa.gov.au/workshops

Supporting your success

Planning for Profit – 1 day workshop

The Planning for Profit workshop is focused on participants investigating how they can take home more from their farm business, and discovering the most effective ways to increase profit by addressing the five key profit drivers:

- Management
- Price
- Production
- Business costs
- Operating costs

At the end of the workshop you will have a better understanding of how to:

- achieve an effective price for your key enterprise
- know the costs of owning and running your farm business
- optimise operating expenditure and target profitable production
- use profit planning to manage business and production risks.

Planning for profit is a continuous, ongoing process throughout the production cycle where you as the manager actively revisit and adjust your plans as information about each season becomes more certain.

Plan, Prepare and Prosper - 5 day workshop

The Plan, Prepare and Prosper workshop is a five day training program designed to support farm businesses develop robust strategic enterprise plans to assist decision making in times of risk and opportunity. The program is intended to shift farm enterprise decision making from crisis management to risk management.

This free workshop is held over five days and covers:

- introduction to strategic planning
- farm finances
- managing work-life balance and succession planning
- environmental risk, resource and production
- finalising your strategic plan.

At the end of the workshops you will have:

- completed a strategic business plan
- undertaken practical exercises that will improve your business skills
- developed an understanding about how other farmers are managing their challenges.

Plan, Prepare and Prosper - Refresher - 1 day workshop

DAFWA's Plan, Prepare and Prosper – Refresher workshop is for farm businesses who previously prepared a strategic business plan through the DAFWA Plan, Prepare and Prosper workshops in 2011/12 or 2012/13, or as part of the Drought Pilot in 2010/11 or 2011/12.

The Refresher workshop has been designed to help participants review and refine their existing strategic plans through:

- discussing the process for reviewing strategic business plans
- confirming the vision
- reviewing and refining goals, strategies and actions
- undertaking negotiation training
- reviewing capital investment.

Particpants will take away a completed workbook, support tools and a DVD of the workshop.

All farm businesses are encouraged to apply, as groups are formed subject to demand and minimum numbers. For more information about DAFWA's Farm Planning Workshops, or to download an application form, visit **agric.wa.gov.au/workshops**

AG INSTITUTE AUSTRALIA

ABOUT AG INSTITUTE AUSTRALIA

Ag Institute Australia is the peak body representing the interests of Agricultural and Natural Resource Management professionals working in the Private, Government, Education, Consulting and Agribusiness sectors.

The Institute is committed to advancing the interests of its members and their application of rural science and technology for a sustainable future.

AIA membership is open to those who hold an appropriate qualification in agriculture and/or natural resource management or individuals who have achieved a professional status and a position of responsibility through a combination of post-secondary education and practical experience.

Students who are pursuing a career in agriculture or natural resource management can apply for free student membership of AIA. We welcome Ag students to our professional community.

WHY JOIN AG INSTITUTE AUSTRALIA?

Our members enjoy a wide range of benefits:

Accreditation

Develop your skills base and become recognised through the AIA professional accreditation program. The AgCredited program provides a benchmark of quality assurance standards which the professional has to satisfy through independent assessment.

Events and Networking

With over 1200 members working across all sectors of the industry Australia-wide, membership of Ag Institute will expand your professional networking, enhance knowledge sharing through workshops and State Division events and provides social contact opportunities to geographically dispersed members.

Communications

AIA produces a range of publications and communicates with its members regularly so as they are informed of the latest industry news and events.

- Weekly Alerts providing a snap shot for members on industry issues and events
- Agricultural Science Journal showcasing peer review papers, event reports, book reviews, science news and science based opinion pieces
- Website allowing access to the Members Only section providing a wealth of information

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Ag Institute Australia
Trading name of the Australian Institute of Agricultural Science and Technology

Australian Rural Leadership Foundation

Developing leadership excellence to build a resilient rural Australia

The Australian Rural Leadership Foundation was established in 1992 to respond to a backdrop of emerging challenges for rural, regional and remote Australia. Strategic decisions affect many but are often made by very few. To ensure that rural Australia can influence change, a network of informed leaders from a variety of industries, sectors, regions and communities is needed to broker effective solutions – leaders who have the capacity to represent in boardrooms, around the policy table and in the public arena.

Our Role? To develop the leaders Australia needs to see it through the tough times.

It all begins with leadership. And that starts with education and support for individuals with the drive and enthusiasm to step up to the plate as leaders.

The need for the Foundation's work has become more urgent over the last decade. Australia's problems with water, drought and farm sustainability have intensified. Visionary leadership is required to assist rural Australia to meet the challenges that threaten the viability of rural communities and industries.

Applications for Course 22 of the iconic **Australian Rural Leadership Program** (ARLP) will open on 1 March, 2014. It is a 59 day program, delivered in six sessions over 17 months. Five of these sessions take place in locations across Australia, and one component takes place overseas.

To find out more, or to view our available short programs, visit **www.rural-leaders.com.au**

"Through my experience with the ARLP I have been able to understand my core strengths. These include communication both written and verbal, positive advocacy, as well as influence and negotiation. It is these skills I intend to put towards grains industry challenges in the future, as well as rural and remote community challenges.

I look forward to working with organisations such as GRDC, NFF, various industry bodies and our parliamentary members." **Julia Hausler, Fellow ARLP Course 19, farmer, lecturer, volunteer.**

"The Program was a fantastic opportunity to meet new people, and to go overseas, but what I really value is the 'big picture' perspective – the ability to look outside my own backyard." **Peter Kuhlmann, Fellow of ARLP Course 6, 2012 Australian Farmer of the Year and 2012 Grain Grower of the Year.**

1st Floor 24 Napier Close Deakin ACT 2600 T 026281 0680 www.rural-leaders.com.au

Agricultural Women Wheatbelt East (AWWE)

The AWWE group was formed in October 2012 and aims to support the essential role women undertake in Eastern Wheatbelt farm businesses through the provision of skills, professional development and networks.

The AWWE Group holds many functions throughout the year, ranging from networking events, technical farm business workshops, industry update sessions and personal health and wellbeing sessions.

Members are surveyed every 12 months to gather information on the type of events, training, professional development and key social issues which are most in need of addressing. From this information, the AWWE Group plans functions which meet these needs.

Technical topics covered in workshops throughout the 2013 year have included grain marketing and succession planning. Other topics to be covered in the near future include:

- Understanding & analysing financial performance
- Strategic planning
- Farm office organisation
- Employee management
- Business and family communication skills.

Aside from the technical workshops, the AWWE Group provides a platform for women to interact and network with others and create their own support networks in our local communities, irrespective of any geographic barriers. We hope people leave AWWE events better informed, inspired, motivated and with the knowledge that we are working together to improve our rural communities and farm businesses.

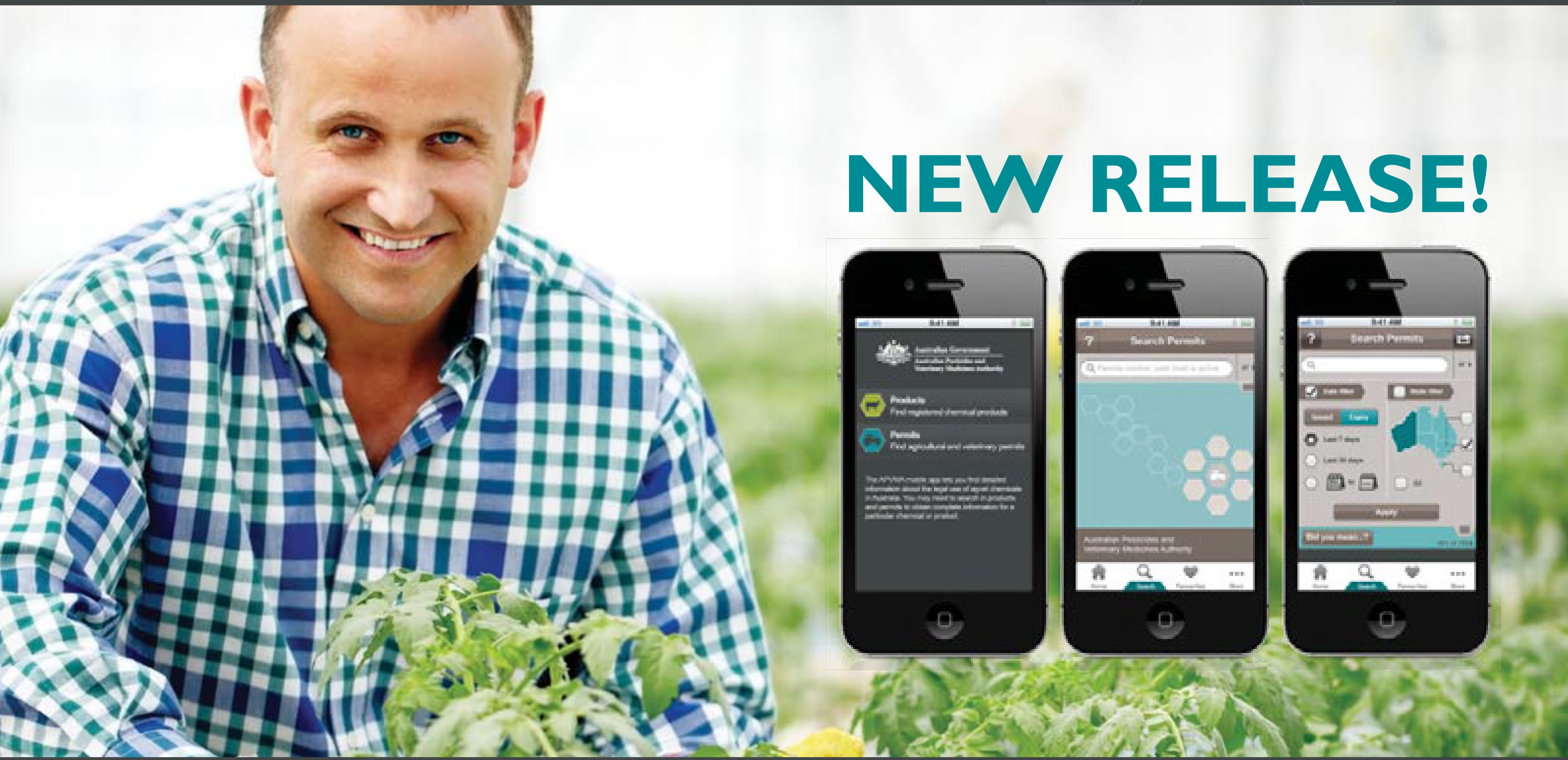
AWWE Group events are mostly held in Merredin, although we try to hold events in surrounding towns where possible, to engage with those smaller communities.

Please email olivia.grigson@live.com.au to be added to our regular email distribution list.

Further information: Phone: Olivia Grigson 0400 412 239;
Email: olivia.grigson@live.com.au

Australian Government

Australian Pesticides and Veterinary Medicines Authority



APVMA permits database goes mobile

The second release of the FREE APVMA mobile app is now available, providing on-the-go access to the APVMA's permits database.

The app provides a radically simpler, intuitive user interface with real-time access to the APVMA's agricultural and veterinary medicines chemical registration and permits databases and is of particular relevance for those reliant on minor use authorisations in the horticultural and minor grains industry.

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- view off-label authorisations
- search by category, alphabetically, suspended or cancelled products and 'did you mean?' searches
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To download, search 'APVMA' on the App Store. For more information, visit www.apvma.gov.au.

Available on the App Store

Summary of macro economic and financial outlook – some implications for agribusiness

Jeff Oughton,
Economics and Beyond

Keywords

financial outlook, economics, global growth, 2014, China, Australian dollar.

Take home messages

- **Global growth is too slow and uneven - finances are unstable and uncertainty persists. Critically for Australia, China and emerging Asia looks set for relatively strong growth.**
- **Australian growth to remain below potential - unemployment to rise, inflation to stay low.**
- **Risks still to the downside in the near term - unsustainable government finances; geopolitical tensions; exits from zero interest rate policies; and difficulties implementing much needed financial system; structural and social reforms in many major economies.**
- **Financial policy and markets - bonds sell off but no crash, investors search for yield in equities and properties; and $A most likely to resume its path significantly lower.**
- **In the medium to long term – go China! Australian's investing in key capabilities, building trusted relationships, implementing successfully and positioning competitively, understanding customers and delivery of quality products and services.**
- **Australia - a country with great growth options and a great opportunity for agribusiness!**

Global growth

Global growth is too slow and uneven, finances are unstable and uncertainty persists. Critically for Australia, China and emerging Asia look set for relatively strong growth.

Global prospects are a bit brighter, but still too slow, uneven, unstable and uncertain. After two consecutive years of real output/GDP growth below trend at around 3 per cent in 2013, the International Monetary Fund (IMF) recently forecast world growth to be marginally stronger in 2014 at about a trend of 3½ to 4 per cent per annum. There are increasing signs of a pickup in advanced economies, notably a continued moderate US expansion; a bottoming in European activity; and increased activity in Japan. While slower than previously, emerging the growth of emerging economies will remain relatively strong. Overall, global recovery is expected to broaden over the medium term provided systemic risks continue to dissipate; new structural policies emerge; and financial conditions remain supportive and orderly. Inflation looks set to remain too low and unemployment too high in 2014.

A combination of sluggish global trade, tighter global liquidity, capital outflows and bottlenecks have slowed emerging Asian and other developing economies. After an arguably 'soft landing' in 2013, prospects are for slightly faster GDP growth in 2014.

Critically for Australia, while Chinese activity has moderated during the past few years, the authorities are looking to rebalance activity from over-investment towards consumer spending and to sustain relatively strong growth at 7 to 8 per cent per annum over the medium term. China needs to contain the building of risks in the financial sector without excessively slowing output growth - a delicate balancing act.

In contrast, activity in a number of emerging economies, such as Argentina, Brazil, India and Indonesia, were hit hard in 2013. High inflation and a reliance on foreign borrowing have left both countries exposed to shifts in global liquidity as well as the need to raise cash rates to restore domestic and external balance.

Australian growth

Australian growth predicted to remain below potential, unemployment to rise and inflation to stay low.

Australian GDP growth is expected to continue to increase at a rate, below potential, of 2 to 3 per cent during 2014. This reflects a peak in the mining investment boom, an $A that is still too high and a tightening fiscal policy that is only partly offset by easy monetary policy on interest rate sensitive domestic demand. Underlying consumer inflation looks set to remain well contained at about 2½ per cent in the middle of the RBAs target range. Wage gains, on average, are likely to be about 3 per cent for the second consecutive year, while unemployment will continue to edge higher, up over 6 per cent during 2014.

Business conditions are mixed, and poor in most parts of retailing, wholesaling, manufacturing and non-residential construction. Only a minority in finance, property, recreational and personal services report a 'positive' view of business conditions.

Post the farm gate, agribusinesses tend to report 'satisfactory' conditions. On-farm, a small increase in production and stable terms of trade (prices received to paid) is expected to drive a moderate improvement in cash flow for producers as a whole. That said, deterioration in seasonal conditions in eastern and north Australia, as well as a high Australian dollar and downward pressure on some commodity prices, has weighed on some producers and commodities. In contrast, favourable seasonal conditions in most of WA have boosted crop and livestock producers.

There are 'green shoots' of some increased household activity due to the lagged effects of relatively low borrowing rates, a larger than expected rise in global and Australian share prices over the past year or so, and a recent pickup in capital city house prices - albeit mainly in Sydney and to a lesser extent Melbourne and Perth with modest gains elsewhere. This is despite continued subdued 'real' growth in household income and a lack of positive 'animal spirits'. Sustained global growth and increased resource capacity will also support stronger non-farm exports during 2014.

Lower terms of trade, from a fall in key commodity prices, are forecast to lead to modest growth in nominal national income at 4 to 5 per cent per annum. The lower $A, subdued wages and rising productivity will benefit earnings of some companies. After little growth over the past few financial years, analysts expect a rise in earnings of about 5 per cent during 2013/14. Increased infrastructure spending is widely needed, albeit there will be substantial lags from planning to spending.

Downside risks

There are still risks to the downside in the near term. Such as unsustainable government finances, geopolitical tensions, exits from zero interest rate policies and difficulties implementing much needed financial system, structural and social reforms in many major economies.

A return to a strong, balanced and sustained global growth path and stable financial system remains the global macroeconomic goal, rather than reality. In general, policy makers have 'muddled through' and or 'kicked the can down the road'. Poor policies could lead to significantly lower global growth and a return of financial turmoil.

Businesses need to keep a 'weather eye' for asset bubbles, and to a lesser extent goods inflation from simplistic policy, as well as an absence of political will to drive reforms to restore sustainable growth. Businesses would be well advised to stress test their financial positions for a new normal of sustained slower growth as well as potential downside risks. In the case of Australia, a downside scenario (such as a negative spill overs from China) would involve a combination of significantly lower commodity prices somewhat mitigated by a lower $A, significantly higher medium and long-term loan rates and falls in asset values (both equities and property).

Financial policy and markets

There are bonds sell off but no crash, investors search for yield in equities and properties and the $A is most likely to resume its path significantly lower.

In the US, Federal Reserve System (Fed) signalling about the removal of some of the unconventional financial stimulus, by buying fewer government securities and printing less money, has significantly increased global bond yields from exceptionally low levels during 2013. Fed tapering will be a key global financial focus for 2014, with the Fed not expected to begin to raise its cash rate before 2015.

In contrast, European and Japanese authorities have confirmed their commitments to very accommodative monetary policies for the foreseeable future. In the EU, weak banks still need to be recapitalised and a banking union completed to unify supervision, crisis resolution, improve confidence, revive credit and sever links between banks and governments. Competitive and other reforms are also needed to lift EU growth in a sustained manner.

In Australia, the RBA cut the cash rate by a further 1 percentage point to 2.5 per cent during the past year to 50 year lows in early August. Looking ahead, futures markets have a very low likelihood of a near term reduction the cash rate, with the RBA gradually raising cash rates in late 2014 and early 2015 the most likely scenario.

In contrast, the likely end to RBA cuts, the dissipation of global tail risks and rising global bond rates have increased medium and long-term yields on Australian government and corporate bonds. Further rises in medium and long-term bond yields are likely over the next year. Business may well examine the relatively low borrowing costs and fix rates on some core borrowings for longer terms.

In both trade-weighted terms and against the US dollar, the Australian dollar in late January 2014 is around 16 per cent lower than its recent peak in April 2013. Lower commodity prices, lower short-term interest rates and increased global risk appetites have lowered the international value of the Australian dollar. That said, uncertainty about US monetary policy and global growth prospects have continued to lead to significant volatility in global foreign currency markets. After falling from over 105 US cents to below 90 US cents in late August, the Australian dollar rose to over 96 US cents in late October and then fell to 87 US cents in late January 2014 – its lowest level since mid 2010.

Looking ahead, the gradual tightening in US financial conditions, increased global risk appetites, new supplies of non-rural commodities and lower prices are expected to continue to place further downward pressures on the Australian dollar during 2014. Based on these fundamental drivers, the Australian dollar is forecast to fall to the low 80's US cents by end 2014 (plus or minus 5 US cents). That said, forecasting currencies and commodity prices are fraught with fundamental and technical difficulties and currency and commodity risks always need to be managed appropriately.

Summary

- In the medium to long term – go China!
- Make the most of the Asian century and Australia.
- Australian's investing in key capabilities, building trusted relationships, implementing successfully, positioning competitively, understanding customers and delivering quality products and services.
- Australia - a country with great growth options!
- A great opportunity for agribusiness et al.

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Get in the 'Go Zone' – make your faith stronger than your fears

Mark McKeon,
Mischief, Motivation, Attitude

Keywords

time efficiency, personal productivity, key skills.

Take home messages

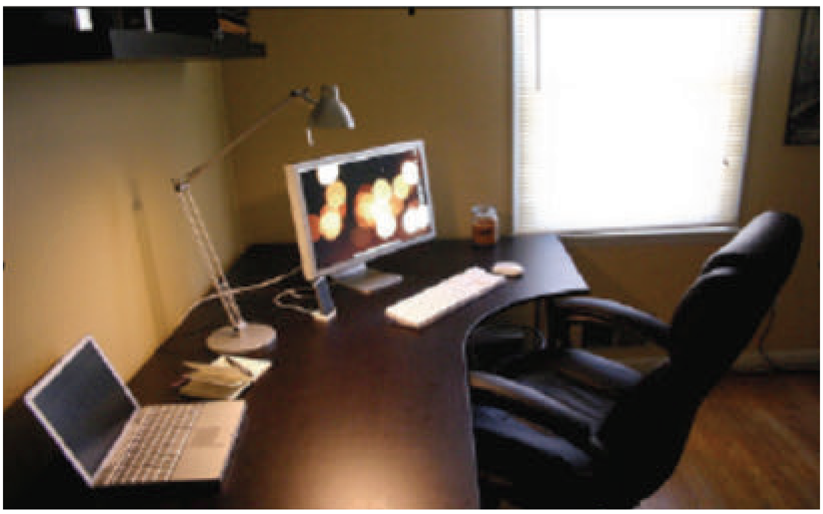
Many people have peaks and troughs in their personal productivity. They sometimes 'get on a roll' and make multiple achievements in one day, week or month, while at other times they feel like their next achievement may never, ever come.

They are sometimes efficient with their time, personal organisation and farming or administration skills, while at other times they lose time, procrastinate or operate with low efficiency. Many people have lost the ability to concentrate, focus and then relax. The Go Zone is about rebuilding and refreshing these key skills

The Go Zone maximises the productive hours we have each day.

The Go Zone eliminates distractions, errors and repeats. The Go Zone makes sure that we get it right the first time.

The Go Zone incorporates the idea of our own 'Ideal Performance State', where we are physically and mentally prepared to achieve a state of peak performance in any environment.



10 Key features of the **Go Zone** are:

- 120 minute periods of total focus on the most important things for your farming related business.
- A prioritised to do list that is compiled before you enter your Go Zone.
- Set, predetermined and regular time frames. We do not wait until we feel like it.
- Repeated habit four or five days each week.
- Non negotiable target that is totally within your control. This target is keep working through your list until the buzzer sounds.
- No distractions and no excuses: Clear area, no drops ins, no social calls, no food (water is good), no stops...a repeatable habit of total dedication to the task.
- Start and finish with 2 minutes of deep breathing.
- A token that sits in your pocket on your person to remind yourself and others that you are in the Go Zone.
- A buzzer or alarm that sounds to signal the end of your Go Zone.
- Every Go Zone finishes with a short review and debrief... Coach yourself...what did I do well, what could I do better?

Slow Zone

The **Slow Zone** is the normal or standard of ethics and enthusiasm displayed by most people.

The **Slow Zone** is more than going through the motions but less than being totally committed to the task and totally determined to achieve a preset goal.

10 Key features of the **Slow Zone** are:

- Standard method of operation for most people.
- A modest level of motivation and output.
- Completion of routine tasks. The things that still need to be done, but they are less important.
- Awareness of the limited productivity of the Slow Zone.
- Productive but non stressful.
- No big decisions are made here.
- Preparation for the Go Zone…Compiling of prioritised to do list for your next Go Zone.
- The transitional state or buffer between the Go Zone and the No Zone
- The state where our physiology returns to neutral or baseline levels. Adrenaline dissipates.
- Slow Zones can extend for multiple hours because anything other than a Go Zone, No Zone or sleep is categorised as Slow Zone.

The **No Zone** incorporates the personal boundaries we create to separate work from the other components of our lives. There are times when the best use of our time is to not be at work, to not think about work and to have a total break so that we are refreshed and ready for our next time commitment to work. This is very demanding and even more important when people work from home.

10 Key features of the **No Zone** are:

- No work and no thinking about work.
- Whatever you do in your NO Zone must distract you or involve you so much that you are no longer thinking about work.
- Regular scheduled periods of total recovery. It is like pressing CTRL/ALT/DEL on your computer. It's like restoring factory settings. It is a crucial part of your preparation for your next Go Zone.
- Complete mental and physical break from the business.
- Do something different. Have Boundaries that you respect and implement. Your target is eight hours per week of No Zone. Either a 2 x 2 hour blocks s or 4 x 1 hour blocks from Monday to Friday and 1 x 4 hour block on each weekend. This means four No Zone hours during the week and four No Zone hours on the weekend.
- Try your hardest not to feel guilty about being in the No Zone. No Zones are a crucial part of your preparation for your next Go Zone.
- No Zones cannot be compromised. A walk along the beach accompanied by your phone (just in case a client calls) is not a No Zone, it is a de facto Slow Zone.

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Notes

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Business structures, cash flow management and tax effective debt reduction – what are some keys to ongoing success?

Brian David Wibberley,
Active Ag Consulting Pty Ltd & Wibberleys Chartered Accountants

Keywords

business structures, business cash flows, risk management, self managed superannuation funds, succession, retirement, estate planning.

Take home messages

- **To successfully manage and run a family farm business you need to establish a solid foundation. This foundation is composed of various structures and strategies, what we call "tools in the shed" along with a sound understanding of how these tools should be used for the betterment of the business and the family.**
- **The stronger the foundation, the better the business and the more likely it is the family will achieve their life long goals.**

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Introduction – the family farm business game

As this topic suggests there are various aspects involved when it comes to managing a family farm. These include:

- the human aspects
- the science, technology and production aspects, and
- the business and economic aspects.

Failure to adequately address all of these areas may result in the eventual failure of the family business.

Human aspects

No matter what form of primary production you engage in:

- Broad acre cropping
- Intensive livestock farming
- Dairy
- Viticulture
- Horticulture
- Fishing, and
- Aquaculture.

If you engage in the business as a family farming unit you are faced with similar issues and demands.

> *Bill Malcolm and Jack Makeham "The Farming Game" publication 1981 reprint 1993 stated: "One feature of managing farms that distinguish them from managing many non-farm businesses is the close relationship between the household (consumption unit) and the business production unit. As a result – non-productive issues have a larger role in how the business is managed than with non-farm businesses."*

Given this fact it's impossible to manage a successful business without taking into account the people and how they feel.

It's my view successful farming is about 60% emotion and 40% doing the job. This is because many of the management, production and marketing decisions people make, have financial ramifications for years to come e.g. failure to spray radish weeds in a crop, failure to feed the ewes and rams before mating , failure to sell grain at the top of the market, etc.

Often these decisions are made in isolation and if the person making these decisions is stressed or worried and they make the wrong decision on this day, the poor decision can affect their bottom line for years to come. These stresses and worries can arise from health, finance, family, marriage and succession issues.

In practice we often see successful businesses suddenly performing poorly from a production and financial aspect, due to a marital dispute or financial pressure. The effect of these issues on the successful performance of a farm business cannot be underestimated.

Further to these human issues farming families are faced with uncertainties in relation to production.

<u>Production aspect</u>

Farmers are in the business of manufacturing food. Like most manufacturers they take various inputs, apply certain processes, utilise a work place or equipment to come up with a product for sale at a gain. Unlike most manufacturers, farmers are faced with a wide range of fluctuating production factors driven largely by the climate. Rainfall and sunlight can play havoc on the production process. Too little rain, too much rain, too much humidity, no sunlight, too much sunlight can have a dramatic effect on production. Further to this farmers have to deal with living organisms, crops, pastures, livestock, pests and diseases in an every changing world and climate.

Over the last twenty years we have seen an over emphasis in relation to the science of agriculture. The focus has been on maximising physical production per unit e.g. per hectare as opposed to focusing on the net profit or financial sustainability of the farm business. To do this you need to consider the 'whole business'.

We understand science is important and coming from an agricultural science background I know this as much as anyone, however experience as a financial adviser to family farming businesses has emphasized the fact that successful farm business is more than just the top line. It's about a whole range of complex issues, ranging from the family through to scientific, technology production issues through to the business and economic aspects of the profession.

Unfortunately, like the human aspects of farming, one area that is in urgent need of attention is the economic and business aspects of managing the family farm.

Business aspects of managing the farm

In an age where we have seen significant advancements in science and technology in relation to agriculture we have seen little development in business management.

Other than the introduction of the personal computer and laptop and the introduction of the GST, which has forced farmers to process their transactions in a timely manner, many farm businesses operate, in relation to managing their farm financial affairs, the same way their parents did 30 years ago.

One area that some development has occurred in is in produce marketing. However, given that our produce marketing systems and procedures are still in their infancy the farming community is littered with unfortunate marketing disasters like contract wash outs, etc. In fact when it comes to grain marketing the removal of the single desk system has catapulted most grain growers back to where their grandparents were some 50 years ago.

So what does the modern family farming unit need to do to survive these challenges?

It's our view that it is essential that the farming family unit develop a strong foundation upon which to build their business. We have all heard the story about the importance of building a house on a solid stone foundation as opposed to building a house on sand. The same applies to a family farming business.

It doesn't matter how much a family invests in technical advice, financial and legal advice, family succession, counselling, etc, it's all a waste of time unless you have the right foundations.

What we are talking about here is structures, processes and strategies that the farm business is built upon. How are you going to handle the transfer of the management and ownership of the business to the next generation? How do you protect the farm business and assets in a family dispute between siblings or an impending divorce? What about your retirement and security in old age? What can you do if faced by financial pressure of a drought, or in good years the potential of a large income tax assessment?

We have always said that to do a job e.g. build a house, repair a tractor, etc, you need the right tools. Not only do you need these tools you need to know how to use them. Another analogy we can use is the game of chess. You can have all the pieces but if you don't know how to use them then you can't win the game. It's these tools and strategies that are important in establishing the foundation, to then establish a successful family farming business.

Building the foundations for a successful business

In this paper I want to brush over **ten key financial management tools and strategies** that we believe are essential for any farm business.

Hopefully if we have time I intend to provide simple demonstrations on how these tools and strategies can be used to address the wide range of human, production, marketing and financial issues outlined above. My intention is that at the end of this talk that you have some idea of what you need to do.

At the end of the day all of these ideas are complex and require considerably more time to fully outline their operation and the benefits they can provide to your family. However, we have to start somewhere.

The tools in the shed

All successful family farming businesses need:

1. Appropriate trading and operating structures
2. Appropriate finance facilities
3. Financial risk management strategies - FMD's
4. Business analysis - an understanding of flow of business funds
5. Equipment replacement policy
6. Establishment of a Self Managed Superannuation Fund- SMSFs
7. Accumulation of off-farm assets
8. Succession plans for

a. unplanned succession

b. planned succession

9. Estate plans, and
10. Access professional advice.

To be able to handle the complex nature of your family business along with all of the production, marketing and financial risks, it is essential that every farm business aspire to building their business foundations on these key concepts.

Note. This list is not in priority order and is not exhaustive. Further to this, how and when a family addresses each of these structures and strategies will differ depending upon the families personal requirements.

1. Flexible operating structure and separate asset owning structures

There are a number of ways to trade and own assets:

- sole trader or sole ownership
- partnerships or jointly held assets
- company, or
- trust structures.

We recommend **family discretionary trusts** with **corporate trustees**.

<u>Why we believe that partnerships of individuals are limited?</u>

Partnerships are excellent structures that have served many farming families well in the past. There comes a time however, when the family evolves, that the benefits provided by a partnership structure of individuals or assets held jointly or as tenants in common, begin to decline.

At this stage the family need to consider what other options are available that suit their needs.

(a) Partnership legal structure

Partnerships are fixed structures in which each partner shares in their share of the business income or asset ownership in a set proportion e.g. 25% each, in a four person partnership.

With a fixed structure like this it provides little opportunity for each partner to transfer their share of the income and capital of the business with their partners, children or other entities e.g. companies etc.

As a result partnerships are inflexible when it comes to the management of income tax and the transfer of asset value to the next generation.

(b) Alterations to the partnership structure

Another issue that arises with partnerships and their fixed nature relates to any alteration to the make-up of the partnership structure itself.

When people exit partnerships, by death or retirement, or enter partnerships, by the addition of new partners such as wives and children, the old partnership dissolves and a new partnership is created.

This event can create both income tax and stamp duty liabilities.

Further to this, the Income Tax Assessment Act (ITAA) stipulates various market value rules. What the rules specify, is that any assets or interests in assets e.g. partnership fractional interests, transferred from one person or entity, to another person or entity, has to be transferred at current market value even if no consideration is paid.

This creates two issues.

One with capital assets:

e.g. Dad owns some BHP shares acquired for $10 in 1990, current market value of $32. If Dad gives Mum half of his shares for no consideration he will pay tax on 50% of the $22 capital gain.

The other issue that arises for people who are classified as large tax payers (not under the STS system), is with depreciable assets and trading stock:

e.g.	Market Value of a Tractor	$80 000
	Tax written down value	(10 000)
	Assessable income on transfer	$70 000

e.g.	Merino Ewe Market Value	$120
	Tax value in financials	(10)
	Assessable income on transfer	$110

An important issue here is that at some stage someone will die , retire or the family will want to separate in which case there will be a transfer of assets that will involve the market value rules and trigger either a capital gain or assessable income on transfer.

When it comes to the re-organisation of family partnerships there is relief offered under Div 40 ITAA , Subdivision 328-D (both in relation to Depreciable Plant), and Division 70 ITAA (Trading Stock) that can be utilised to overcome these issues.

Finally to add insult to injury each State Government may raise stamp duty under their respective Stamp Duty Acts on the conveyance of asset value e.g. depending upon the State this may include interests in partnerships, or asset conveyance from one person or entity to another person or entity. The net result is that any alteration to partnership capital e.g. departing partners or addition of new partners or conveyance of capital assets may result in a stamp duty assessment.

Each State's 'Duty Acts' of parliament provide various reliefs in regards to farming assets and family farm re-organizations. You will need to consult with an appropriately qualified professional to determine the respective law for your State.

(c) Asset protection

In addition to the above issues, partnerships and direct ownership of assets provide little asset protection in the event of legal, financial or marital disputes. With partnerships, each partner is seen to personally own a fractional interest in the partnership and as such their share of their assets can become embroiled in their personal dispute. This can be exceptionally disturbing to the other members of the partnership. Further to this all partners are jointly and severally liable to the activities and actions of the other partners in the partnership.

Although not really a major concern for small family partnerships of Mum and Dad and their children it can be of considerable concern when "in-laws" join the business. These outsiders come with a whole different range of what we call life values that may or may not correlate with the rest of the family e.g. different education levels, religions, beliefs etc.

We strongly advise our clients not to expose their personal assets to these new comers until such a time that they either retire from the business or are happy that their children's relationships are stable. This may seem a little hard, at the start for new wives and husbands, however it is generally not long before they themselves, are faced with these issues with their own children.

Another issue of concern with people trading personally or in partnerships relates to personal liability. Farming is a risky commercial business. In the event the business suffers an accident, e.g. creates a road accident, spray drift, or is subject to a legal dispute, each of the partners are personally liable. If the partnership assets and insurance cover is insufficient to cover the claim, each partners personal assets e.g. houses etc. can be liable to satisfy these claims.

The moral of the story is that you should ensure that the business is conducted in a structure separate and independent from yourself and that your assets are held in a structure(s) that provide control and ownership rights however are held separately from you as an individual.

Why not trade via a company?

Often you hear people talk about farming businesses being conducted in a company. Companies can be poor structures in which to conduct farming business as they are not eligible for a range of primary production concessions:

- They can't use FMDs
- They are ineligible for Primary Production Averaging.

Further to this, companies are faced with a range of complex income tax issues such as:

- You can't stream income
- Companies pay tax at a rate of 30 cents in the dollar
- They are subject to a range of Capital Gains tax issues
- There are restrictions on loans to shareholders and their associates
- There are tax issues on eventual wind up

Companies can be useful to cap your tax rate at 30% however, you need to explore all of the other options that are available to you before using a company.

So what do we recommend?

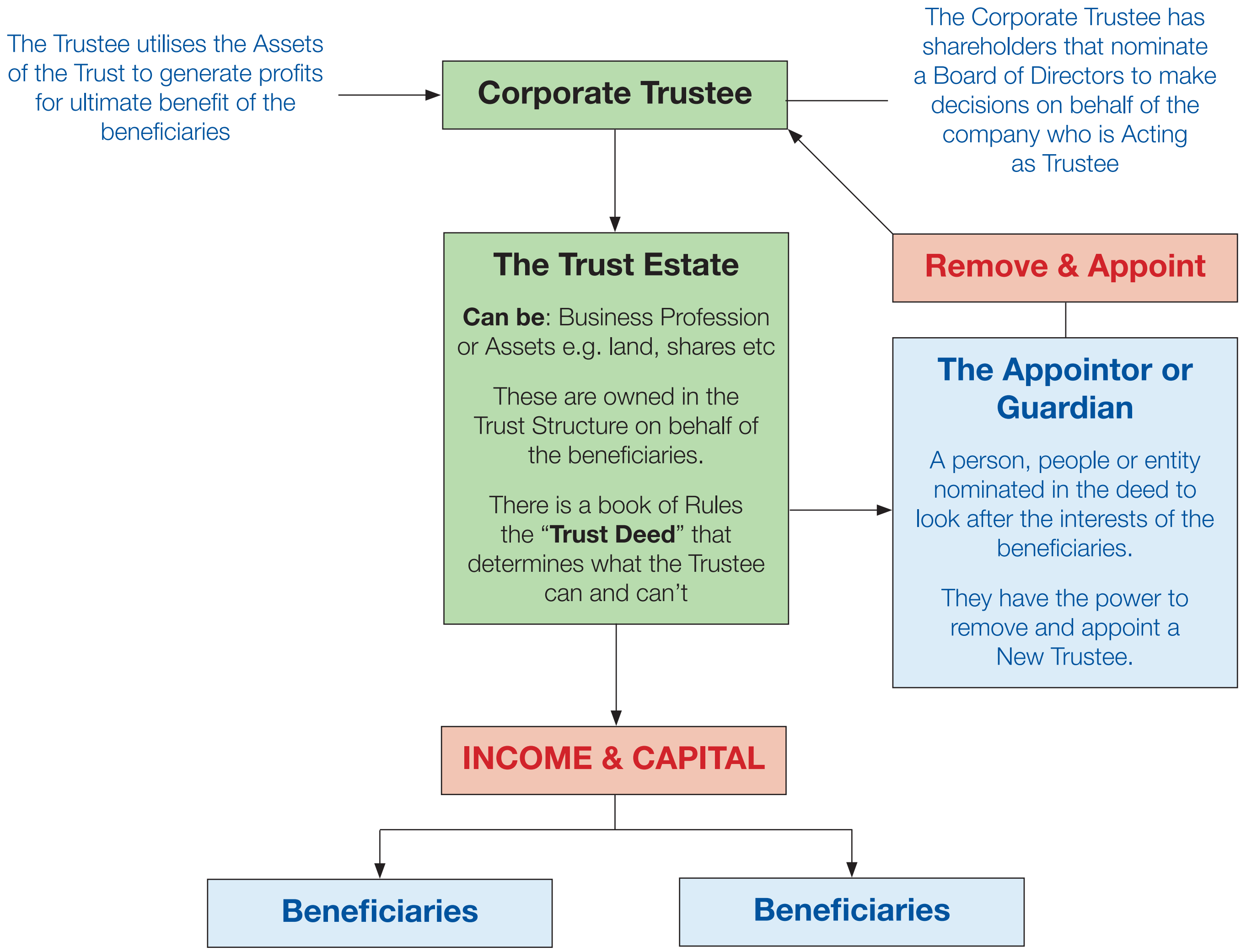
Where there is a single family e.g. Mum and Dad and maybe a son or daughter we would suggest that the business be conducted in single family discretionary trust with a separate corporate trustee with farm land held in different trusts with separate trustees.

Family discretionary trusts

A trust estate is a way in which to own an asset. This asset can be a business, an investment or a property.

In a trust structure the assets of the family are held by the trustee on behalf of the trust beneficiaries or family members. The trustee is responsible for the day to day activities of the trust. This involves making decisions about the assets and the undertakings of the trust business or investments. The trustee does this on behalf of the trust beneficiaries, who are the people or family members that benefit from the income and assets of the trust estate.

A typical family trust structure appears as follows:



All trusts have a **'trust deed'** or book of rules like a company constitution that determines what the trustee can and can't do and how the various participants e.g. the trustee and the beneficiaries should behave.

The trust deed nominates a person called the **'appointer'** whose role is to ensure that the trustee acts in the best interests of the beneficiaries. This person is the ultimate controller of the trust as they can remove the trustee and appoint a new trustee in the event that the old trustee is not acting in the best interests of the beneficiaries.

This feature of trusts is very useful when it comes to succession, asset protection and estate planning.

<u>Features and issues</u>

Unlike individuals, joint ownership and companies, where the assets are owned directly by the person or entity, trusts are different. In a trust structure the assets are owned by a third party (e.g. a person or entity) independent from the beneficial owners.

This feature of an independent trustee provides a range of advantages for families in that the assets can be owned on behalf of the whole family as opposed to specific individuals. In a family discretionary trust individual beneficiaries only end up owning assets directly when the trustee of the trust exercises their discretion to distribute income or assets to a specified beneficiary.

In most discretionary trust deeds there is a wide range of potential beneficiaries. The first class of beneficiaries are called Primary Beneficiaries – usually Mum and Dad or the principals of the business. The second class of beneficiaries are called secondary beneficiaries which include – Mum and Dad's children, their spouses, their grandchildren, etc. However, it can also include parents, brothers, sisters, nieces, nephews, eligible companies and trusts. All trust deeds are different and you need to review each deed to identify eligible beneficiaries.

None of these potential beneficiaries are entitled to any assets or income of the trust estate until the trustee exercises their discretion, as specified in the deed, to a nominated beneficiary. This provides great flexibility in relation to asset ownership, dealing with trust income and asset protection. For instance, a son and daughter in law can join the family business and enjoy a share of business profits without actually owning anything directly.

This is very different when compared with a partnership where a new partner obtains direct access and a share of the family assets, or a company where the new partner ends up owning a direct share in the family company. In this type of structure family members can come and go as they wish.

Another important feature of a trust structure, when it comes to succession planning, is the ability to commence handing over day to day control to the next generation without losing control.

For instance Mum and Dad can hand over the control of the trustee to their daughter and son in law. Mum & Dad would remain as the trust's appointers. The daughter and son in law run the farm and distribute the annual profits to themselves. In the event of a marriage break down Mum and Dad can exercise their discretion as appointers and remove the current trustees (the children) and appoint a replacement trustee. By doing this they can protect the underlying business assets of the family.

Care needs to be exercised in this process as the family law court has wide powers in relation to trusts. From our experience however, provided the assets belong to the wider family and not to specific individuals, this form of asset protection works well. If the daughter and or son in law are sole appointers then they may be considered as controllers of the trust and the assets of the trust would fall into their marital assets. Loan accounts or unpaid present entitlements in the trust always belong to the specific beneficiary and will be a personal asset of these people.

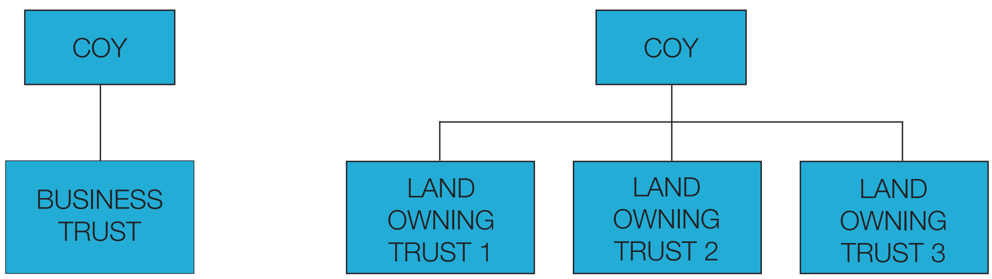
Trusts also provide a very valuable form of asset protection. In the event that someone has a business that is subject to a degree of risk or financial exposure, it is best the business is conducted via their family trust. In the event that the business fails, it is the trustee that is liable for the loss. The trustee is indemnified out of the assets of the trust, (they can sell up the assets of the trust) to fund the short fall. Once these funds are exhausted the trustee is personally liable. If the trustee is a $2 company then there are no more assets. None of the beneficiaries of the trusts are liable and their individual separate assets are protected. The same applies to the directors and shareholders of the trustee company who are protected by limited liability.

Hence the reason why we don't recommend that people be individual trustees of their trusts. This is especially true if the individuals operate a farm business in their own name or a partnership of individuals.

<u>Business ownership</u>

Trusts can own specific assets or conduct a business. Where there is a business such as a farm that can be subject to business and financial risk we recommend that the business is conducted in a trust with a separate corporate trustee from the other asset owning trusts with a second separate corporate trustee.

For example:

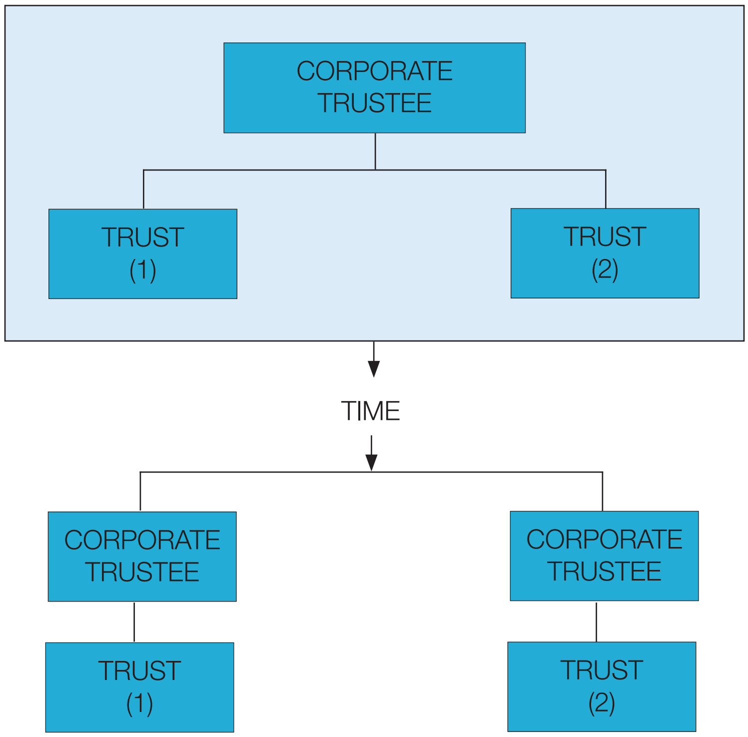


You will note that often we recommend more than one asset owning trust. In fact each separate asset, provided they are not closely connected, should be owned in a separate trust to assist with succession and estate planning. The main reason is the flexibility of being able to hand over the control over these asset owning trusts to various family members as a part of the family succession at various times and at death.

Partnership of trusts

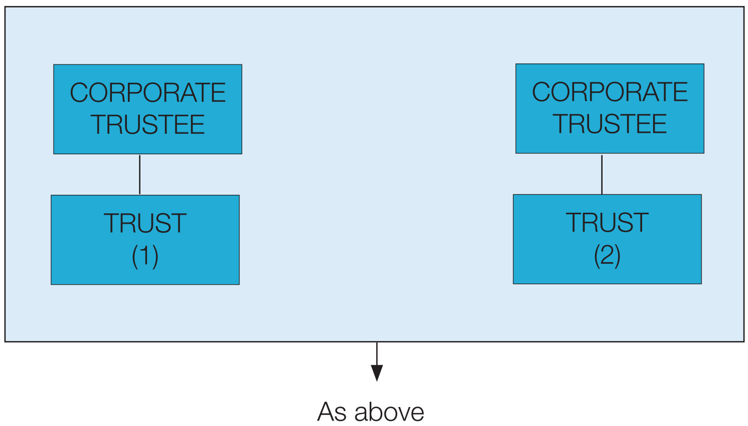
In a situation where you have a multi sibling family of say two or three children and their families, and if it is likely that the business will eventually divide into two or more separate units, we would recommend a partnership of two or three discretionary family trusts as follows.

PARTNERSHIP



Alternatively if you believe a division in the family business is going to occur sooner rather than later you may create your new partnership with two new Corporate Trustees of the two new trusts:

PARTNERSHIP



Control over trusts

In normal circumstances we would suggest that the parents be the appointers of these new trusts along with each respective son or daughter e.g. the appointers for Trust (1) would be – Mum, Dad & child and the same for the other trust, all to act jointly. This provides both generations with a degree of control.

Alternatively the family may be happy for some other arrangement. We leave these decisions up to the client. In some cases for asset protection the power of appointment and ultimate control remains with Mum and Dad until they are ready to hand over the control. This is important in the event that one of the family marriages is unstable.

Business restructuring

So how, given the market value rules in the Income Tax Assessment Act and the State Stamp Duty provisions can you restructure from your existing entity, say a partnership of four individuals, into a new structure?

This is done via the establishment of what we call an interim partnership between the old entity (the partnership entity of Mum and Dad) and the new entity (the partnership of the children).

Division 40-340(3) and Subdivision 328-D of the ITAA (1997) says that, provided the transferor and the transferee elect for rollover relief to apply and the restructure involves family members with no consideration, the depreciating assets can be transferred from one entity to another via an interim partnership at tax written down value.

Division 70-100 of the ITAA (1997) follows along a similar line where it states provided the original owner of the livestock owns at least 25% or more of the asset after the transfer then trading stock can be transferred at tax written down value. In the 1997 rewrite of the Tax Act trading stock includes operating assets such as growing crops.

Note the real key to this type of restructuring, whether it is from a single entity to another single entity, is the creation of a partnership. It is only with the creation of a partnership that these provisions work.

Care needs to be taken with Stamp Duty to ensure that your transactions do not attract unwanted tax liabilities. You will need to consult with an appropriately qualified professional in this regard.

So what benefits will you achieve by restructuring in this fashion?

The family will be eligible for a wide range of benefits that they currently don't enjoy. These include:

- Solutions to their current and future succession issues

As the family will be farming in a partnership of family trusts when they decide to split, they need to decide on who is going to take what assets and what cash adjustment needs to be made. They then simply sign Income tax elections for plant, equipment and stock and go their separate ways. It is as simple as that.

- The use of a corporate trustee and the two trusts operating separately from the family individuals and other asset owning structures in the family will provide valuable asset protection.
- As each family will have their own trust and eventually their own trustee company, they will also benefit from a succession and asset protection point of view when it comes to handing over control and ownership of the farm business to their children in an orderly controlled and protected fashion.
- As each family's trust will effectively be a clone of each other the family will have complete legal ability to stream income throughout the family group.
- The use of a corporate trustee provides for an opportunity for family members to have an employer. This can provide a range of benefits if needed. Individual partners cannot employ themselves.
- A little known benefit of trading in primary production trusts is the ability of older members of the family to own farm management deposits. Currently to be an FMD depositor you need to be engaged in primary production.

In the event that you implement a Farm Management Deposit Strategy (and we would strongly recommend that the family does) and the parents retire from a partnership of individuals they would need to withdraw their FMDs as they are no longer primary producers. If however they are eligible beneficiaries of a primary production trust, they can retain the FMD's until they die. As a result this can provide excellent tax planning opportunities for the family.

What's more, by progressively drawing the FMD's down in their retirement, they can redeem the FMD's without paying excessive tax. This is possible by utilising the increased tax free threshold (despite them being on averaging) and utilising a range of retiree tax offsets. The net result is the family gets to keep the original tax benefit enjoyed at the time the initial deposits were made.

- In addition to this the ability of streaming primary production to other family members provides the opportunity of distributing income to wives, partners and children who in turn, provided they are over age of 18 can also use FMD's etc.

Note. Their non primary production has to be less than $65 000 in the year of deposit.

We trust you can see that trust structures go a long way to assisting farmers in addressing a range of their succession issues.

Asset owning structures

Where land is held in people's own names or as joint tenants there are issues that need to be addressed if the family wishes to transfer land to the next generation. There are two issues involved with transferring parcels of land between individuals and entities e.g. trusts and SMSF's, when it comes to family succession. The first is stamp duty and the second is capital gains tax.

From a stamp duty point of view each State provides certain relief for the transfer of farming land within family groups. These provisions, especially in relation to trusts and companies, are complex and considerable care needs to be taken when interpreting how these provisions apply to your family. Seek professional advice.

From a capital gains tax (CGT) point of view all land acquired after the 19th of September 1985 will be subject to the effects of capital gains tax on any increase in value of that land.

e.g. Capital Gain is the difference between:

Current market value	$XXXX
Less original purchase or transfer value	($XX)
Gross capital gain	$XX

Provided the asset is not owned by a company this gross gain can be reduced by the 50% general discount, to half - $X. Tax is payable on this amount at the tax payers marginal rate or average rate of tax, despite no consideration being paid.

In the event that you qualify as a Small Business Taxpayers then you may be able to apply a number of further CGT concessions such as:

- 15 year exemption – where the land has been owned and farmed in excess of 15 years - 100% of the capital gain is exempt provided the tax payer retires
- Further 50%, capital gain discount
- rollover to a new active asset with a two year period – delaying the capital gain, or
- rollover to an eligible superannuation fund where 100% of the capital gain is exempt.

Obviously these concessions are very valuable if you qualify.

To qualify as a small business tax payer your:

- Net combined asset value needs to be less than $6 000 000, or
- Gross farm income needs to be less than $2 000 000.

Note. Complex rules apply to family trusts and companies.

In the event that you don't qualify as a small business taxpayer you can always consider restructuring with some formal planning to see if you can comply in the future.

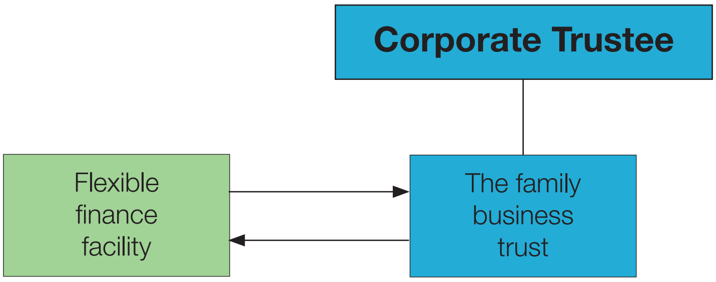
Purpose of this strategy

The main reasons to operate your trading entity in a family trust and own assets in family trusts is for:

- succession, estate and retirement planning
- asset protection, and
- taxation management.

2. Appropriate finance facilities

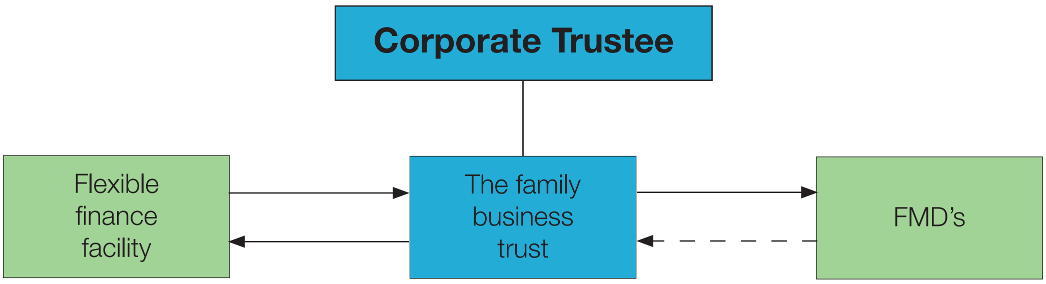
These need to be flexible so you can pay off the debt and redraw the balance.



Purpose of this strategy

- provide flexible financing for operations
- provide flexible funding for FMDs
- provide flexible funding for retirement and succession
- provide flexibility when required to acquire assets at short notice, and
- 30th June tax planning cash flow.

3. Build up farm management deposits – as a risk management strategy



There is a real problem in Australia, in that a vast majority of the farming population and accountants don't really understand what these products are or how you can use them in a family farming business!

So what are they?

Schedule 2G – Division 393 of the Income Tax assessment act states, FMDs are:

(1) A term deposit – which pays interest

(2) For which for a primary producer e.g. Farmer or Fisherman, gets a tax deduction for 100% of the amount provided the deposit if left on deposit for a period of 12 months and that their non primary production income does not exceed $65 000 in the year of deposit

(3) Thereafter when the deposit is redeemed the funds come back into the individual's personal tax return as assessable income

(4) The maximum deposit per person is $400 000

(5) You can have FMDs in different bank institutions, and

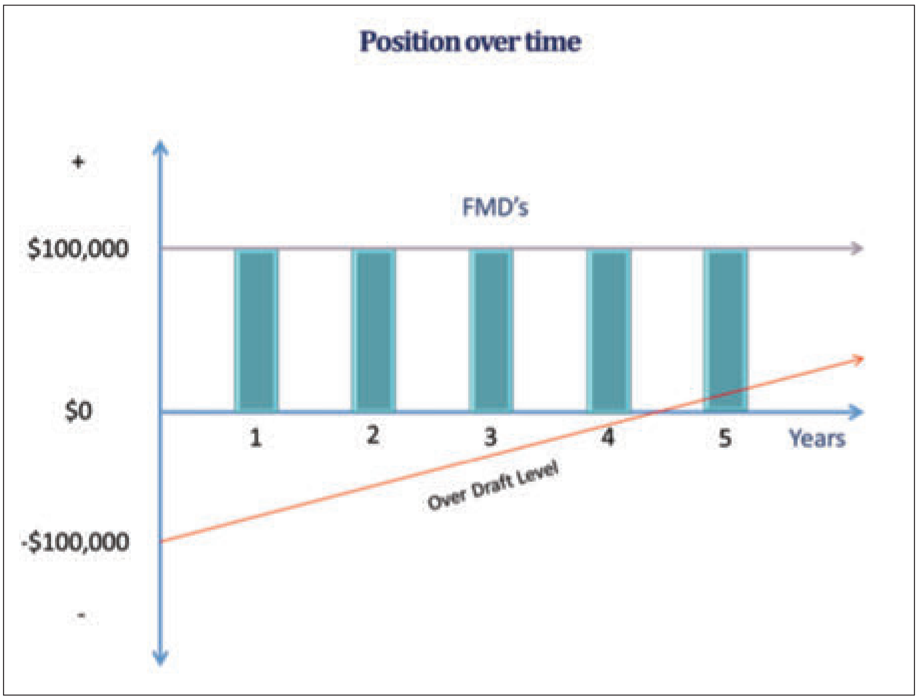
(6) You are actively engaged in primary production or an entity that engages in primary production.

So why do people use farm management deposits?

In the first instance they are useful in managing individual's income tax and this is where a lot of farmers and their advisers leave this strategy. This is unfortunate! I always hear people say: **'We don't like using FMDs. They save us tax in high income years and all that happens is that we pay the tax in a later year when we withdraw them'.** This is a very one dimensional view and I can understand why these people don't favour FMDs. Unfortunately their experience and understanding is limited **to tax**.

Our view of FMDs is much broader. The opportunities that these deposits can provide and the benefits of utilising these tools strategically in your business can be incredible and are really only limited by imagination. We see FMDs as much more than just a means of reducing tax in high income years. We see them as an essential wealth creation and risk management tool absolutely essential in any farm business.

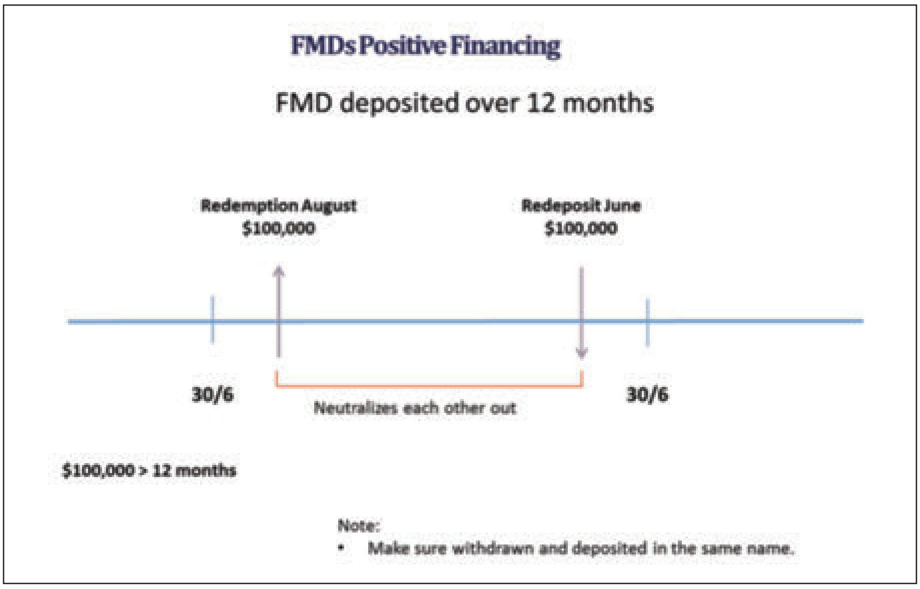
Once we introduced this strategy to our clients not only did it save them tax initially we noticed another interesting phenomenon and this is demonstrated in the figure below.



Benefits of an FMD strategy

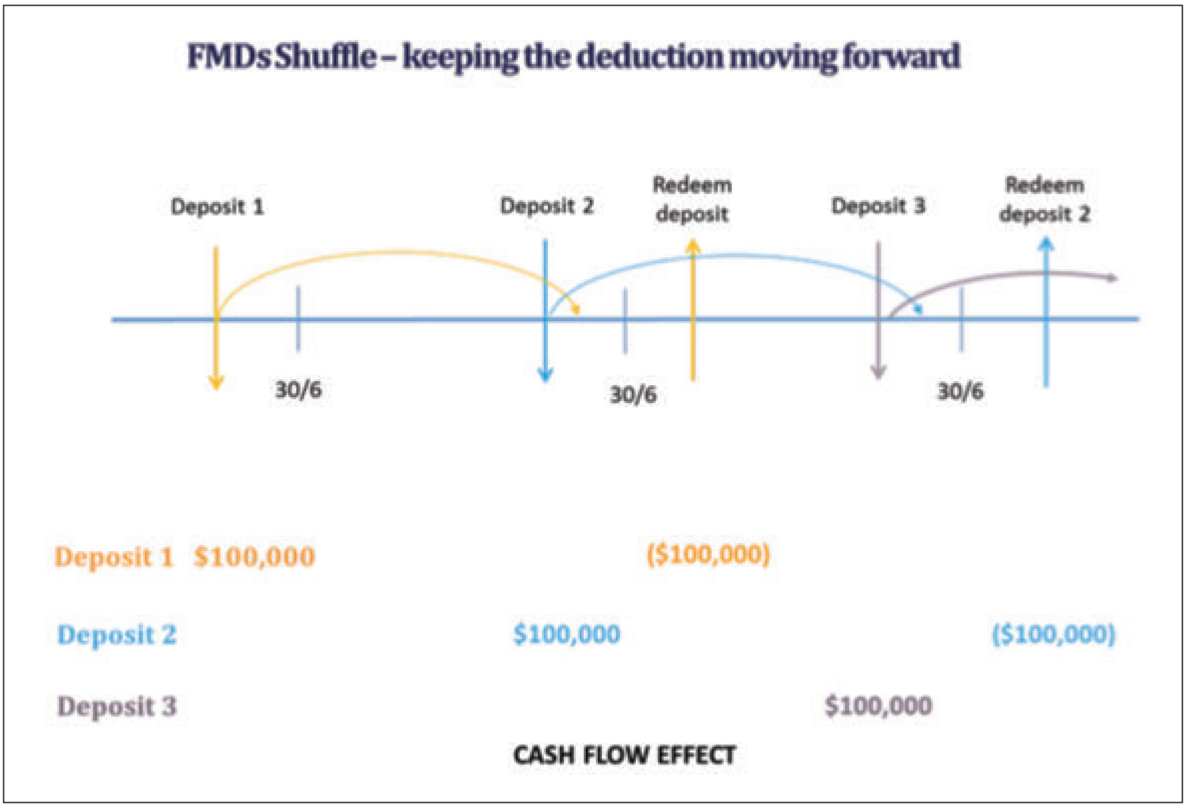
(1) Positive cash flow strategy

Provided your FMDs have been on deposit in excess of 12 months (unless you are drought declared) you can withdraw your FMDs. They become assessable income to the individual depositor. In the event that the FMD is redeposited before the end of the final year, the redeposit offsets the initial withdrawal and the net result is nil. For example:



The advantage of this is that the equity you have tied up in your FMDs can be used to assist with annual cash flow financing during the year e.g. reducing your overdraft. Care needs to be taken when doing this as any new deposits have to remain on deposit for a further 12 month period. As a result we recommend that people only withdraw 50% of their balance so they have access to other 50% for additional funding if required. Other issues can include PAYG instalments, etc.

(2) This leads us on to our next strategy and that is obtaining further tax benefits over time.



By doing this people can maintain their reduced tax status for years to come.

Now that we have put some of the issues to bed in relation to "establishing an FMD strategy" how can these tools be used in addition to just saving tax.

(3) Little risk and less tax to pay

The first significant benefit of an FMD is that it provides financial insurance. It can always be withdrawn and used to repay the loan finance used to fund it originally. The money is always there, so there is little risk.

All that happens is:

- You end up paying the tax you would have anyway. Furthermore due to the loss of purchasing power of money over time e.g. inflation the value of this delayed tax is less
- Also as a result of utilising your FMD Strategy your primary production average is less, so you enjoy a greater averaging rebate on withdrawal, which is another form of tax reduction provided to primary producers that is rarely used to its full potential especially in large family groups.

(4) Financial Risk Management

The next major benefit of FMDs financial insurance is that it can assist and take the heat out of future financial decisions.

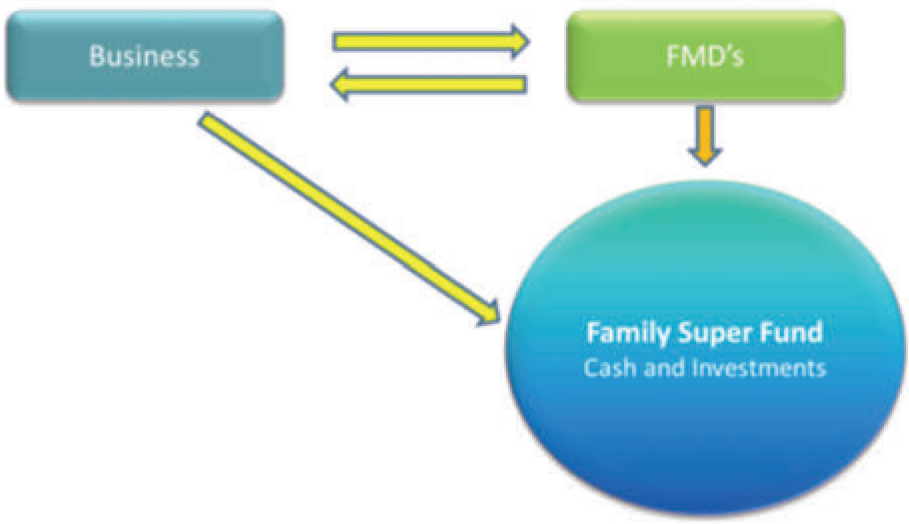
For instance if you have $1 000 000 in FMDs, your overdraft is still $500 000 and a property purchase comes up you can borrow $1 500 000 to purchase the property with the knowledge that you always have your $1 000 000 of FMDs up your sleeve to assist you with paying interest and if need be principal payments if this business is unable to meet these commitments, at any time in the future.

This is very powerful and can apply to the acquisition of all sorts of assets e.g. off farm property, more farms etc.

(5) Provision for commitment in the future

Another benefit of FMDs is they can act as what we call a sinking fund or provision for an outlay at some time in the future.

For instance the family want to start providing over time for the eventual retirement of Mum and Dad. To do this they would like to deposit cash into a superannuation fund. However, once the money is in the superannuation fund it is unavailable to the business. The first step is to use a FMD. For example:



Once the family is happy with the level of FMDs and they feel they are sustainable, they can then transfer the excess over to the SMSF. The initial withdrawal amount is subject to tax in the individuals name and is offset as a concessional member contribution to the superannuation fund which is taxed as 15% contributions tax or less in the superannuation fund.

The same principles can apply to building up a cash provision for the acquisition of plant and equipment.

(6) Retirement Funding

Another concept people are unaware of is the ability to assist with funding an individual's retirement outside of super.

The Income Tax Assessment Act (ITAA) states for people to maintain FMDs they have to be engaged in the business of primary production or be eligible beneficiaries of a trust engaged in primary production.

Refer Section 393-25 of the ITAA.

Provided Mum and Dad are eligible beneficiaries of the farm business trust and receive some primary production income from time to time then they are eligible to retain FMDs. Further to this, due to their age, the increase in the tax free threshold, the mature age worker tax rebate and the low income rebate, etc, they can earn up to $35 000 each and pay little to no tax. This enables them to wind down their primary production average and withdraw their FMD's each year tax free to assist in funding their retirement. The net result is the tax benefit that was saved in their original deposit is always maintained.

(7) Financial Insurance with Plant & Equipment Replacement

The next strategy relates to using FMDs to assist with acquiring replacement and upgrade plant and equipment:

Let's look at an example: A farmer decides that they are going to spend $150 000 on a tractor. If they were to pay cash for this acquisition, at an average tax rate of 25% they would need to earn $200 000 and pay tax of $50 000 to leave them with the $150 000 to acquire the tractor. In this scenario they would be up for the $50 000 tax about nine months after the acquisition. After the tractor purchase they are be able to use the tractor in their business and claim tax depreciation on the original cost of the tractor at say 20% per annum.

Alternatively the farmer, provided they are eligible, could deposit $150 000 into a farm management deposit. No tax is payable on the $150 000 which is now treated as a full tax deduction. At a tax rate of 25% this would reduce the annual tax bill by $37 500. The farmer would then take out a chattel mortgage loan to acquire the tractor. Payments on this item of equipment over a 5 year period payment in advance at a rate of 8% would be $34 785 per annum. In each payment the farmer claims interest and depreciation on the payment.

At any point of time in the future when the farmer encounters a poor year $35 000 of the FMDs could be redeemed to meet the annual payment. Tax is payable on these redemptions however in the event that it's a poor year this tax would be less than in the year of initial acquisition.

The overall outcome of this strategy as opposed to a straight out acquisition is obvious. In the first scenario the farm has incurred a tax liability of $50 000 along with acquiring a depreciating asset. In the second scenario the farm has still acquired the machine, there has been an immediate reduction in annual tax liability of $37 500. This is an excellent turn around in tax and money has been put aside to ensure the machinery payments can always be met in the future. A low risk strategy. Furthermore the interest earned on the $150 000 deposit, say $6 000, can be used to offset the chattle mortgage interest on the equipment loan.

(8) Unforeseen Events

What's more the FMDs can be used as a form of financial insurance in relation to other unforeseen events on the farm. It's always good to be able to access finance without having to borrow it from a bank.

The take home message is that farmers need to understand that cash is very important when it comes to risk management and income tax planning. Do not waste that cash on investing in assets that depreciate in value. Use other people's money and match the cost, with the value that the asset provides to your business. At the same time do not spend the cash, place it aside as a provision for poor years. FMDs provide this opportunity.

Furthermore when it comes to acquiring and funding the purchase of replacement and upgrade plant and equipment, FMDs are essential. None of our farmers have equipment finance without first ensuring they have back up FMD strategy in place.

One of the issues we don't understand is that there are a lot of primary producers out there that do not have maximum FMDs, they pay excessive amounts of tax and have huge exposures to equipment finance. Where were these people when they were handing this advice out? Hiding behind the door? If you are in this position you really need to revisit this strategy because you are missing out on a significant benefit.

Purpose of an FMD strategy

- Delay tax on income to future years
- Valuable form of financial insurance to cover equipment purchases
- Provide flexible funding for operations
- To act as a sinking fund to provide emergency funding for unforseen events and planned events e.g. retirement funding , succession etc
- An essential risk management tool.

(4) Business analysis – understanding the cash flow of your business

Balance of Funds – 'One of the Wonders of Life'

Every business manager needs to understand that outflows of funds need to be matched by inflows of funds.

This concept was first identified by Luca Pacioli in the year 1400 who was a great friend of Leonardo da Vinci, and is the basis of double entry book keeping, still to this day.

Outflows of Funds			Inflows of Funds	
(1) Drawings	$1		(1) Business Profits & Salary	$1
(2 Production Inputs	$1		(2) Investment Returns	$1
(3) Financial commitments	$1	=	(3) Government Support	$1
(4) Repayment of debt	$1		(4) Insurance Payments	$1
(5) Purchase Plant & Equipment	$1		(5) Sale of Assets	$1
(6) Purchase new assets and investments	$1		(6) Borrowings	$1
TOTAL OUTFLOWS REQUIRED	**$6**	=	**TOTAL INFLOWS REQUIRED**	**$6**

Unfortunately where people and businesses get into trouble is where their outflows of funds exceed their inflows, or as Charles Dickens in his 1850 novel 'David Copperfield' Mr Micauber states:

> *"Annual income twenty pounds (£20.00), annual expenditure nineteen pounds, nineteen shillings and six pence (£19.975), result* ***happiness!***
>
> *Annual income twenty pounds (£20), annual expenditure twenty pounds ought and six (£20.025), result* ***misery!****"*

In Mr Micauber's day failure to pay your debts resulted in you being locked up in a debtors prison. In Australia today things are better. People are supported by the Government and it is only in situations where there has been fraudulent activity that people end up in prison.

Many people however can empathise with Mr Micauber's position.

The key to all of this is: **balance!**

Not only making sure that peoples outflows are balanced by their inflows but also ensuring the **various components of the equation are in balance.** For instance, leaving everything else constant, excess drawings can be funded by an increase in borrowings.

Outflows of Funds			Inflows of Funds	
(1) Drawings	**$4**		(1) Business Profits & Salary	$1
(2 Production Inputs	$1		(2) Investment Returns	$1
(3) Financial commitments	$1	=	(3) Government Support	$1
(4) Repayment of debt	$1		(4) Insurance Payments	$1
(5) Purchase Plant & Equipment	$1		(5) Sale of Assets	$1
(6) Purchase new assets and investments	$1		**(6) Borrowings**	**$4**
TOTAL OUTFLOWS REQUIRED	**$9**	=	**TOTAL INFLOWS REQUIRED**	**$9**

The same thing could be said about excessive plant and equipment purchases funded by borrowings:

Outflows of Funds			Inflows of Funds	
(1) Drawings	$1		(1) Business Profits & Salary	$1
(2 Production Inputs	$1		(2) Investment Returns	$1
(3) Financial commitments	$1	=	(3) Government Support	$1
(4) Repayment of debt	$1		(4) Insurance Payments	$1
(5) Purchase Plant & Equipment	**$4**		(5) Sale of Assets	$1
(6) Purchase new assets and investments	$1		**(6) Borrowings**	**$4**
TOTAL OUTFLOWS REQUIRED	**$9**	=	**TOTAL INFLOWS REQUIRED**	**$9**

Also where business' losses are covered by increased borrowings:

Outflows of Funds			Inflows of Funds	
(1) Drawings	$1		**(1) Business Profits & Salary**	**($2)**
(2 Production Inputs	$1		(2) Investment Returns	$1
(3) Financial commitments	$1	=	(3) Government Support	$1
(4) Repayment of debt	$1		(4) Insurance Payments	$1
(5) Purchase Plant & Equipment	$1		(5) Sale of Assets	$1
(6) Purchase new assets and investments	$1		**(6) Borrowings**	**$4**
TOTAL OUTFLOWS REQUIRED	**$6**	=	**TOTAL INFLOWS REQUIRED**	**$6**

As you can see for most people who work for a wage and either pay rent or are paying off a mortgage the equation is quite simple.

For business people, **especially farmers**, the equation is much more complex and there is much more that needs to be balanced to maintain a sustainable and viable equilibrium. It is very easy for farmers to acquire plant and equipment or fund excess drawings by borrowing secured on the value of their farm land assets.

<u>So how do you work out what your flow of funds is?</u>

Well the first thing you need to do is analyse and assess what your current and historical flow of funds has been. This includes both outflows and inflows. Although there is always a danger of concentrating too much on the past, when it comes to managing a dynamic ever changing future, one needs to have a starting point and sound understanding of where they come from before they can make any useful change.

Unfortunately when it comes to farmers much of the information you require to manage your business is not readily available, or is not presented in an appropriate format, to enable you to assess your position and make meaningful informed decisions. **To be quite frank 'accounting and financial reporting' for farmers in Australia at the current time is appalling from a management accounting point of view.**

The main financial reports – prepared for the period 1st July to 30th June are prepared for no other purpose other than for taxation. Although an accurate report in relation to the inflows and outflows for that period, they do not provide you with any real management information and are especially not presented in a way for the farm business manager to determine and monitor their individual flow of funds throughout the reporting period.

Further to this there is considerable evidence to suggest farmers do not use these financial statements for this financial management purpose. In fact it's our opinion, that if it were not for the fact that these businesses are required to prepare and lodge annual tax returns, very few farmers would pay to have this work performed for them on a regular basis.

If you are not in a position to determine and assess what your current and historical flow of funds are, then you need to employ someone to calculate this for you from your historical financial statements. This could be your accountant or farm consultant. This is particularly important, as we believe many primary producers are funding much of their operations and expenditures out of increased borrowings, under pinned by increasing land values, as opposed to business profits.

On face value everything appears to be fine in the short term. All of their outflows are being met and commitments being serviced. From a long term perspective however, these people are eroding their net equity. Eventually land values stop increasing or the servicing commitment e.g. interest on their increased borrowings can no longer be met from either increased borrowings or funds from operations. At this point in time the only solution is to sell assets which in turn destroy the long term viability of the family farming unit. Is your business in danger of falling into this position?

<u>Purpose of this strategy</u>

- Having a sound understanding of your current flow of funds enables you to make controlled decisions to avoid undue financial risk, and
- Avoid erosion of your capital ensuring the long term viability and sustainability of you family farm operation.

(5) Development of an equipment and finance strategy

This has probably been one of the most significant areas that has created financial stress for primary producers in the last 20 years. No doubt machinery is essential in doing what you do. However it comes at a cost. What farmers need to do is prepare a long term equipment replacement and upgrade policy and budget.

<u>Developing the capital budget</u>

The first step is to undertake an analysis of your major plant and equipment assessing things like:

- current market value
- age and condition, and
- when you think the item needs to be replaced.

Once you have determined your requirements over the next 8-10 years you need to attribute an estimate of the likely cost of replacing this equipment.

You then need to work out how you intend to finance these acquisitions. Are you going to use your own cash, are you going to finance the acquisition, or are you going to use a combination? The key is to try and keep your annual cash cost to a minimum and to keep the outlay consistent overtime. Avoid spikes in purchases at all costs.

It's all about balance and keeping the annual cost of operations as low as possible while increasing the quality and efficiency of your plant and equipment you use in your business over time. The annual cash outlay should be monitored in terms of $ per tonne of grain produced, $ per hectare or as a percentage of a gross enterprise revenue e.g. less than 10%. These are good rule of thumb indicators to monitor your outlays.

The final step is preparing a projected capital expenditure cash flow budget for the next ten years, detailing annual cash flow commitments to ensure outlays on equipment replacement and up grade are sustainable and viable in the long term. Total annual cash flow outlays should remain within your risk margin indicators e.g. $50/hectare, less than 10% of your gross enterprise income, etc.

Purpose of the strategy

- ensure plant and equipment upgrade and replacement is done in a planned and organised approach to increase production efficiency and reduce production risk
- reduce, over time, the annual cost of equipment replacement and up grade
- even out annual cash flow commitments, and in turn, and
- reduce the financial risks involved with machinery replacement and up grade.

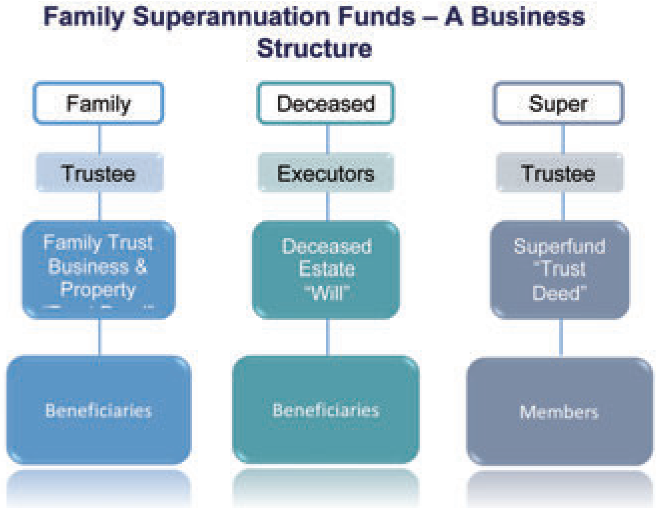
(6) Establishment of a SMFD

Although called Self Managed Superannuation Funds (SMSFs) they are rarely self managed due to the complexity of their administration. You need an accountant an independent auditor and a financial planner to assist you in their annual administration. This comes at a cost. Cost for annual financial statements and tax return preparation, cost for compliance documentation and minutes, cost for audit and cost for financial advice. As a result of these annual expenses it is generally not worth setting one of these up until there is at least $200,000 in the fund. As the fund grows the costs decrease in proportion to level of investments under management.

What are family superannuation funds?

Family superannuation funds, contrary to belief are not investments. They are structures in which to hold assets to fund your retirement, provide for a death benefit on your death and provide insurance benefits in the event that you suffer an accident, illness or death.

As a structure they appear very much like a family trust or deceased estate. For example:



It is what the Trustee of the Superannuation fund invests its money in, that are the investments. The Trustees who are the same people as the members (a requirement for SMSFs) have a wide discretion as to what they can invest in and this is why they are called Self Managed.

Trustees are required to draw up an investment strategy to take into account:

- goals of the fund
- investment diversification
- planned investment earnings, and
- risk management and so on.

In effect Trustees can invest in a wide range of assets e.g.

- cash
- equities – Australian and International
- business real property
- residential rental property, and
- other eligible assets.

When it comes to the administration of the fund the SIS Act and regulations stipulates specific rules for what Trustees can and can't do.

Some of the main rules and regulations include:

- the sole purpose test
- the in-house asset test
- prohibition on loans to members or associates, and
- along with a range of other requirements.

In reality what the Trustees and their members can do is generally fairly wide and provided the main aim is to provide for the retirement, insurance and death benefits of its members then you are ok. The key to a good flexible Family Superannuation fund is its **'trust deed'**.

This is the governing rules of the fund and it is this document that determines in line with the Tax Act and SIS Act what can and can't happen. We recommend that people get a good deed with a Corporate Trustee and they ensure the deed is regularly updated. We also recommend that people obtain appropriate advice from a qualified adviser.

Note. For accountants to provide this advice, they need to have an Australian Financial Services Licence as SMSFs are now classified as financial products.

<u>What are the advantages of setting up a family superannuation fund?</u>

A well-constructed SMSF can:

- Provide a separate pool of investments or assets to independently fund your retirement, provide insurance benefits and to provide for a death benefit on the death of the member.

- They can also provide valuable tax concessions as follows
  - o People can obtain a tax deduction for making an eligible contribution to the fund. These are limited by contribution caps as follows:

Concessional Contributions (Tax deductible)	\$ 25 000 p.a. up to \$ 35 000 p.a.	Subject to 15% Contributions Tax (for people > 55 years of age)
Non Concessional Contributions (No Tax Benefit)	\$ 150 000 p.a.	No Tax
Or for people under Age 65	\$ 450 000	For a 3 year period – No tax

In the event the taxpayer qualifies as a small business tax payer the following additional contributions can be made: -

15 Year SMB CGT Rollover	\$1 315 000 per person	Life Time Limit – No Tax
SMB Retirement CGT Rollover	\$ 500 000 per person	Life Time Limit – No Tax

  - o The income in the fund is concessionally taxed at a rate of 15% or less. When a member elects to take a pension in the income on those assets that fund the pension payments becomes tax free 0%.
  - o If the member is aged between age 55 – 59 the pension is taxed at their marginal rate however they obtain a 15% pension rebate.
  - o Once you are over age 60 the pension is tax free and is not included in your assessable income. It is now is included in the pensioner's adjusted taxable income for Centrelink purposes and eligibility for the Self Funded retiree's health care card. This cuts out at \$80 000 per couple.
- Superannuation funds can be used effectively in the process of business succession.

When an agreement is made that the family will contribute \$xx amount of dollars to the fund and once an amount is arrived at, Mum & Dad sign over the farm to the next generation.

Alternatively we use the superannuation fund as a tax effective structure in which to accumulate wealth for the provision of non farming children in the overall estate planning and business succession point of view.

- Superannuation funds can be used to pay income replacement stream and insurance benefits.

These can either be self-funded by the superannuation fund or the Trustee can own separate insurance policies in the super fund to fund member's benefits. This is particularly important for people with young children or people who are conducting business. The advantage of this is that the premium for the Life, TPD & income replacement insurance cover can become tax deductible.

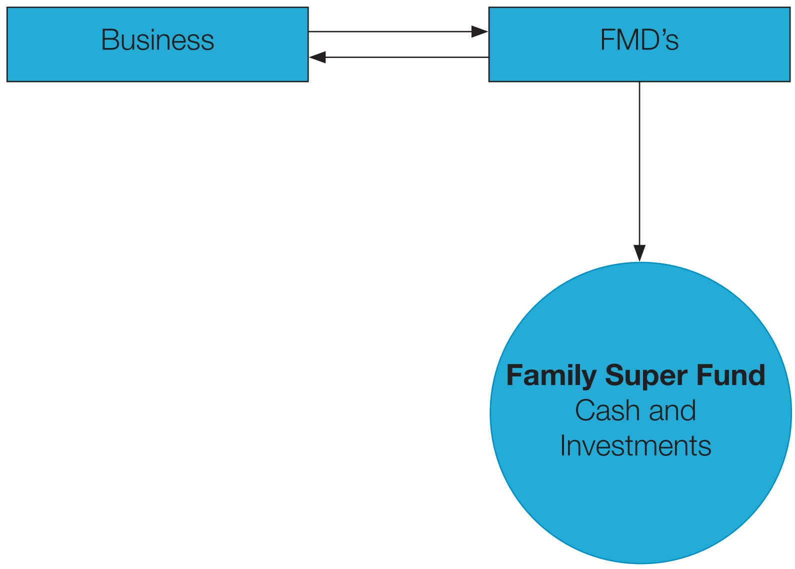
- Superannuation funds are also very useful as a funding mechanism for the farm. Families can use the superannuation fund to replace the bank and we have a good example of how this can work shortly.
- Superannuation funds are also very important when it comes to estate planning.

The use of binding and non-binding death benefit nominations and SMSF wills is a great way for people to structure and manage their estate. As a SMSF is a trust, it falls outside the Estate law provisions and as a result cannot be contested, if the trust deed and compliance documentation is correct.

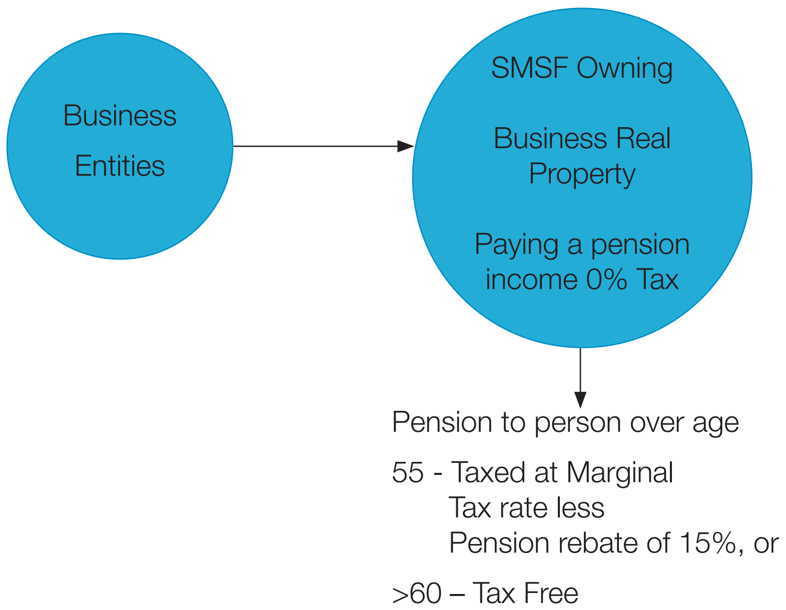
Let's look at some examples of how Family Superannuation Funds can be used in a primary production setting.

(1) Build-up of off-farm savings to pay for retirement of the older members of the family.

Build-up of Retirement Funds



(2) Acquiring and leasing business real property



(3) Limited recourse borrowing arrangement (LRBA)

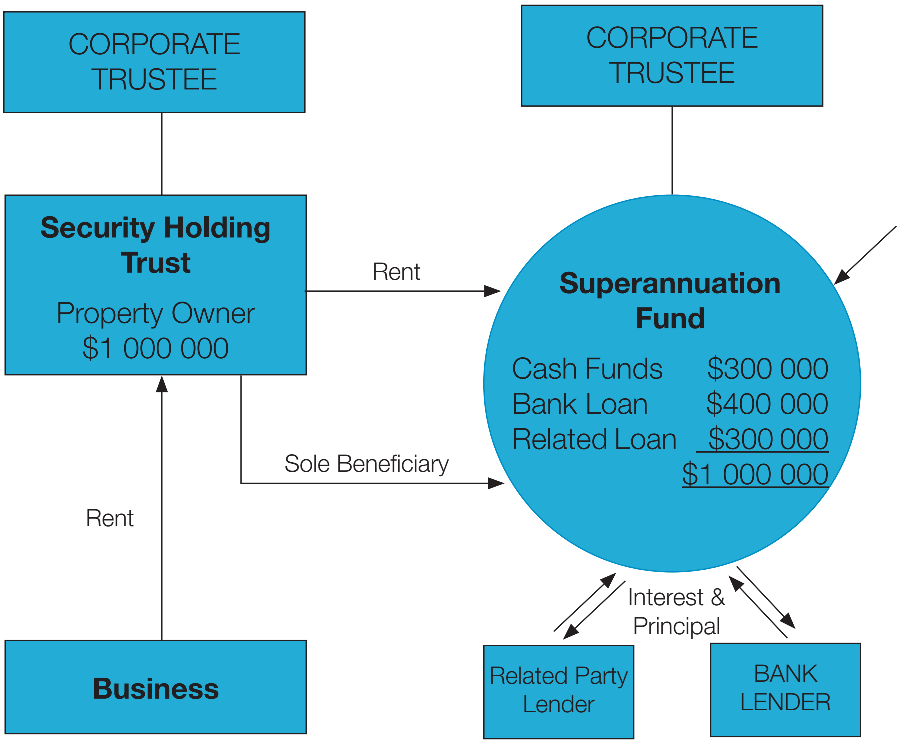
An LBRA is an arrangement where an SMSF borrows money to buy an asset (e.g. a property).

Sec 67A of the Superannuation Industry Supervision Act (SIS) stipulates that the asset that is acquired has to be a single acquirable asset. What this means is that there can only be one asset or class of assets.

Sec 66 of the SIS Act allows trustees and members of an SMSF to acquire business real property from themselves, a related party or an independent party and it also allows the SMSF to lease this land to the member or related party.

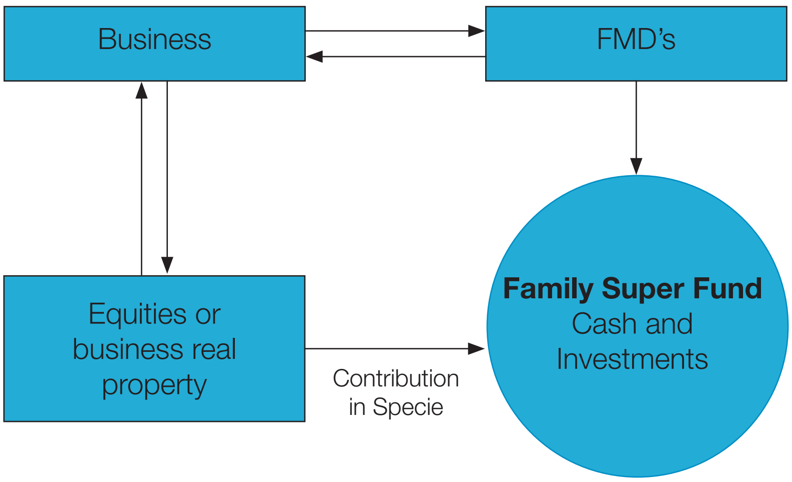
Sec 67A also specifies the asset has to be held in what is termed a Security Holding Trust while the loan remains outstanding. Holding Trusts are also termed bare trusts because they have only one beneficiary and that is the SMSF. Once the loan is repaid, the asset is automatically transferred from the holding trust to the SMSF.

Your structure appears as follows



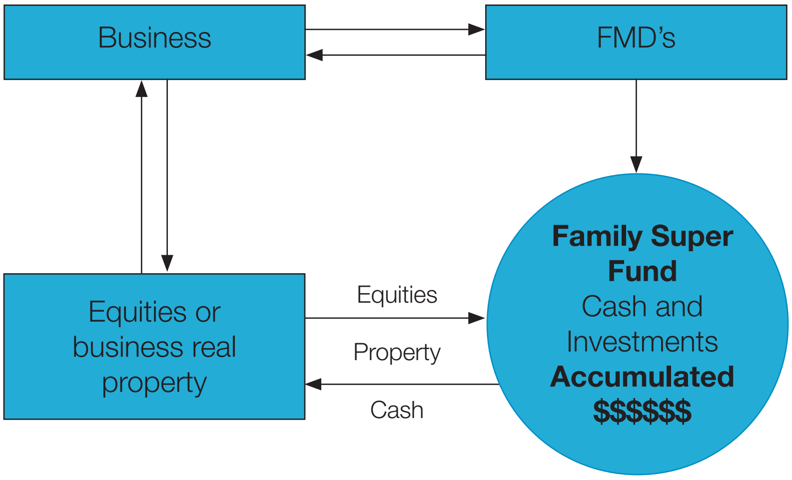
(4) Obtaining a tax deduction by contributing Assets in specie

Contributions in specie



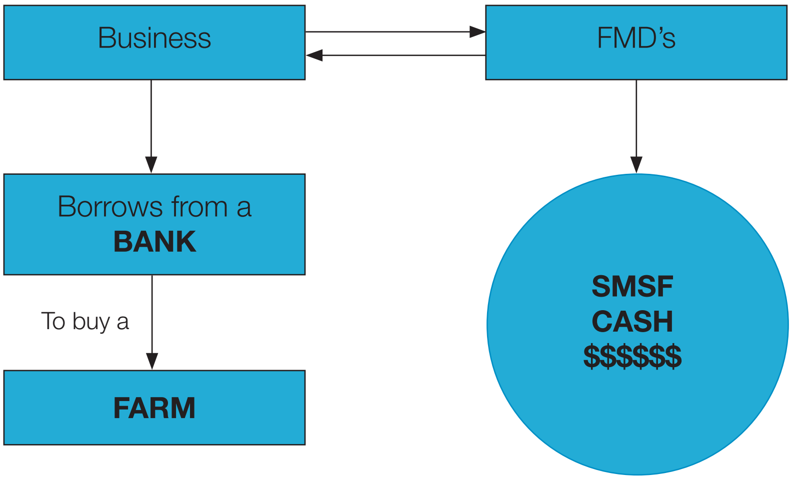
(5) Accessing cash from the fund

Access cash

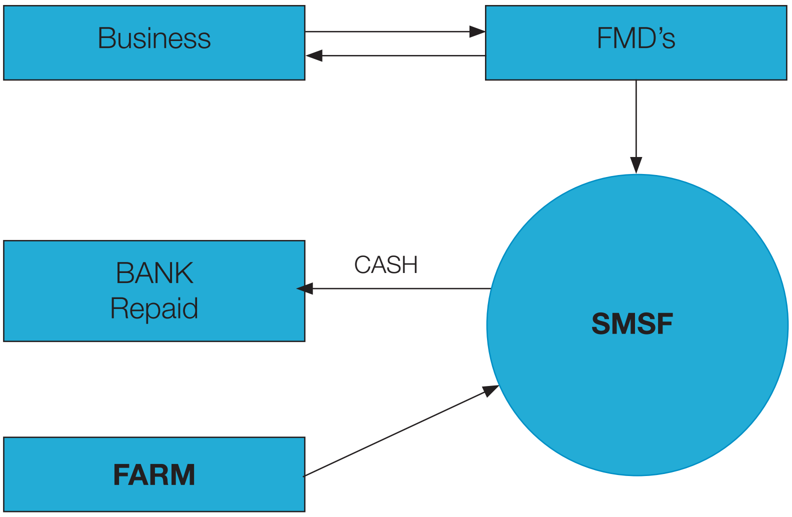


(6) Buying a farm

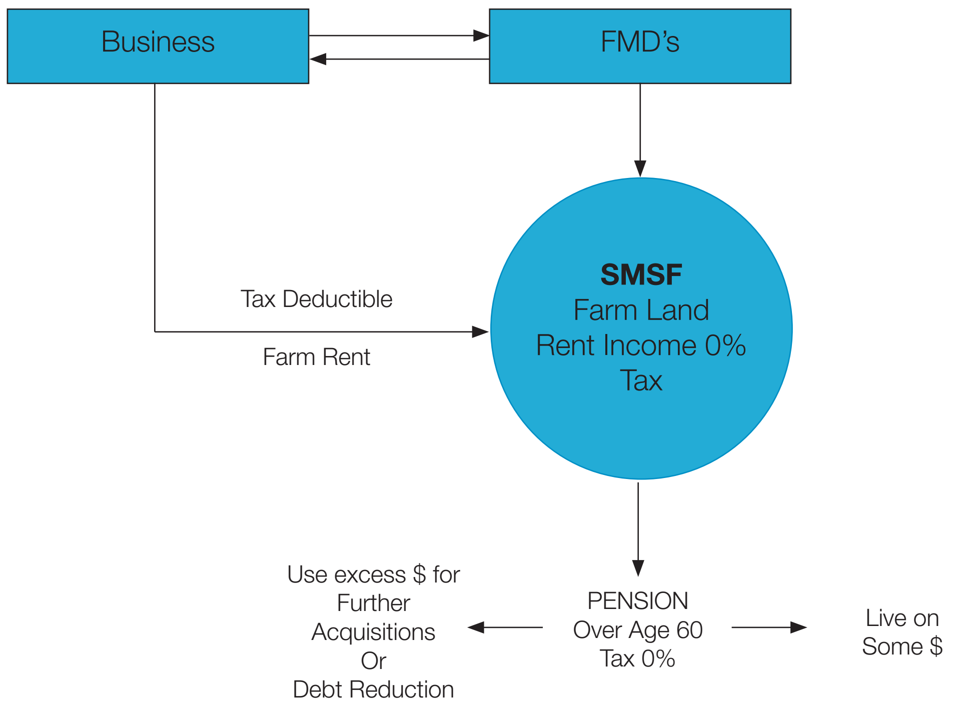
Steps 1 – The business buys the farm first using bank borrowings



Step 2 – Super fund then buys the farm by creeping acquisition (overtime) or outright. Cash release repays the bank.



Step 3 – Business pays rent to superannuation fund



The benefits of these steps are outstanding

- You can increase the level of contributions to the fund

  They are now not only limited to:

  o contributions subject to caps, but also

  o lease rentals.

  Great for young people wanting to increase their super contributions

- The rent is tax deductible to the farm business and is concessionally taxed in the superannuation fund, and this is a great way to fund retiring members of the family:

  o the farm gets the tax deduction

  o the family superannuation fund receives the rent income

  o as Mum and Dad are on a pension and the fund pays **no tax** on the income, and

  o finally Mum and Dad pay no tax on the pension they receive.

Mum and Dad have a range of options

- They can keep all of rent to pay their pension and daily living expenses
- They can keep some money in the fund to accumulate funds to provide for other non-farming family members in the future – e.g. even up the estate
- Or they can draw the full amount tax free – live on some of the money and give some of the money back to the farm

By doing this

- Mum and Dad and the family superannuation fund in effect step in the shoes of the bank
- the family becomes self-funding
- why pay interest to the bank. Isn't it better to pay the interest into the family superannuation fund
- the downside of course of putting a farm into the superannuation fund is that it can't be used as security for borrowings, and
- **the upside of course is that it is protected.**

(7) Development to off-farm assets

These can be:

- equities
- property
- cash – FMD's, or
- other assets.

Research has shown that the most successful 5% of primary producers all have a disproportionally high level of off farm assets when compared with the average Australian farmer.

Let's look at some examples of how these assets can benefit a farm operation.

<u>Equity investments</u>

Example 1:

- we have had clients in the past that buy shares – Blue Chip – BHP, Wesfarmers, Bank shares etc
- over a period of years by making regular contributions they can build these portfolios up, let's say $250 000, and
- a bad year comes along or they wish to acquire a tractor for $100 000.

Options:

- they sell the shares to buy the asset, and pay CGT, or
- they lend against the shares borrowing $100 000 against the $250 000 in equity gearing ratio of 40%.

The benefit of the second option is that:

- they get to keep the shares, the dividend income, the tax credits and the future capital growth
- they avoid the CGT on the sale of the shares, and
- they get to use the equity in cash to buy their tractor.

I have seen people run farm overdrafts against a share portfolio. What could be better than to make money, knowing that your shares are earning tax effective income and capital, while you are using the equity in your farm business to grow crops. If the year fails just sell the shares and pay out the debt. What have you got to lose?

Example 2:

After building up your share portfolio you can transfer the shares to your family superannuation fund as a tax deduction.

In doing this you:

- Wash out the CGT with a super deduction
- Claim the balance of the equity as a tax deduction against current year income, and:
- You get to keep the shares in a concessionally taxed environment

<u>Property investments</u>

Example 3:

One of the main issues facing many farm families that wish to hand their farm over to the next generation is retirement housing. It always seems that retirement housing is left to the last minute. Why?

All farming businesses should go out and secure a housing loan and buy a rental property.

The rent on the house will assist with repaying the debt and the negative cash flow can be used as a valuable tax deduction. When the retiring people decide to leave the farm they can move into the property, or sell it and build a new home. By buying the asset early they have a stake in the housing market which if house values go up, and it always seems to go up, their asset value will go up, so that the changeover figure is less in the future. Surely this is only common sense for people who know their children will take over running and owning the business in the future.

<u>Purpose of developing off farm assets?</u>

- Like FMD's they are a valuable form of financial insurance.
- They provide choice and flexibility in the future with regard to succession, retirement funding and housing, and estate planning.
- They can be structured to reduce tax via negative gearing.
- It's also another way to use the equity in your property to diversify your income streams and investments to reduce the family farm's financial risk.

(8) A succession plan

<u>When does succession occur?</u>

The transfer of a person's control and ownership over business assets can occur in two circumstances:

- planned succession as a result of the gradual or complete retirement of one of the main principals or key family members from the family business, and
- unplanned succession as a result of illness, injury, accident or death of one of the main principals or key family members.

Every family has to have a contingency plan for unplanned succession along with a flexible forward plan for planned succession.

This plan should cover:

- how you intend to hand over control
- when is this likely and what's going to trigger this
- to what extent is control handed over
- to whom is the asset going to be handed to
- how are you going to protect the family wealth and
- how is this going to affect your Estate Plans.

The relationship between succession planning and estate planning

There is a very close relationship between succession planning and estate planning. Often when people are developing their succession plans they are also organising their estate plans at the same time. Both involve the transfer of equity or control over equity from one person to another. The only difference really is that succession planning occurs while you are alive and estate planning involves dealing with your assets and control over those assets when you die. A good succession plan will incorporate your estate plans.

To implement a successful succession plan for the family you need:

- family trusts to operate the business and to hold assets,
- a family superannuation fund
- insurance, and
- a carefully structured family succession agreement.

Purpose of this strategy

- protect all of the family in the event of a major trauma, accident or death
- provide for debt reduction to reduce financial risk
- provide a process and funding mechanism for equity payouts
- provide for the insured's personal family, and
- provide certainty for the family in the future.

(9) Estate plans

Everyone needs to have an estate plan to ensure that their wishes are adhered to when they die or they become permanently and intellectually disabled, and that their beneficiaries are not subject to excess State and Federal Taxes.

The main elements in an estate plan are:

- your will – which should incorporate testamentary trusts
- your enduring power of attorney, and
- your enduring powers of guardianship.

The purpose of an estate plan is to provide certainty for your family in the future.

Wills

All family members need Wills to deal with their assets and control over assets on death. In some cases Wills should contain provisions to create a testamentary trust(s) in which to transfer assets which they own in their own names to their children.

Testamentary trusts are trust estates created on a person's death in which to hold assets on behalf of their nominated beneficiaries. Like "in vivo trusts," or trust estates created while you are alive they are essential for future succession and estate planning and asset protection.

With family members that have minor children their Wills should nominate guardians to act on behalf of these children while they are minors.

In addition to Wills all family members should have what we call 'Living Wills'.

<u>Enduring powers of attorney and guardianship</u>

Enduring powers of attorney are estate documents that enable people to appoint another person(s) (attorney) to act on their behalf in relation to property and financial matters in the event that the person (the donor) suffers a mental or physical incapacity or is unable to do this on their own.

Enduring powers of guardianship are similar however, in that they relate to the person's physical body in the event they suffer an accident or illness that renders them mentally incapacitated.

Under normal circumstances husband and wives appoint each other and then two reserves to act jointly in the event the first nominated attorney or guardian are unable to act or unwilling to act.

<u>'In Vivo' trusts</u>

Ideally when it comes to business interests and business property it is our view people should hold these assets in trust structures like family trusts or superannuation funds. The directions in these instruments, e.g. who you want the power of appointment over a trust estate (e.g. land) to pass to; will override the directions you leave in your Will.

'Wills' can be contested. Trust structures cannot be contested and provide much greater certainty to your beneficiaries especially where considerable land holdings are involved.

At the end of the day a good estate plan is a simple one and one that will stand the test of time.

<u>Purpose of the strategy</u>

- ensure that the wishes of each individual are followed in the event of a death or incapacity
- provide their family with certainty and security, and
- enable a simple stress free administration of each individual's estate at a difficult time in people's lives.

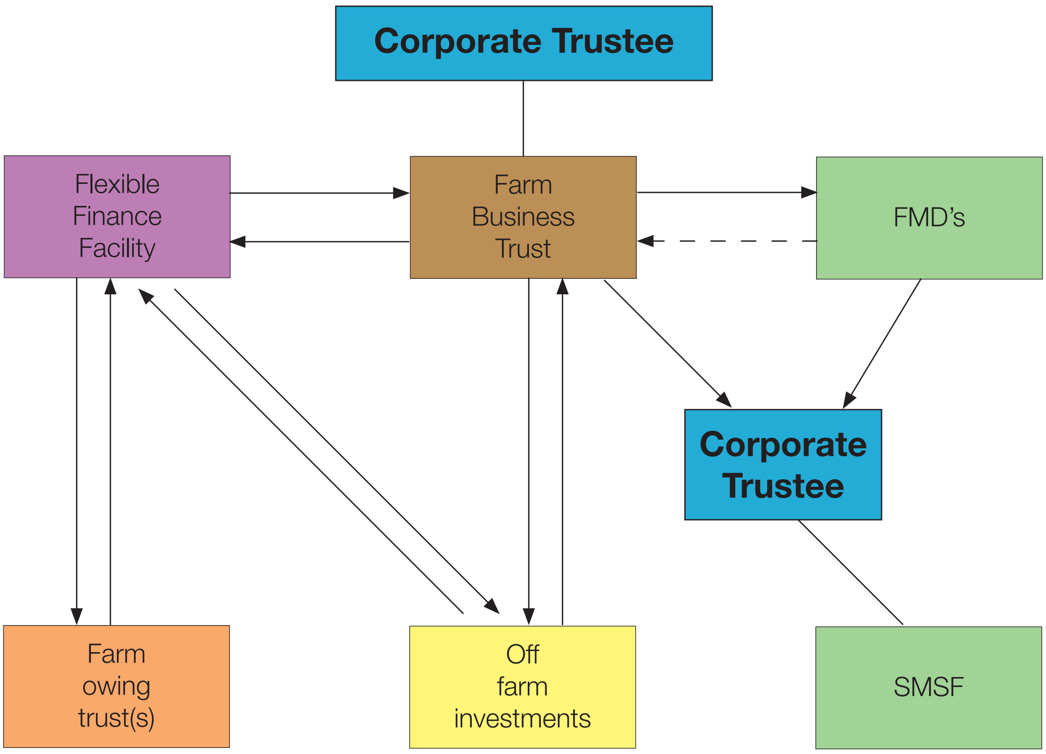
Conclusion

The main take home messages from today are:

- Conserve Cash – don't spend it - Use FMDs to manage future risks.
- You need all of the ten tools outlined during today's presentation for you to be able to do your job as a business manager.
- You need to know and you need to learn how to use these tools. Having them is not good enough. You need advice and training on how to use them.
- Your adviser needs to be qualified and up to date. They must attend regular training to learn new ideas so they can advise you of new strategies and keep you abreast of what you need to know.
- You need to establish appropriate trading and asset ownership structures. The preferred option is family trusts. Use the small business capital gains tax concession to restructure.

- You need the right finance facilities. Not all facilities are the same. Obtain advice.
- Farm Management Deposits are more than just a means of delaying tax. They are a vital tool in any family farm business to manage risk and make money.
- Conduct an analysis of your farm figures so you understand your flow of funds. Where do they come from? Are you eating into your equity?
- When it comes to buying equipment develop an equipment purchase capital budget and use finance but structure it properly. Cost/ha or cost/tonne of grain is more important than interest rates. Always have FMDs before you borrow to buy equipment.
- A family super fund is more than an investment. It is a business structure which you can use in your business to do a wide range of valuable things. Tax savings, succession retirement and estate planning.
- Start accumulating off farm assets. Simply start with a house and take out a normal house loan.
- You must have assets and income protection insurance for your family, especially for unplanned events.
- Develop a retirement plan with your succession plan using an SMSF.
- You must have a succession and estate plan.

Your final business structure should look like this:



References

ITAA - Refers to the Income Tax Assessment Act either 1936 or 1997.

SIS Act – Refers to the Superannuation Industry (Supervisory) Act 1993 & Regulations.

CGT – Capital Gain Tax.

SMBT – Small Business Taxpayer

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Keys to farm business management success – a successful grower's perspective

Matthew Hill,
Young Hill Farms, Esperance, W.A.

Keywords

risk management, communication, advisers, employee management, technology.

Take home messages

It takes many things to make a successful business, included below is a list of things that I think we do well on my farm:

- **Risk management; including significant scale and active grain marketing using forward, present and post sales.**
- **Excellent communication between family/business partners as well as financiers and landlord.**
- **The use of expert advice; including farm management consultants, grain selling consultant, agronomic adviser, accountants and legal advice.**
- **Formal employee management; including employment contracts and wage books.**
- **The use of technology, where it is appropriate and profitable.**

Introduction

I farm with my wife Angela and our two children in partnership with my wife's parents and her brother and his family.

Our farm comprises approximately 13,000Ha and is situated 90km by road, North-East from the port town of Esperance. The average rainfall over the last 33 years is 445mm, however this is measured at the wetter end of the farm and the rainfall would drop off to perhaps 400mm average at the northern extremes of the farm. Our soil types vary considerably from sand, sand over clay, loam to heavier clays.

My wife and I came to the farm in 2002 as we took on an exciting expansion from the previously farmed area of 4,000ha to include leasing the neighbouring property of 9,000ha. This constituted an increase in scale of 325%.

We operate a mixed cropping and livestock operation with crop generally making up approximately 80% of the arable area and livestock the remaining 20%. The livestock operation comprises a self-replacing merino ewe flock with a small percentage of Angus cattle.

What is Success?

'You can't manage what you don't measure'

Fundamental to the concept of measuring success is to first define it. However one person's definition of success will not suit the next person's. Money alone is not an accurate gauge of success as other factors are also important including family, community and personal fulfilment. Having said that, while money alone is not necessarily the best measure of success it is fundamental to success.

The following is a list of goals by which I will measure my personal success:

- To not go broke,
- to have a happy marriage,
- to educate the children,
- to run a profitable farm; and
- to run a sustainable farm.

Personal goals aside, how do you determine what makes a farm business successful? I believe very strongly in the value of Key Performance Indicators (KPI's) and the benchmarking of those KPI's against other farmers, as the best way to evaluate both your present position and also to track your progress if you are attempting to make changes or improvements.

The following is a list of things that I consider important to farm business success:

- Equity,
- yield,
- commodity price,
- scale,
- cost management,
- relationships,
- communication; and
- rainfall.

Equity

Equity is the 'be all and end all' measure of farm business health and is the KPI that I focus on most. It is one of the most important factors that banks and lenders will consider.

In 2002 Young Hill Farms took on a 325% increase in scale by leasing the neighbouring property of 9,000ha to bring our total farmed area to 13,000ha. Due to the fact that it was such a large increase in scale and that it was achieved using leased land, means that the business became highly leveraged. Leverage is a great tool, but it works against you, just as well as it can work for you. Figure 1 of our farm equity over the previous 9 years shows the volatility in our business as a consequence of that scale and leverage.

Our farm management consultants consider an equity level of 75% to be comfortable, this is a primary goal of my business and needs to be achieved before I would consider it successful. As can be seen from Figure 1, achieving that goal may still be some way away.

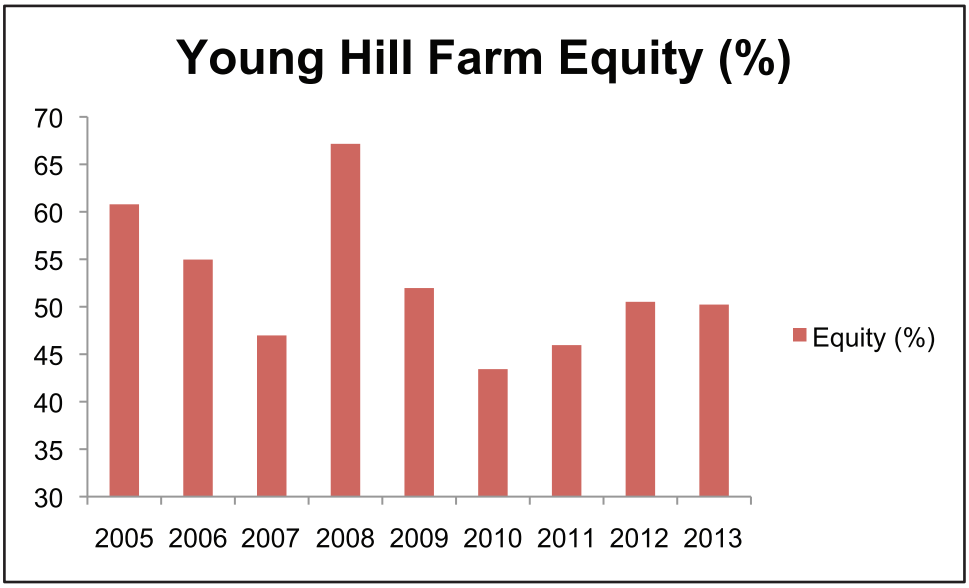

Figure 1. *Equity levels for the last nine years of the Young Hill farm.*

Commodity Price

Commodity price together with yield determine the gross income for a cropping enterprise. As such, the commodity price is fundamentally important to the profitability of any farming enterprise, although the farmer is far more able to affect yield than he is able to affect price.

It is often said that farmers, and in particular Western Australian farmers, are price takers not price makers. This is not entirely the case, our business uses forward selling, harvest sales, pools and post-harvest selling to market our grain. Given that so many factors are beyond our control or influence, it is very important that we focus on those things that are within our control and that can make a positive influence on our business.

While our business may not be able to set our price, we do everything we can to manage the risk of adverse price movements and maximise the benefit of positive price moves.

Over many years of forward selling grain I have come to the conclusion that a successful grain marketing strategy has less to do with the CBOT, hedge funds and the weather in the USA and more to do with psychology and momentum.

When we first started forward selling grain we were trying to hit price targets, which was very difficult. If the price of grain was going up we wouldn't sell because it might be higher tomorrow and then we would think that we had "lost" money, so we would wait. Eventually the price would peak and then begin to go down, and we still wouldn't sell because it was higher last week and might recover the next. Ultimately we were attempting the impossible, which is to beat the market and pick the peaks, which was driving ourselves mad in the process.

As a consequence of our difficulty with price targeted forward selling we changed our philosophy to that of a time based strategy that considers price. We sell a little bit often, and if the price is favourable we sell more, if it is not we sell less, but we always sell. This strategy gives our grain sales great momentum and it simply becomes an everyday part of the business.

Programmed or time based grain sales require a defined framework or 'policy settings' within which to operate, the following list summarises our basic grain selling strategy:

- Sell up to 20% of average yield prior to seeding, this could be 18 months to 2 years prior to harvest,
- assess the season post-seeding and sell 40-60% of average yield by September,
- assess the crop and estimate expected yield,
- sell up to 80% of <u>expected</u> yield prior to commencing harvest,
- unsold grain can be sold into pools, or cash or deferred and sold post-harvest; and
- use a consultant to manage grain sales and typically if we decide to sell a parcel of grain we will divide that parcel up into equal weekly sales over a period of weeks or months.

Scale and Cost Management

My wife and I joined the family farm in 2002 as it expanded from 4,000ha to 13,000ha through the inclusion of a neighbouring lease property. We put in 7,000ha of crop that year with one 40ft bar, and an 80ft tug along boomspray and took it off with one TR98 and one TR99 header. We have spent the last decade trying to grow into this very large increase in scale.

We now crop an 11,000ha program using two 54ft bars, two 120ft SP boomsprays, three CR9070 headers and three roadtrains. We employ seven full time farm hands plus a full time mechanic as well as the three family members that work full time on the farm plus seasonal staff at seeding and harvest times.

Increasing scale has been a reality for farms for some time with farmers being urged to get big or get out. Following are some points on my experience with increasing scale:

With increasing scale comes:

- Increased leverage and its associated volatility and risk,
- increased utilisation of capital and machinery,
- lower overheads and fixed costs,
- better spread of geographical risk, soil types and rainfall,
- better utilisation of labour,
- increased affordability, access to and utilisation of specialist and expert services and advisers,
- greater volatility in farm performance,
- a reduction in the flexibility and timeliness of farm operations; and
- a much greater administrative burden, especially associated with labour.

Communication and Relationships

Good communication is crucial to any business success and with good communication comes good relationships. At present my farm business is going through generational change as my father and mother-in-law retire and move off farm leaving my wife and I and my brother and sister-in-law to run the farm. This has been a successful process due to the positive attitudes of all involved, the great leadership and vision shown by my father and mother-in-law and a formal succession planning process which allowed clear communication between the various family members involved.

Beyond family relationships there are several professional relationships that are crucial to the success of my farm, these are included below:

- Financiers,
- farm management consultant,
- accountants,
- agronomists,
- suppliers; and
- grain marketing consultant.

Technology

I am a great fan of technology and my farm has been very quick to take up new agricultural technology from being early adopters of GPS boomspray guidance to now auto steering boomsprays, headers and seeding tractors. We are continuing to survey the farm using EM38 and radiometrics to better target lime and gypsum applications. We have been applying compound fertiliser using variable rate technology for the last five years on a phosphorous replacement basis.

The danger and discipline involved with technology and the flow of data, especially in this age of smart phones, is not to get overwhelmed with the shear volumes involved. The fundamentals of farming remain unchanged. Plant your crop, manage moisture, weeds and pests, and then harvest your crop. Technology will only ever be there to service the fundamentals.

Rainfall

Rainfall is similar to money, in that while it is fundamental to farming success it is not a very good measure of success. Figure 2 shows that there are just as many successful farmers in lower rainfall areas as in the high and that higher rainfall is no guarantee of profitability.

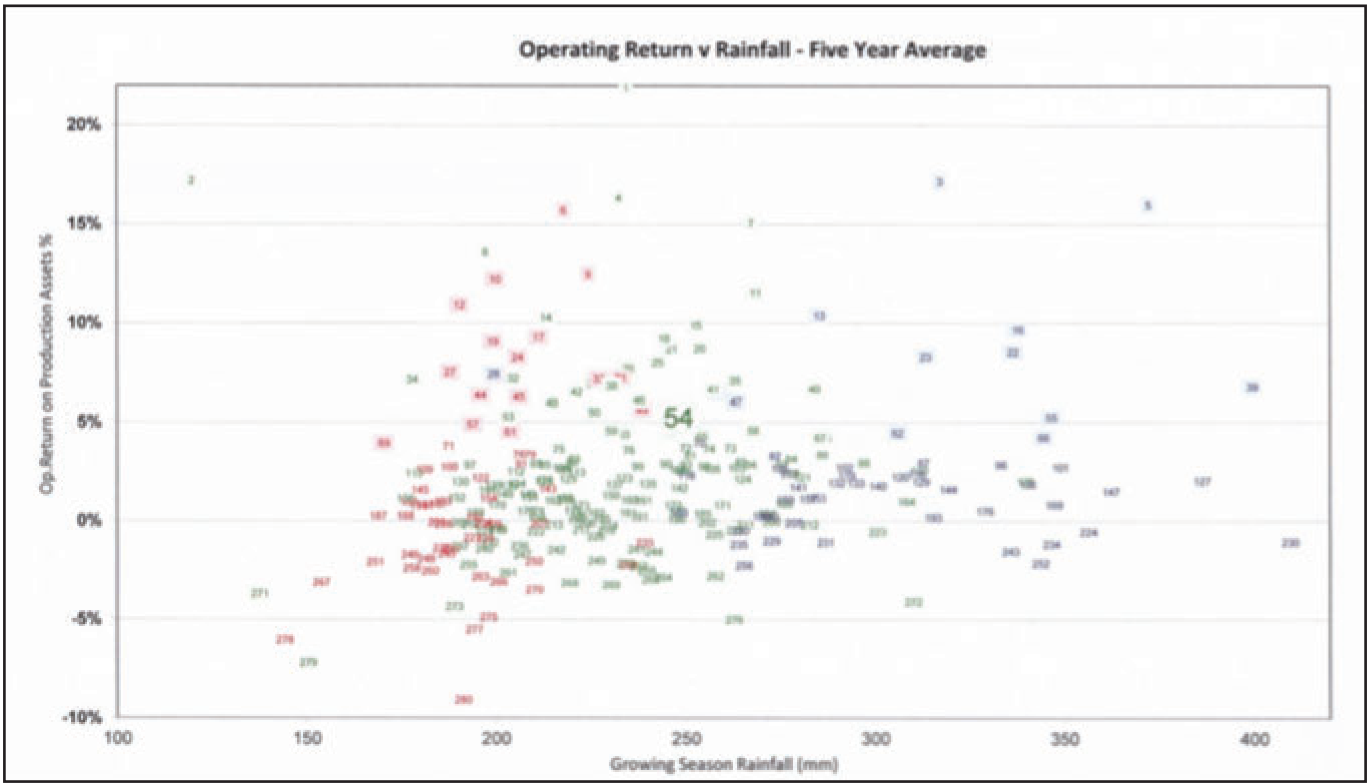

Figure 2. *Five year average of operating return versus rainfall (Source: Farmanco Profit Series 2012/13).*

While rainfall is important it can't be controlled, what can be controlled is the management and preservation of any moisture that we do have.

Conclusion

I feel that it is quite premature for me to be making a presentation on the keys to farm business success, or to be described as a successful farmer as by my own measures of success I have a long way to go, and that that success is far from assured.

Farming and farm management is a difficult business. If it were easy everyone would be doing it, however the first step to success is to understand the fundamentals of your business, what pays the bills and focus on that. Having said that, farming is a business and the business side of farming is as important as the agronomic. I simply hope that my experiences may be of interest and of some value to the audience.

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Notes

Farm business continuity – key factors for taking farm businesses into the future

Judy Wilkinson,
Consultant

Keywords

communication, families, sustaining, planning.

Take home messages

- **Have a plan for the future of your farming business and family.**
- **Consider – Plan - Talk about it - Be realistic - Be flexible.**
- **Value the differences.**
- **Don't let one relationship contaminate another.**

Continuance of assets and business within a family can be dealt with in a couple of ways:

- top down - left to the will; or
- bottom up - driven by the needs and wants of family participating.

Can be driven by events:

- front end – people joining the business; or
- back end – people leaving the business.

Who to include in business continuance planning

Accountant - provides information on business structure.

Lawyer - the law is a tool to assist families achieve their objectives.

Financial Planner - help to identify personal and business goals.

Ag Consultant - maybe be able to make recommendations and monitor progress.

Facilitator - can provide independence, objectivity and control.

Separating family and business

A key challenge to family business is balancing the family and business decisions.

Families in business often have unique challenges and opportunities. For the business to make the most of its opportunities it is essential to manage and address the challenges.

Significant impacts on the family can occur when all decisions are made based on the business and its needs. Likewise there are significant impacts on the business if all decisions are made based on family considerations.

When family members in a business make the majority of their decisions considering the **impacts on business only**, the family is often left bearing the negative consequences of these decisions. Long term effects of this can be quite substantial both financially and for the relationships.

Impacts can include:

- divorce and potential loss of equity;
- family disputes which can incur large legal costs;
- wills being challenged;
- decreased profit due to poor communication and commitment; and
- loss of family or family members.

Likewise if family businesses make the majority of their decisions considering the **impacts on family only**, the business is often left bearing the negative consequences of these decisions.

Impacts can include:

- decrease in equity;
- business employing people based on relationship not skills; and
- poor management decisions.

Balancing family and business decisions

The key to enabling this to happen is **effective communication.**

Getting the balance between family and business right when making decisions is essential to a sustainable profitable business and family.

Family members need to think about and be clear about their expectations, they need to then express these expectations with the other family/business members in a way that can be heard.

Everyone in the business or family will have expectations and these expectations will fall into one of the three categories:

1. Expectations known and expressed.
2. Expectations known and not expressed.
3. Expectation not known and therefore not expressed.

No. 1: Expectations known and expressed is where we need to be.

Influences on expectations

Family history has a significant influence on our expectations and behaviour. How your family of origin conducted itself will have huge influence. These are often subconscious, and impact on how you expect many areas of your family and business life to be.

With the integration of family members or new workers into a business we must expect that they all come with their expectations and behaviours from their own family of origin.

There may be patterns that have an impact i.e. death, divorce, number of children? How things have happening in the past i.e. transfer of family assets, how girls or in-laws where treated?

Table 1. *Think about your family.*

• How were disagreements handled? • How were decisions made, family and business? • How were tasks allocated? • How was succession negotiated? • What things were open for discussion? • What subjects were not discussed?	• How were holidays viewed? • How were people rewarded for the effort they put in? • How were work hours negotiated? • How special occasions were viewed i.e. birthday, anniversary, and Christmas etc.? • What emotions were allowed i.e. happiness, sadness, anger, and fear.

A business can put a number of processes in place to assist in separating and managing the areas of business, ownership and relationships successfully.

1. Clear communication strategy
   Scheduled operational meetings.
   Processes for dealing with conflict, triangles and generational difference.
2. Business time and social/family time
   Agreed boundaries i.e. no work talk at kitchen table.
   Time allocated to do non-business activities.
3. Keep business out of the bedroom and the bedroom out of the business
   Making sure one relationship does not contaminate the other.
4. Regular breaks
   Holidays or time away assist greatly in maintaining the balance.

Planning for business continuance

Can be done at the **front end.**

Front end issues: These front end issues, if not handled at the beginning or point of entry, are most likely to lead to conflict and discontent at a later date. Addressing and reviewing these issues proactively is likely to increase the chances of a long term harmonious, profitable and productive team.

When not handled at front end, significant issues around unpaid wages, inequitable contributions and conflict are likely to arise.

Table 2. *Potential sources of front end issues.*

Money • What is it worth? • How often is it reviewed? • What is included i.e. car, fuel etc? • Do we have the capability to pay, and if not how will we measure and manage the difference?	**Time** How many: • Hours in day (keep accurate records)? • Days in week? • Weeks in a year?
Housing • What is included i.e. phone electricity, gas? • Where is it situated? • Who pays for improvements? • Who pays for maintenance? • Is rent paid?	**Communication** • Decision making process. • Conflict resolution process. • Information exchange i.e. meetings. • What is discussed i.e. finances, workload.

Or at the **back end.**

Back end issues: Influences that affect families and peoples' ability to successfully manage change in an intergenerational business.

Table 3. *Potential sources of influence.*

Family history	Self esteem
What happened in the previous generation? Think about the history of: • communication; • succession; • management; • asset transfer; and • how people were treated.	• 'How we see ourselves inside our heads.' • Healthy self esteem or a typical self esteem. • One way to develop healthy self-esteem is to focus on the skills we have that enable us to do something, rather than what we do!
Communication patterns Develop a communication strategy for the business which clarifies how: • decisions will be made; • conflicts will be resolved; • discontent and change will be managed; • new entrants to business will be negotiated; • exits from the business will be managed; • success will be celebrated; • communication will occur strategically and operationally.	

Regular operational meetings

An important part of preparing and implementing a communication strategy is setting aside time for the 'pause' of meetings – both strategic and operational.

Time needs to be put into finding suitable meeting times that allow the greatest opportunity for people to function at their best. Some people function better in the morning and others in the afternoon, as well as at certain times in the week.

- What day and time will these meeting be held?
- How often will the business have operational meetings?
- How will they be chaired?
- How will minutes be recorded and kept?
- How will the minutes be distributed and to who?
- How will these tasks be rotated?
- How will tasks be delegated?

Table 4. *Generic agenda for regular meetings*

1. Best thing that has happened.
2. Gripes, no right of reply. b) Any triangles
3. Minutes, issues from last meeting.
4. Finance with strategies, if you chose.
5. Day to day management; who what when and where.
6. Ideas, no right of reply – can build upon.

Strategic meetings

These meetings set the overall direction for the business and cover topics such as:

- entry and exits from business;
- change of ownership and/or management;
- entry of new people into the family;
- change in direction of the business;
- change in business size or operation; and
- other events or problems not solved in operational meetings.

Are there some issues that are easier to talk about in your family or business than others?

If there was an occasion or event would that would trigger a strategic meeting?

Do you know how to find a facilitator to conduct the meeting?

Do you know how the decision will be made on a suitable facilitator?

Where to go from here

Family/business members may choose to address the trigger question, and hopefully added some more. It is important to get together and discuss your responses and expectations.

When expectations differ, it is important to try to understand what those expectations are. Endeavour to reach an understanding of what expectations there are in common and the direction the family wish to pursue.

You may end up with a plan as follows:

- What you are going to do.
- How you are going to do it.
- Time frames that it will occur in.
- What will happen if things don't occur as planned?

Reaching an understanding of common expectations and making a plan can be enhanced by engaging an external facilitator to work through the questions with the family. Having an external facilitator to chair the meeting will ensure that all family members are heard and misunderstanding are addressed.

Communication strategies need to incorporate methods for discussion of business issues, i.e. weekly business/operational meetings, as well as the abnormal and longer term planning issues, i.e. strategic meetings.

Sustaining relationships in business

Some tips:

- Value the differences.
- Have separate joint interests from the business.
- Have other people outside of business to debrief with.
- Have a holiday where you don't talk about business.
- Do not let one relationship contaminate another.

Like most things in life,
You have got a better chance of getting it **right**
if you (**all**) know where you are going (**vision**),
and know how you will get there (**plan**).

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Creating economies of scale while retaining the values of the family farm

John Gladigau,
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Keywords

economies of scale, collaborative farming ventures, efficiency, family farm.

Take home messages

There are many advantages in being involved in collaborative farming models including:

- **Maximising profitability through the creation of efficiency cells**
- **Ability to access latest technology**
- **Flexibility of involvement**
- **Integrity and heritage of family farm is retained**
- **Farming and business skills are recognised and valued**
- **Geographical spread of risk**
- **Partners can specialise in the areas of their passion and/or skill**
- **High level of professionalism and accountability**
- **Succession planning benefits**

Introduction

In the time I have been involved in agriculture, there have been huge changes in the agricultural industry. We have seen big advances in agronomy, crop varieties, understanding of soils, no till, types of machinery, GPS and precision ag to name a few. So what is the next big advance? I believe it is in the way we structure our businesses.

In the past 20 -30 years there has been significant structural changes to most of the businesses farmers have a relationship with, whether they be machinery dealers, fertiliser companies, grain marketers or banks. These structural changes have been designed to create efficiencies, economies of scale and a greater level of profitability, while attempting to align themselves more firmly with their ever changing market.

But what of family farms themselves? How many family farms have intentionally redesigned themselves to create efficiencies, economies of scale and the level of professionalism needed in an ever changing environment? It actually seems that most family farms still operate structurally in a similar manner today as they did 30 years ago.

But it is not necessarily all about getting bigger. We all heard the catch cry of the eighties “Get big or get out”. Farmers have always understood the need for scale in order to maximise the potential from their land, machinery and infrastructure. But getting bigger doesn’t automatically make you more efficient, more profitable or a more professional farm manager. In fact, statistics show that some of the most profitable farms are actually those in the medium size range, rather than those we see with the huge tracts of land with lots of bright new shiny machinery.

In my Nuffield studies and travels I focussed on how family farms could create economies of scale and a higher level of efficiency without losing the integrity and heritage of the family farm. This in turn led to the formation of Collaborative Farming Australia (CFA), and the creation of our first collaborative farm – Bulla Burra.

Who is CFA?

Collaborative Farming Australia Pty Ltd (CFA) is an innovative company bringing the economic strength of corporate business to Australia's family farms, while sustaining the social fabric of rural communities. It is a privately owned company which aims to create solutions for rural businesses to enable their long term profitability and sustainability while retaining the integrity and heritage of the family farm.

CFA has focussed on bringing together farmer groups to create Collaborative Farming Ventures (CFVs). A CFV may be flexible and combine the assets, infrastructure and skills of two or more farming businesses, along with the addition of leased or share farmed land if required. Outside investors can also be utilised in a CFV business structure.

At its core are the development of optimum efficiency cells, and the implementation of a professional business structure with an emphasis on accountability and transparency. While many cooperatives and groups continue to be created to facilitate joint marketing of produce and purchasing of inputs, the CFA collaborative approach focuses on creating efficiencies and synergies in infrastructure, business structures and production. This can then be used as a foundation on which value chain opportunities can be built.

The objective is to create collaborative models which can be measured against existing business structures, taking into account personal financial situations, personalities, attitude to risk, emotional issues and succession planning, along with social and environmental issues.

Principles of successful collaborative businesses

At the core of CFA are seven key principles which we believe are central to the success of any collaborative business. These need to be all considered in the context of the vision for the business, and implemented in order to create a profitable and sustainable enterprise.

1. **Differentiate between real estate and operations:** Most dryland farmers in Australia struggle to realise that they are actually running two enterprises, a real estate business and an operations business, and both of them need to return a profit in order for long term sustainability to occur. In the case of horticulture we can include additional enterprises such as water allocations and contractual arrangements. It is important to understand that these are all different potential sources of income which are integrated into the one business, and the return on each of these enterprises is relevent to the overall business.
2. **Utilise machinery resources efficiently:** One of the great limiting factors in growth in the agricultural sector is the over capitalisation in machinery. Businesses need to understand the true cost of owning machinery, compared with investing that capital in other income producing investments and utilising machinery from other sources. This could include conventional contracting, a joint venture with a machinery contractor or neighbour, or involvement with a machinery ring. There are also many innovative machinery finance structures which can be created which can add significant benefits to properly structured businesses.
3. **Create cells of optimum efficiency and replicate them:** This is one of the key principles farming businesses need to comprehend in order to grow their level of efficiency and profitabilty. Basically this involves creating cells of optimum efficiency (sometimes called scaleable units) by matching the machinery, labour and infrastructure required to most efficiently farm a given area of land, and replicating those cells in order to grow the business. As an example, an efficiency cell in dryland farming in the SA Mallee may be deemed to be 4000 hectares, which can be cropped with a 42ft seeder, 300 HP tractor, 42ft harvestor, 120 ft sprayer, a Mother Bin, a 4x4 ute and two labour units at maximum efficiency. In order to grow the business and retain the efficiencies it would be necessary to expand in 4000 hectare cells.

In the case of horticulture the land area, machinery and labour units would be different (and with the added dimension of water rights and contracts) but the concept remains the same. Understanding this is vitally important as in some cases business expansion can in fact make the business less efficient, and therefore, less profitable, while in others a small expansion can make a significant positive influence to the bottom line.

4. **Create an environment of win-win:** We deal with many people within our businesses. Neighbours, share farmers, lessors and lessees, contractors, wholesalers, retailers, marketers and employees. Unfortunately a lot of our dealings are based on having a win at someone else's expense. However, if we want to create long term relationships within our businesses, and with those we deal with, we need to create an environment where all parties have something to gain, no matter the circumstances.
5. **Utilise specialist services:** You do not have to know everything about every intricate aspect of your business. These days you cannot be 'jack of all trades and master of none'. But, if you have the ability to source or collaborate with people who have expertise in areas you are lacking, and have the ability to manage those people, keep them focussed on a common goal, and generously reward them both financially and mentally, then your business will grow and prosper. Though this may sound simple and logical, most would admit that it can be very difficult to recognise areas in which their business may be lacking, and acknowledge their own personal weaknesses, which could be built up by more highly skilled outside sources
6. **A level of independence is needed:** Every successful business talks about the need for professionalism, accountability and transparency in order for it to survive and thrive. Within a collaborative venture, these traits are even more important – especially in regard to the differences in personalities and any emotional issues which may be involved. In fact, emotions and personality differences are one of the biggest threats to the success of any collaborative business.

   Having an independent person or group involved in a collaborative venture, who sit outside of the emotion, have no conflicts of interest, and has the ability to keep the business focussed on its strategic plan can assist a business to grow to a new level. The right person will keep all parties accountable, ensure the business maintains a high level of professionalism, will insist on transparency and will see potential conflict and emotional issues before they are even on others' radars.
7. **Be strategic:** While this seems obvious, the reality is that most businesses focus on the daily operations of the business, rather than the business itself. Regularly scheduled time needs to be dedicated to determining what you wish the business to look like in the future, and what steps, structures and practicalities need to be put in place to make this happen.

What is the best model?

It is our firm belief that there is no one singular model which suits all businesses. Rather a strategic approach needs to be taken to create a bespoke model which takes into account a range of factors. In many ways we might say 'there is no model' and 'there are no rules' as we believe there are always opportunities to create efficiencies and economies of scale, but these may vary significantly from business to business.

But while there is no set model, for a collaborative business venture to work it does need to be based on core values such as professionalism, efficiency, accountability and transparency in order to be the profitable, sustainable and enjoyable business most would like it to be.

Example Model

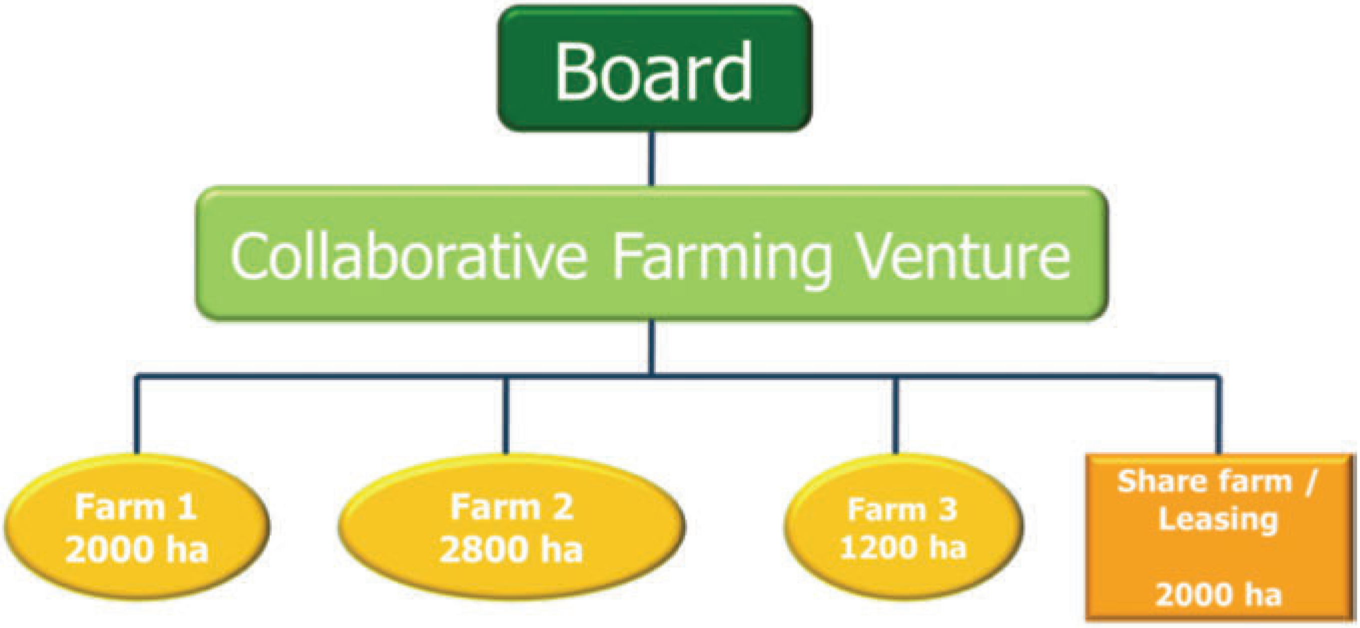

Figure 1. *An example of a working model which CFA have designed for use within dry land agriculture.*

This scenario involves three dry land farmers, one with 2000 ha, one with 2800 ha and one with 1200 ha. They have recognised that an optimum efficiency cell for their region is 4000 ha. They have agreed to come together and form a collaborative farming venture involving two efficiency cells of 4000 ha for a total of 8000 ha. In order to do this the following will occur.

- A new company is formed
- The three shareholders lease their land to the new company
- They source the additional land required to get to their efficiency cell (s) required through leasing and share farming.
- They sell all of their existing machinery (either privately or to the CFV if its required) and source the machinery required to operate their new venture efficiently
- They ascertain the level of capital input required to effectively operate the venture (including overdraft limits if required) and agree on individual shareholdings. These shareholdings may not be at the same levels as land value contributed, which is accounted for through leasing, share farming or land units.
- They agree on the appropriate skills and labour required to operate the CFV efficiently, and involve themselves in the business in the areas where they add the most value.
- They agree to contract in areas in which they do not have the skills, which may include financial, agronomy, marketing, etc.
- They have an independent chairman to maintain a high level of accountability, transparency and professionalism.

The seven principles discussed earlier are addressed as follows:

1. **Differentiate between real estate and operations:** All landholders either receive a lease payment or land unit distributions which are separate to income derived from operations in order to recognise and value the different enterprises.
2. **Utilise machinery resources efficiently:** The machinery purchased will be that which can most efficiently farm the area using the labour available. A machinery finance structure will be determined which best fits the requirements of the business.
3. **Create cells and replicate them:** The optimum efficiency cell has been determined as 4000 hectares and replicated by two to create the CFV.

4. **Create an environment of win-win:** All shareholders, landholders and stakeholders would be involved in discussions to ensure that all believe they will benefit from the venture.
5. **Utilise specialist services:** All are involved in the business in areas in which they are most passionate and add the most value. In areas in which the business may be lacking, specialist services would be contracted in. This may include agronomy and grain marketing services.
6. **A level of independence is needed:** The involvement of a company like CFA in the development process would assist with the creation of efficiency cells, shareholder discussions and due diligence to ensure everyone's needs and expectations are met. An independent chairman would be appointed to sit on the CFV board to ensure a level of professionalism, accountability and transparency, and to ensure the business focuses on its strategic objectives. The independent party would also ensure that a comprehensive business plan and policy documents are drawn up, with input from all shareholders and stakeholders in the business, in order to mitigate any emotion or personality issues which may arise.
7. **Be strategic:** The whole model is determined by taking into account the values and goals of the prospective partners – and the long term vision for the business. The business is then designed to meet all the objectives and to be efficient, profitable and sustainable – and then the structures and steps needed to make it happen are put in place.

Ways to contribute to the model

Using the model described above, there would be four ways to contribute to the business and receive income.

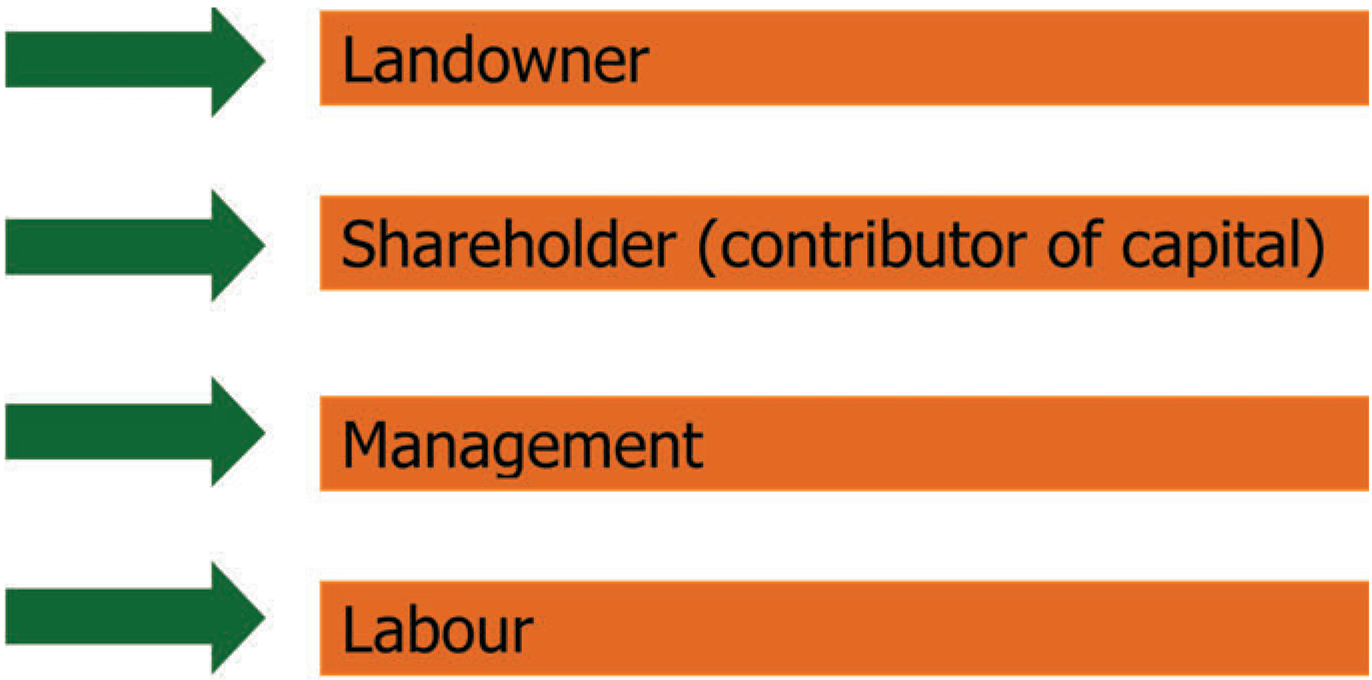

Figure 2. *Four ways members of the CFV can contribute to the business.*

In most agricultural businesses the proprietor is all four of these in that he /she owns the land, contributes the capital and provides labour and management. The advantage of this type of model is that there is the opportunity to differentiate between all these areas and have involvement in ways which add the most value to the CFV. For example, someone may only wish to be a landowner and work casually at seeding and harvest, another may not have land but may have capital to invest. There may be a person who has land and capital but does not wish to be actively involved in the business. Another may have capital and management skills. The options are many.

In a horticultural environment we can add water ownership and marketing contracts as additional ways to contribute to a CFV. For example, one person may own land and have a significant amount of water to contribute. Another may have land, a small amount of water and a CCW contract. A third may have capital and management skills. While on their own these may not be enough to constitute an effective business, together they form the components of what could be a highly successful collaborative farming venture.

Development of a collaborative farming venture

The process required to create a successful collaborative farming venture requires a high level of due diligence, including discussions with interested growers, collection of financial data and comprehensive modelling and analysis. It also requires the breaking down of many of the barriers associated with the implementation of a successful venture, including the perceived need for independence, emotional attachments and personality differences.

The issues which are faced by family farms may be complex on a range of levels, but we believe the potential to create structural and production efficiencies through collaboration can create enormous benefits. This can be coupled with opportunities for value adding of produce to create a strong horizontal and vertically integrated business approach.

Advantages of being involved in a collaborative farming venture

We believe there are many advantages in being involved in collaborative farming models, based on the principles listed above, including:

- Maximising profitability of the enterprise through the creation of efficiency cells
- Ability to access latest technology
- Flexibility of involvement
- Integrity and heritage of family farm is retained through land ownership
- Farming and business skills are recognised and valued
- Geographical spread of risk
- Partners can specialise in areas of their passion / skill
- High level of professionalism and accountability
- Succession planning benefits

And most of all – it's still your farm!

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What do successful farm businesses do well?

Graeme McConnell,
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Keywords

benchmarking, top 25 per cent, return on capital, yield, prices, costs, business strategy, consultants.

Take home messages

- **You will rarely know which year is going to be a good one, but you must take advantage of the seasonal and price opportunities when they come.**
- **A low cost base and an ability to prune costs in poor seasons is just as important, if not more so, than making large returns in the big years.**
- **Benchmarking analysis shows that the best businesses achieve returns well above the average and in a different league to the businesses that are struggling.**
- **However, the top 25 per cent of farmers still have a large variability in their returns in individual years.**
- **A consultant should not take over control of your business; rather give you the information and skills so you can make better decisions.**

Recent seasons in the eastern wheatbelt have been by most measures ‘challenging’, with some of the driest years experienced, frosts, high price volatility, low margins and increasing debts coupled with increasing acidity.

The net effect of this is that many very good businesses are under pressure, in varying degrees and not necessarily financially. Many are quite correctly questioning the return they are receiving for the level of effort and capital tied up in their farm business.

It is difficult to see this business environment changing in the short term, so we see our challenge as ‘making sure farming businesses can achieve an acceptable level of profit with current conditions’. In doing so we would ask:

1. Do you think the returns your farm business has achieved in the last six years have been acceptable?
2. Are there things you can change in your business to improve your profitability, or even your enjoyment of farming?
3. What do you think is the biggest risk in your business?
4. Do you know, today, what is the ‘low hanging fruit’ in your business?

In this paper we will work through some of the areas we see as critical to farming effectively in the eastern wheatbelt in the current environment.

Planfarm has had a long association with benchmarking and publishing the results. In recent years we have been looking at these key questions across the state: firstly with the 'Bridging the yield gap' program for the medium and high rainfall zones; performing rotational analyses of the better performing farms in the eastern wheatbelt (a GRDC Regional Cropping Solutions Networks project); and through a recently submitted GRDC project on 'How to farm profitably in the eastern wheatbelt'. I have not covered the later project in detail as this is to be released at the GRDC Crop Updates this month.

We must also acknowledge our partners in the benchmarking, consultants Bedbrook Johnston Williams, BusinessAg, AgAsset, and Bankwest. Without each of these our data set would be much smaller and less reliable. We greatly appreciate and value the involvement of each of these contributors.

What do we see?

1. Some businesses have an ability to generate better surpluses than others – a lot better;
2. They do this consistently;
3. They receive the same rainfall as the average; and
4. They have, on average, larger farms than the average, but they do include many smaller businesses down to about 2,200 ha.

This leads us to believe that aside from some of the obvious benefits of scale, farm size is as much a symptom of an efficient business as opposed to the cause. Also just being large, does not mean you are efficient.

The tables and figures below demonstrate some of the differences. Note these slides have been taken from the launch of the Planfarm Bankwest benchmarks in 2013.

Figure 1 shows the six year average return on capital (ROC) achieved by businesses in the benchmarking analysis. This analysis is designed to remove the effect of the 'fortunate' rain event. Clients are ranked on their six year average return on capital, this includes years up to 2012. The 2013 results will be collected in the current review season.

This analysis shows that the best businesses achieve returns well above the average and in a different league to the businesses that are struggling. We see the same effect in every region. Some regions such as L1&2 (northern wheatbelt, low rainfall) have had a remarkable run compared to the conditions in the eastern wheatbelt. Hence, the performance of the top 25 per cent in eastern wheatbelt has been below that of the average in the northern wheatbelt low rainfall region.

When we examine just the top 25 per cent of farmers we see that they still have a large variability in their returns in individual years. The highlighted results in Table 1 show the years in which these businesses generated exceptional returns. We have used an ROC of greater than 10 per cent as a measure of this.

What can we learn from the results of the top 25 per cent?

1. Even in a difficult run of years, there is the opportunity to generate very good returns in one to two years in every six;
2. In the average year these businesses still generate an acceptable ROC; and
3. These businesses are structured so they rarely make losses.

Which brings us to the first of our key observations:

- You will rarely know which year is going to be a good one, but you must take advantage of the seasonal and price opportunities when they come; and
- A low cost base and an ability to prune costs in poor seasons is just as important, if not more so than making large returns in the big years.

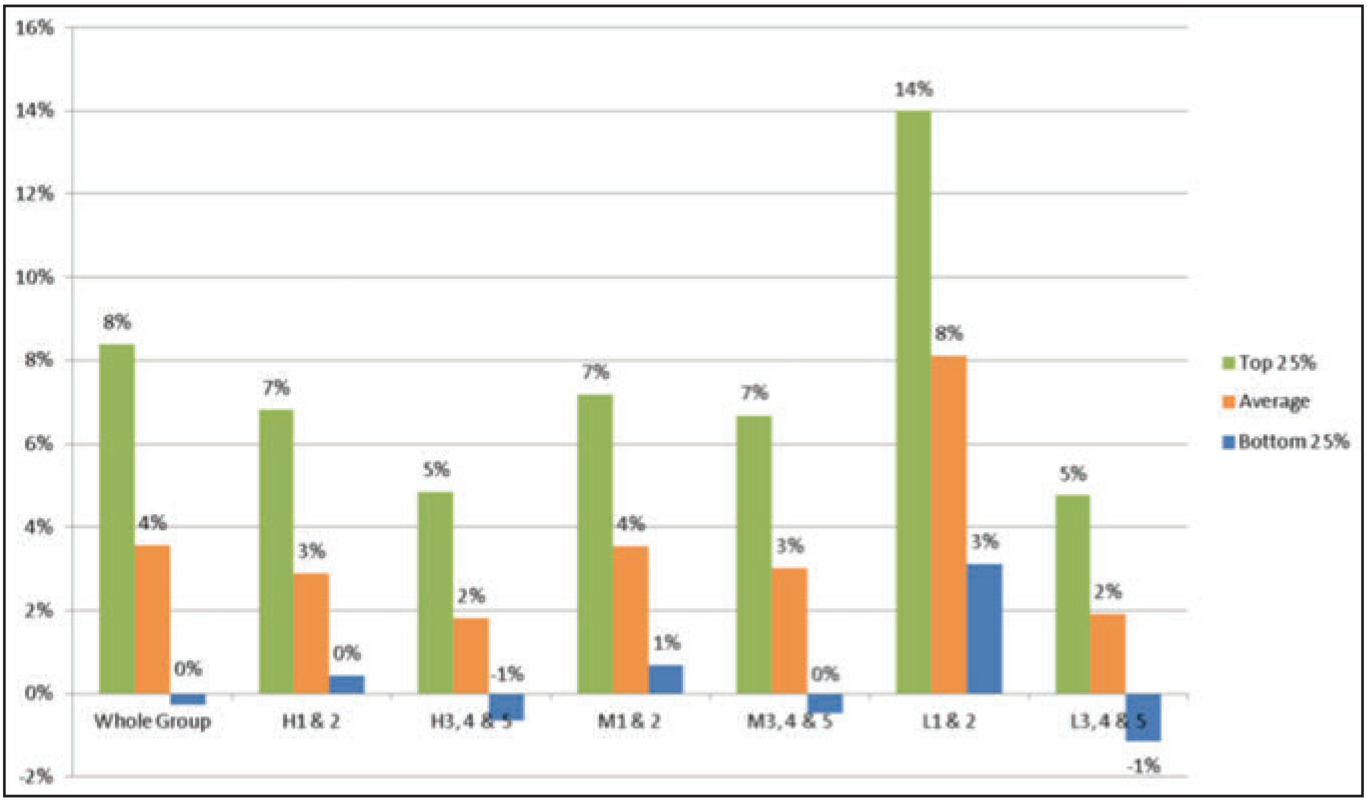

Figure 1. *Regional six year average return on capital (%).*

Table 1. *Yearly top 25 per cent return on capital by zone (%)*

Top 25% only ROC	2007	2008	2009	2010	2011	2012	Average
H1 & 2	8%	9%	3%	4%	12%	6%	7%
H3, 4 & 5	10%	4%	0%	1%	8%	7%	5%
M1 & 2	1%	19%	3%	4%	13%	2%	7%
M3, 4 & 5	24%	8%	-3%	-3%	10%	5%	7%
L1 & 2	-3%	41%	6%	9%	26%	4%	14%
L3, 4 & 5	13%	10%	0%	-2%	6%	3%	5%
Whole Group	8%	21%	1%	3%	16%	2%	8%

Yield x price less costs = profit

Yield

The table below shows the difference in wheat yield for the top 25 per cent of producers. In most regions the difference was between 0.1 t/ha and 0.15 t/ha. This is less than what most people would expect and almost certainly less than what you can see from looking over the fence. Consider that 0.1 t/ha at $260 per tonne net on farm over 1000ha, if achieved at limited additional cost, will provide $26,000 more profit.

What can you do in your business to gain an additional 0.1t/ha?

It is worth noting that the top 25 per cent of businesses, in some years and in some regions, actually produce lower yields than the average, as highlighted in Table 2 below.

Table 2. *Top 25 per cent wheat yield difference compared to the average*

Top 25% wheat yield difference	2007	2008	2009	2010	2011	2012	Average
H1 & 2	0.06	0.14	-0.06	-0.05	0.17	0.09	0.06
H3, 4 & 5	0.49	0.25	0.06	0.26	0.04	0.18	0.12
M1 & 2	-0.20	0.00	0.06	0.05	0.31	-0.71	-0.07
M3, 4 & 5	0.16	0.07	0.09	0.09	0.22	0.19	0.15
L1 & 2	0.08	0.30	0.05	0.08	0.20	-0.10	0.10
L3, 4 & 5	0.12	0.14	0.17	0.19	0.04	0.25	0.15
Whole Group	-0.06	0.15	0.10	0.03	0.28	-0.40	

This limited difference in yields reinforces our view that the majority of farmers/farm businesses that have survived the last twenty five years are fundamentally very capable producers. If there are issues of profitability, they are generally just fine tuning.

Price

We often get asked the question: 'Do the top 25 per cent of farmers get better prices?' The answer is yes, but not by much, as outlined in Figure 2.

Figure 2. *Top 25 per cent wheat price difference compared to the average.*

Costs

Table 3 shows the difference in operating costs between the top 25 per cent and the average. Interestingly, it is only in the low and medium southern rainfall zones that the top 25 per cent spend more (not highlighted) than the average.

The conclusion from this is that the top 25 per cent achieve higher yields at a mostly lower cost and achieve higher prices. As such, it is not just one area of their business in which they outperform the average. The culmination of this is that these businesses have generated much larger amounts of capital than the average.

Table 3. *Top 25 per cent operating costs difference compared to the average*

Op Cost Difference	2007	2008	2009	2010	2011	2012	Average
H1 & 2	-$42.83	-$41.51	-$40.11	-$64.18	-$37.10	-$25.62	-$41.89
H3, 4 & 5	-$0.10	-$25.64	-$16.83	-$18.83	-$23.03	$4.61	-$13.30
M1 & 2	-$62.44	-$54.38	-$41.92	-$39.73	-$30.16	-$50.53	-$46.53
M3, 4 & 5	$2.05	$31.94	$24.68	$2.73	$2.88	$18.31	$13.22
L1 & 2	-$4.16	-$7.83	-$18.46	-$6.27	$9.00	$2.49	-$4.20
L3, 4 & 5	$4.59	$16.85	$26.43	$14.50	$6.28	$14.91	$14.20
Whole Group	-$49.35	-$19.93	-$16.48	-$27.65	-$9.33	-$12.88	-$22.73

Business strategy

While not the core component of this paper, knowing where you are taking your business is critically important and of course influences your decisions around profitability. This also means that there are periods during your businesses growth that you will be strongly profitable and periods when there are other priorities. You need to be able to recognise these times and manage them accordingly.

Your challenge

1. Know where you fit on this scale? Don't guess, most people think they are around the average and most are wrong. Do this for multiple components of your business (cost, price, and yield) and across the same years as the data set you want to compare to, for example 2007 to 2012. 2013 for many will provide a significant jump in the long term average ROC numbers.
2. You don not need to fear benchmarking numbers. They are just an indicator designed to get you asking the question about an area of difference, such as 'Why?' and 'Should I be changing this?' There are many, very legitimate reasons why your results should be different to an industry benchmark.
3. Are you happy with where you are?
4. Do you know what needs to change and can you make it happen?
5. If you are uncertain on any of the above, seek advice.
6. Generally this does not mean wholesale changes, even in poorer performing businesses. As you can see from the above, the differences are often small.

Our observations of key factors for achieving success

In conclusion, some of the key traits that appear in the top performing group of farms include:

- a thirst for knowledge - they enjoy the research;
- know the environment you operate in;
- prepare for variability - know how you are going to act when the plan changes;
- keep costs to a minimum;
- Plan – have a strategy and keep working on it
- understand your strengths;
- understand in detail your margins, rotations and enterprise mix, and above all, your logic for choosing this, play to your strengths;
- understand the likely and potential consequences of your decisions;
- take ownership and responsibility;
- leave a margin of safety in everything;
- small differences add up;
- where possible, do not be an early adopter;

- take the opportunities for profit, work hard to minimise losses in poor years;
- return on capital – what are your assets really worth? Be realistic in your comparisons of farm returns vs the alternatives.

A thought 'I believe if we looked at the all the farmers that have survived until now, I expect they would have been in the top 25 per cent of the farmer group from 50 years ago'. If you have survived until now, you are pretty good at what you do.

Lessons from 2013

Based on how the year unfolded and where we have got to so far in analysing 2013 we have made the following observations:

- The line between a good season and a poor one can be very thin as we have seen this year. Within relatively short distances we are seeing both strategies to preserve capital and strategies to maximise returns from a very good year. Is this the new normal?
- By mid July, a large portion of the state could have had its worst season on record, or its best.
- Recent seasons have reinforced both the importance of early rains and, when this occurs, the importance of managing weeds and paddock preparations effectively.
- We seem to be receiving a more variable climate with later breaks and dry periods in the growing season.
- Grain pricing has been volatile, but there are good pricing opportunities in every year, Figure 3. Recognise a good price – don not get caught up in trying to predict the market. The noodle market in 2013 was a very good indicator of this with prices now falling well behind their peaks.
- Take your opportunities when they come, 'Make hay while the sun shines and do not feel guilty about it'.
- If you are in one of the areas that have large variability in profitability, use this to manage your taxation strategy.

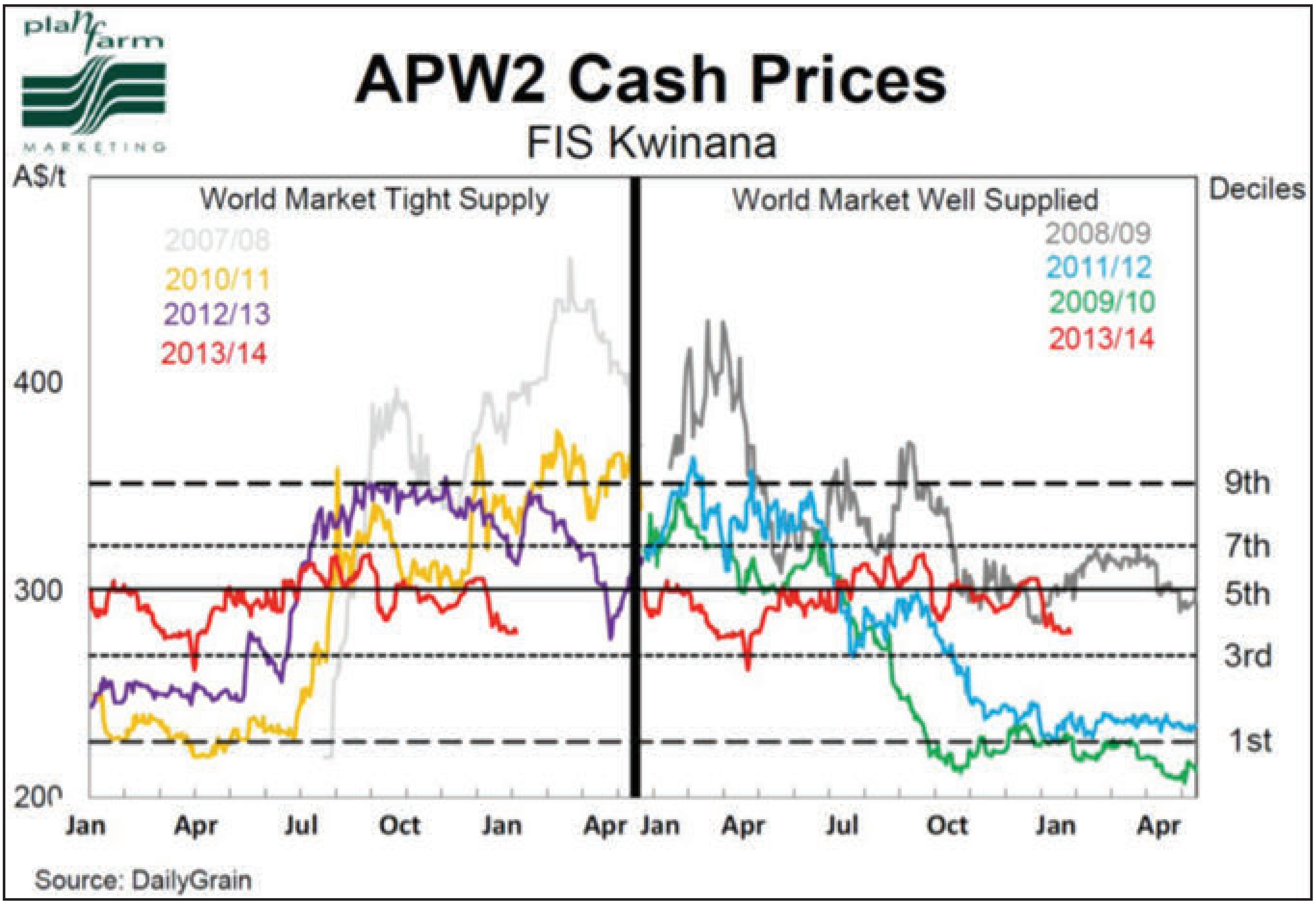

Figure 3. *APW2 cash prices and deciles, FIS Kwinana.*

How to best use outside service providers

Finally we have been asked to add some notes on how to best use outside services.

Do you think you could benefit from a consultant? Eight of 10 failed businesses fail due to inadequate planning. Consultants are not the only answer, but a good consultant should be able to make a significant difference in your business.

Expect that most consultants will take a little while to get across your business.

Choose someone with:

- skills to compliment yours;
- skills that you need in your business;
- you can talk to without being intimidated;
- has experience in the areas you need and your region;
- does not have a conflict of interest; and
- is a member of the Australian Association of Agricultural Consultants (AAAC).

Remember:

- A consultant should not take over control of your business; rather give you the information and skills so you can make better decisions.
- As a business owner you retain the financial responsibility for the decisions made in your business, therefore you should make the final decision.
- A consultant is not on your farm everyday and therefore may not have all the information they need to make the best decision. A team approach is better.

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Notes

Weather forecasting for the next decade

Neil Bennett,
Bureau of Meteorology.

Keywords

forecasting, MetEye, chaos, ensemble, probabilistic, seasonal, deterministic, coupled models.

Take home messages

- **The importance of accurate weather forecasting can not be overstated for modern farming practices.**
- **The practice of weather forecasting has changed over the last 25 years.**
- **It is unreasonable to expect forecasts beyond seven to 10 days to be as accurate as those for days one to seven.**
- **It is possible that POAMA can deliver probabilistic forecasts of rainfall and temperature for regional Australia in the timeframe of 14 days to three months.**

Weather forecasting for the next decade

It is impossible to gain an understanding of weather in WA without understanding the basics of the global circulation. In its most simple terms the global circulation is the canvas on which our daily weather is drawn.

The importance of the sub-tropical ridge to WA weather will be discussed and explained, as well as the impact of winter fronts and summer tropical events.

Since the 1970s modern weather forecasting has become increasingly reliant on numerical weather prediction (NWP). At that time, the computer model grid was very coarse, with the distance between the points on the grid being of the order of hundreds of kilometres while, the number of vertical levels in the 3D model would be less than 10.

Modern global models now have grid lengths of 30 to 60 km and up to 90 vertical levels, with smaller scale models operating at 1 to 5 km grid lengths and a similar number of vertical levels.

Going hand in hand with this increase in the number of grid points has been the increase in the amount of data now being captured around the world. The vast majority of this information now comes from satellites.

These two factors have led to an increase in the accuracy of the forecasts, with four day forecasts now regularly achieving the same level of accuracy as the two day forecasts from 20 years ago.

This increase in accuracy has led to an increase in expectation from the community and weather forecasts are now expected to be close to 100 per cent accurate. It is sometimes the case that the Bureau of Meteorology (Bureau) will be criticised for a forecast of rain from four days out that did not arrive until the fifth day, and that the forecast of 10 mm turned out to be 2 mm instead.

In an attempt to meet these expectations, the Bureau embarked on a revamp of its forecasting operations in late 2009 and started rolling out its next generation forecast and warning system in Victoria. Since that time, the system has been introduced to all states and territories with the exception of the NT who will start using it later this year.

Basically the system is a graphical interface with which the forecaster directly interacts with the model output. They manipulate the grids of data to produce an output that they are comfortable with based on the latest observational data they have access to plus their own knowledge of the models strengths and weaknesses. They can vary the models they use on a daily basis and can also add their own input via special software called Smart Tools which allows them to add in local effects such as sea breezes.

By the end of 2014, the system will allow Bureau forecasters to produce seven day forecasts for every 6 km across the country for elements such as wind, rain, temperatures, thunderstorms and humidity. Each day can be broken down into three hour time steps and the information can be presented as an animated map or in a tabular format. It is also possible to display current weather information on the maps, as well as overlay satellite imagery, tropical cyclone track and threat maps, current radar imagery and the surface weather chart.

A question that often gets asked is, 'Why is it not possible to continually extend this forecast period to beyond seven days and go out to say 14 days, 21 days, 28 days or even further?'

The reason why it is not possible to do this with any accuracy greater than simple climate averages is that, despite the enormous increases in observational data over the last 10 years, it is still not possible to accurately measure the state of the whole earth system from the ocean depths to the top of the atmosphere completely accurately. Therefore we have small errors in our initial input. Using NWP, these errors grow larger with time. Eventually, at around day 14, the errors become so large in the model that it starts to produce results that are simply wrong. This is the chaos theory and was first discovered by Edward Lorenz in the 1960s.

One way around this problem when going out to longer timeframe forecasts, such as seven to 10 days, is to use an approach known as ensemble forecasting. This essentially runs the model multiple times with slightly different starting information on each run. The end results from each run will produce a range of possible forecasts and the most likely outcome for the forecast is the result that sits in the middle of these ranges.

Ensemble forecasting is being used more and more in tropical cyclone forecasts and it is not uncommon for ensembles from the various models around the world to be compared with each other to produce the tropical cyclone track.

There is still the question though of how to produce forecasts for planning purposes at 14 days and beyond.

Up until last May, the Bureau used a purely statistical model to produce its three month seasonal outlook for rainfall and temperatures. However, over the last few years there has been recognition that this approach is no longer useful as we are entering new territory with our climate. There are simply not enough years in the past that reflect the current climate in terms of rainfall and temperature.

The results from the seasonal forecasts are presented as what are known as 'probabilistic forecasts' rather than the deterministic forecasts obtained from the Bureau's access model used for one to seven day forecasting.

The difference between these two approaches is that probabilistic forecasts produce results based on the most likely statistical outcome, whereas deterministic forecasts produce results based on the most likely value outcome.

In May last year the Bureau started using its POAMA numerical weather model to produce the seasonal outlook. This differs from the normal NWP model used for daily weather forecasting as it is a coupled model. This means it combines ocean forecasting and weather forecasting in one model. It is also an ensemble model and this provides the Bureau the opportunity to start to look at bridging the gap between the current seven day operational forecast and the three month seasonal outlook, while still producing a probabilistic forecast for that period.

Looking ahead, it is highly unlikely that the Bureau will be able to move much beyond 10 days in the foreseeable future. Even 10 day forecasts are going to be hard to achieve for deterministic forecasts, as this will require further increases in computing power and performance which are both very expensive items.

The area most likely to see changes will be in the timeframe 14 days to three months, where it is possible that POAMA can deliver probabilistic forecasts of rainfall and temperature for regional Australia.

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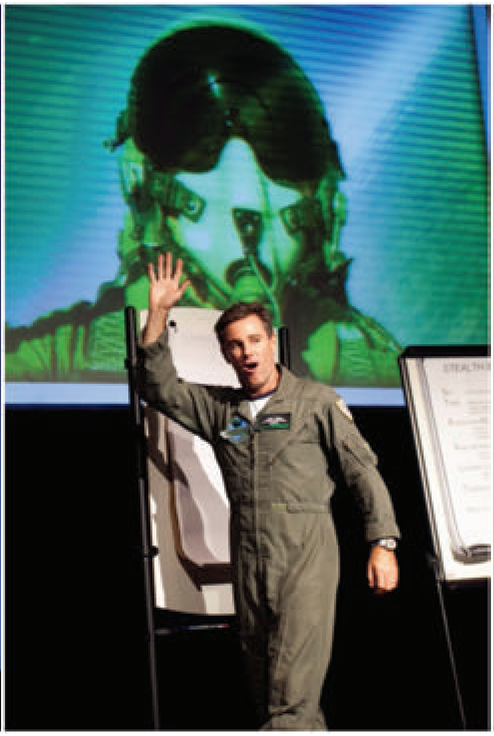
Notes



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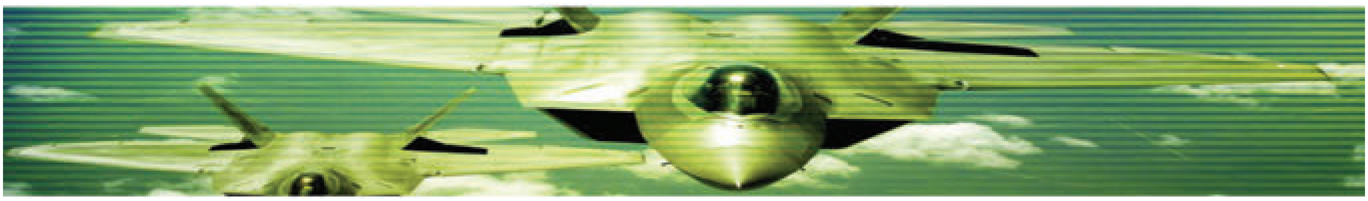

Notes

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Chair
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Keith is the general manager of a dryland and irrigated family farming operation at Conara in the northern Midlands of Tasmania, operating an 8300 hectare mixed farming operation over four properties. He is a Director of Tasmanian Agricultural Producers P/L, a grain accumulation, storage, marketing and export business.

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Richard has been a grain grower at Mallala, in SA's Lower North, since 1981. He is currently cropping about 1800 hectares to wheat, durum, barley, beans, lentils, canola and oaten hay. He has served on the SA Advisory Board of Agriculture, representing the board on various forums and committees and chairing its 'Achieving an Informed and Supportive Government' working group. Richard has also served on the Plant Biosecurity CRC Grains Advisory panel since 2008.

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Bill is an agricultural consultant and farmer on South Australia's Yorke Peninsula. He has led and be[illegible] d[illegible]opment[illegible] founding members of the Yorke Peninsula Alkaline Soils Group and chairman of the Ag Excellence Alliance. He has a strong interest and involvement in farm business management and communication programs within GRDC. He is a Churchill fellow.

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Geoff runs an irrigated cropping farm near Finley in southern NSW. The farm p[illegible]ce[illegible] wi[illegible] cereal, oilse[illegible] [illegible]ops and s[illegible] [illegible]verhead an[illegible] [illegible] G[illegible] has a degree [illegible]gri[illegible]ral [illegible]nce and 30 years experience with irrigated and dryland farming systems in southern Australia. Geoff is a board member of SoyAustralia and chairman of Southern Growers, a local grower group in the southern Riverina. Geoff also provides consultancy services to government, industry and catchment management authorities related to land and water management.

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John runs a mixed broadacre farming business and an agricultural consultancy, Agriculture and General Consulting, at Barmedman in south-west NSW. John is the chairman of the district council of the NSW Farmers Association, Deputy Chair of the Lachlan Catchment Management Authority and a winner of the Central West Conservation Farmer of the Year award.

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From Swan Hill in north-west Victoria, Rob is an extension agronomist who has specialised within government agencies in the areas of soil conservation, resource conservation and dryland farming systems. Over some three decades he has been privileged to have had access to many farmers, businesses, consultants, rural industry and agribusiness advisers. Rob also has been closely involved in rural recovery and emergency response into issues as diverse as locusts, fire, mice, flood and drought. Rob is currently employed part-time within the Mallee consultancy group AGRIvision.

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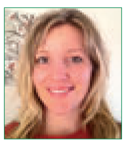

Belinda and the Raising the Barr (RTB) team are a communication company that design creative science education programs and corporate exhibits, plus offer media, marketing, facilitation and communication services. She has a Bachelor of Science (Honours) and a Graduate Diploma in Scientific Communication. RTB provides panel support services to the Southern Regional Panel.

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WA FARM BUSINESS UPDATE FOR GROWERS AND ADVISERS
February 13th 2014
Evaluation

Your feedback helps us shape future Updates to meet your requirements – could you please take the time to fill in this short questionnaire before you go home.

1(a) - How did you find out about this event?

....

1(b) – What attracted you to come to the update?

....

....

....

....

2 - What is your primary role as an adviser? *(Please tick)*

Farmer	❑
Agronomist	❑
Farm Business Consultant	❑
Accountant	❑
Government Extension Officer	❑
Grain Marketer	❑
Banking/Finance	❑
Rural Financial Counsellor	❑

Other *(please specify)*...

3 – What is the size of your firm/business and your position in it? *(Please tick)***:**

	Senior management	Middle management	Junior staff
Large firm - 30 or more Full Time Equivalents (FTE)	❑	❑	❑
Medium firm 10 to 30 FTE's	❑	❑	❑
A small firm less than 10 FTE's`	❑	❑	❑
Single owner operator	❑	❑	❑

4 - Do you provide advice on a fee for service basis? *(Please circle)* YES / NO

5 – Please indicate your degree of satisfaction with the presentations on a scale of 0 to 10 where 0 is totally unsatisfactory, 5 is moderately satisfactory and 10 is totally satisfactory in regards to:

a) How relevant the information presented is to you in working with your rural clients

b) How easy it was to understand

c) How useful it will be to you when working with your clients

	Relevance	Easy to understand	Usefulness	Comment
Key economic and political factors and the potential impact on the South Australian grains industry ***Jeff Oughton***	☐	☐	☐	....
Dealing with the challenge of managing farm business – getting the right balance ***Mark McKeon***	☐	☐	☐	....
Business structures, cash flow management and tax effective debt reduction – what are some keys to ongoing business success? ***Brian Wibberley***	☐	☐	☐	....
Keys to farm business management success – a successful grower's perspective ***Matthew Hill***	☐	☐	☐	....
Farm business continuity – key factors for taking farm businesses into the future ***Judy Wilkinson***	☐	☐	☐	....
Achieving economies of scale in successful, vibrant family farming businesses ***John Gladigau***	☐	☐	☐	....
The drivers of farm business success – key stories from farm business benchmarking ***Graeme McConnell***	☐	☐	☐	....
Weather models and their reliability for farm business decision marking ***Neil Bennett***	☐	☐	☐	....
The "flawless execution model" – applying the decision making principles of fighter pilots to business ***Afterburners***	☐	☐	☐	....

6 – What other topics would you like to see covered in future *Business Updates* such as this one?

a) ....

b) ....

c) ....

7 – Please indicate whether you strongly agree, agree, disagree or strongly disagree with the following statements *(please tick)*:

	Strongly agree	Agree	Disagree	Strongly disagree	Don't know
This event has increased my networks within my own profession.	❑	❑	❑	❑	❑
This event has increased my networks outside of my own profession.	❑	❑	❑	❑	❑
This event has increased my knowledge of farm business.	❑	❑	❑	❑	❑
This event was of a sufficient standard to contribute to my professional development needs.	❑	❑	❑	❑	❑
I better know who to refer my clients to.	❑	❑	❑	❑	❑
The take home tools provided are likely to increase my ability to work with my clients.	❑	❑	❑	❑	❑
I would prefer to have an event just for my professional group.	❑	❑	❑	❑	❑

8 - How would you best like to access information and training on farm business? *(please tick)*

	Best option	OK	Least preferred
A one day industry update on topical issues (such as this Business Update)	❑	❑	❑
A more specific topic focused workshop (e.g. a day dedicated to one topic)	❑	❑	❑
A more intensive training in farm business management (e.g. a four day training course)	❑	❑	❑
A farm business management newsletter on a regular basis (e.g. The GRDC Farm Business Update)	❑	❑	❑

Other *(please specify)*: ....

9 – How often do you think the *Business Update* such as todays should be staged (with different topics)? *(please tick)*

Twice per year ❑ Every year ❑ Every 2nd year ❑ Other ❑

10 – How far would you be willing to travel for from your place of work to come to a *Business Update*?

....km

11 – Please make comments on anything organisers can do to deliver a better *Business Update* in the future.

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12 – Overall how did the event go at meeting your expectations? *(please tick)*

Did not meet	Partially Met	Met	Exceeded	Very much exceeded
❑	❑	❑	❑	❑

13– Please list the three things you are most likely to do as a result of coming today.

1. ....
2. ....
3. ....

We thank you for your feedback.