



## Warakirri Agricultural Trusts

Incorporating Warakirri Pty Ltd and Warakirri 2 Pty Ltd

People ~ Environment ~ Growth

### Warakirri- A Corporate Agriculture Perspective

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*“A leading producer of agricultural commodities, developing the best people and assets, utilising progressive, efficient farming systems, in a safe sustainable manner for a rewarding investment.”*

Established in 1996, the Warakirri Agricultural Trusts are unit trusts formed to invest in rainfed cropping operations on a geographically diversified basis. Warakirri own and operate a number of properties in Victoria, southern NSW and southern Queensland. They are the agricultural investment of one of Australia’s leading industry superannuation funds.

Eighty percent of the investment is in farming land, considered to be a secure and relatively low risk investment. Since inception, capital appreciation has met or exceeded the 3% capital gain target. The balance of the investment is used for the operational requirements of plant and equipment and working capital. The challenge for the trusts is achieving the 7% operating returns affected by the appreciating capital base as well as volatile incomes as a result of seasonal variation and commodity prices. There are a number of approaches applied to mitigate the risk of variable operating returns. Price risk is managed through marketing strategies and a range of crop types. The marketing philosophy is to preserve a margin/tonne above the cost of production, to achieve the returns on capital targets rather than maximise or enhance prices. A set of marketing guidelines determine the timing, price and amount of crop hedged at any particular stage in the cropping season. Seasonal Forecast models based on the Southern Oscillation Index (SOI) and Pacific Decadal Oscillation (PDO) are incorporated into planning strategies in addition to soil moisture measurements, and agronomic principles to develop annual crop plans.

Operating large properties has enabled Warakirri economies of scale by spreading the fixed costs of overheads, particularly the costs of machinery ownership. Operating budgets, capital budgets and cashflow budgets are developed to manage the diversity of enterprises and to help control costs. Due diligence studies, including longterm planning models and sensitivity analyses are used to assess potential land acquisitions. In addition the use of contract service providers and “joint venture” relationships have eliminated the requirement for expensive machinery for planting and harvest and the risk of maintaining lease payments or interest costs in years of under utilisation. Centralised buying of inputs & selling of grain enables a small but important cost saving and help to preserve profit margins and ensure secure and timely access to competitive markets.

Warakirri aims to achieve the targeted returns over the long term, without causing damage to the natural resource base and the communities within which it farms. The farming systems adopted by Warakirri help to minimise the impact of farming operations on and off farm. Careful consideration is given to the handling and storage of fertilisers, pesticides and fuel, machinery operation, biodiversity decline, soil acidity, salinity, fertility as well as the management of weed and insect resistance. Policies have also been implemented to address the potential impacts to neighbouring properties from chemical spray drift, nutrient run-off, deep drainage and rising water tables.

Ensuring a safe workplace for employees, service providers and visitors is essential for achieving Warakirri’s social and ethical responsibilities and to protect against revenue loss from downtime or litigation. Farm accidents pose the largest risk to investor funds and as such a safety conscious culture

has been instilled in all Warakirri employees and service providers with the aim for continuous improvement. Safety manuals complying with state and federal legislative requirements have been developed and implemented.

Benchmarking performance of the trusts is at the heart of Environmental Management with the aim for continuous improvement. It provides the means to question what we do in search of a better way. There are three key benchmarks that are used by Warakirri to monitor the progress of the trusts towards achieving its objective to be among the top 20% of agricultural producers in the broadacre grains industry.

Dollar water use efficiency (\$WUE) is the key productivity measure. By measuring gross crop receipts per hectare for every 100 mm of annual rainfall received, it enables the comparison of all operations regardless of rainfall. Typically \$WUE is linked to land value where more productive land, measured as higher gross crop receipts, generally commands a higher value.

The seasonal volatility of income, linked to season and commodity prices, means that ratios of income to costs, historically used as benchmarks, will also be volatile. As a result it is very difficult to discern what affect management plays. By measuring the ratio of total costs required (\$/ha) for each unit of water use efficiency, the effect of rainfall induced seasonal variation is removed and a more stable benchmark is provided. It can then be determined that increased \$WUE has not occurred as a result of simply increasing costs. Warakirri aims to improve its water use efficiency benchmark using minimum tillage and stubble retention to reduce run-off and evaporation, improving soil infiltration, and maximising rainfall use through summer weed control and dry planting of crops. This benchmark is about ensuring there is a balance between the pursuit of higher \$WUE and the costs incurred in doing so.

Over the last 5 years the trend has been for the Warakirri Agricultural Trusts to increase their reliance on contract service providers to perform the main tasks of planting and harvesting crops. This has enabled Warakirri to minimise the need for capital expenditure on large items of machinery required for these services. In order to enable comparison between operations that own and operate their own machinery using family labour and those that rely on contract service providers, a machinery benchmark, TPML (Total Power, Machinery & Labour) is used. This benchmark includes, wages, contractor costs, depreciation, the opportunity cost of capital, fuel and machinery repairs and maintenance. Typically TPML is linked to land value as the higher value land typically requires more machinery services to achieve the higher targeted water use efficiency.

Farming's importance to Australia's economy, and as an earner of export income, is generally not reflected in superannuation fund portfolios, yet best practice farmers, despite the vagaries of season, make excellent returns over the long term. This suggests that agriculture should be represented within the diversified portfolios of superannuation funds. The Warakirri Agricultural Trusts are attempting to counteract the perception that agriculture is a high risk and poorly managed industry. This is achieved by combining the best elements of the traditional family farm with increased emphasis on effective planning, management and financial controls typically found in successful business outside of agriculture. The aim is to attract quality managers and assistant managers by committing to their further professional development, providing opportunities and a career in professional farming for younger people with limited access to capital.