To invest in RD&E to create enduring profitability for Australian grain growers

A changing GRDC and R,D&E landscape
2015-16 HIGHLIGHTS

- The GRDC invested more than $192.8 million in 898 projects to deliver new and improved varieties, practices, technologies and capability to the industry. These projects were delivered by over 2,500 researchers from 283 partner organisations.

- The GRDC made a $10 million commitment to the International Wheat Yield Partnership, which aims to increase the yield potential of wheat by up to 50% in the next 20 years.

- The world’s first commercially produced gluten-free beer was released, using low-gluten barley developed through a collaboration between the GRDC and CSIRO.

- In partnership with state governments, the GRDC created new positions for researchers in regional areas of New South Wales, Queensland and Victoria.

- Crop-breeding programs that receive GRDC support released five new varieties: one each of oats, lentils and field peas, and two of lupins.

- In the 2016 Grower Survey, 85 percent of growers rated the GRDC’s performance as high quality, and 71 percent said they had recently benefited from GRDC activities.

2015-16 Revenue

- INCOME
  - $18m Interest, royalties and other
  - $70m Australian Government
  - $110m Grain grower levy

- GRAIN GROWER LEVY
  - $51m Wheat
  - $25m Coarse grains
  - $17m Oilseeds
  - $17m Grain legumes
2015-16 Expenditure

- **$12m** Suppliers and other
- **$10m** Employee benefits
- **$193m** Research and development

RD&E INVESTMENTS

- **$16m** Meeting market requirements
- **$40m** Improving crop yield
- **$42m** Protecting your crop
- **$34m** Foundational activities and R&D management
- **$36m** Advancing profitable farming systems
- **$16m** Improving your farm resource base
- **$9m** Building skills and capacity

Five years at a glance

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<tbody>
<tr>
<td>GRDC Revenue</td>
<td>$197.5m</td>
<td>$201.1m</td>
<td>$209.1m</td>
<td>$196.4m</td>
<td>$177.5m</td>
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<td>Expenditure</td>
<td>$225.9m</td>
<td>$226.0m</td>
<td>$184.4m</td>
<td>$178.0m</td>
<td>$165.3m</td>
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<td>Operating result</td>
<td>$11.5m</td>
<td>$12.8m</td>
<td>$24.7m</td>
<td>$18.4m</td>
<td>$12.3m</td>
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<td>Total assets</td>
<td>$262.5m</td>
<td>$278.4m</td>
<td>$287.7m</td>
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<td>Total equity</td>
<td>$173.7m</td>
<td>$191.3m</td>
<td>$233.8m</td>
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<td>Industry contributions</td>
<td>$10.4m</td>
<td>$117.5m</td>
<td>$120.2m</td>
<td>$18.2m</td>
<td>$97.3m</td>
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<tr>
<td>Commonwealth contributions</td>
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<td>$68.1m</td>
<td>$68.6m</td>
<td>$62.8m</td>
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<tr>
<td>R&amp;D expenditure</td>
<td>$193.8m</td>
<td>$194.1m</td>
<td>$165.4m</td>
<td>$159.2m</td>
<td>$150.2m</td>
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<tr>
<td>Employee benefits</td>
<td>$10.5m</td>
<td>$107.7m</td>
<td>$9.6m</td>
<td>$8.2m</td>
<td>$7.3m</td>
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<tr>
<td>Suppliers</td>
<td>$0.5m</td>
<td>$9.4m</td>
<td>$8.7m</td>
<td>$7.3m</td>
<td>$6.7m</td>
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<td>Number of full-time equivalent GRDC staff</td>
<td>67</td>
<td>75</td>
<td>76</td>
<td>64</td>
<td>57</td>
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<tr>
<td>Number of projects</td>
<td>828</td>
<td>942</td>
<td>939</td>
<td>920</td>
<td>856</td>
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External drivers of change
A lot has changed in the grains research landscape

External drivers for change include:

- Growth in grains industry value
- Decline in public sector investment in grains R&D
- Growth in private sector investment
- Globalisation of research activities

- GRDC is now Australia’s largest investor in grains R&D
- GRDC investments have grown from $30M in 1990 to $196M in 2016

Internal drivers of change
Evolution required to continue to deliver maximum value to Australian growers

Internal drivers of change include:

- Lack of transparency in decision making
- Perception of being bureaucratic and slow to respond
- Not as in touch with growers as we could be
- Need to improve our investment process
- Need to replace outdated systems and processes
GRDC Purpose

Invest in RD&E to create enduring profitability for Australian grain growers

Invest in RDE to create enduring *profitability* for Australian Grain Growers:

\[
\text{Profit (}\pi\text{)} = EBITDA = \left[\text{Yield} \times \text{Price} - \text{Costs (on farm + post farm)}\right] / \text{Risk}
\]
A vision for the future
A GRDC that is

- Clearly connected and engaged with growers
- Regarded as the grower’s R&D arm – a valued grower asset
- Open, transparent and trusted
- A true research partner
- An investor not a funder
- Agile and business like

GRDC – Doing business better

- Regional offices and regional staff
- Regional panels and panel members
- Capacity in RCSNs, Grower Solutions Groups and Grower groups
- Continuous investment cycle
- New website
- Partnership and attribution with research partners
- Investments aligned with grower priorities
Closer to growers, advisors, researchers and agribusiness to maximise impact

Regional presence improves engagement, responsiveness, transparency & relevance of R,D&E investments

Investment portfolio
Getting the right balance of short, medium and long-term investments

Discovery
- New Traits
- New Varieties
- New Actives
- New Tools

Research & Development
- Agronomy
- Soils
- Pests
- Disease
- Farming Systems
- Nutrition
- Weeds
- Research Support

Regional Delivery
- Extension
- Communication
- Capacity building
The continuous investment cycle – what it means for interaction with GRDC

The investment cycle – previously annual

Not agile

- Planning all investments 18 months in advance
- Annual call for tenders – short timeframe to develop responses
- Annual reporting (March/September) – interaction with the GRDC not in real time
- Annual payment process – risks to both parties
- Fixed timings so:
  - Difficult to exploit R,D&E opportunities as they arose
  - Difficult to balance organisational workloads

The grains industry does not work to a fixed process – dynamic and responsive
A modernised investment management system

**The Why**

- Will deliver transparency in investment decisions & streamlined investment management

**The How**

**Implications for research partners**

**IDEA CAPTURE**

Gathering ideas across the grains industry to ensure levies are invested where and when they are needed to maximise the opportunity to create grower profit
Implications for research partners

GAP ANALYSIS

Potential investments developed based upon rigorous business cases

- IP (FTO) DUE DILIGENCE
- ECONOMIC (ROI) DUE DILIGENCE
- TECHNICAL DUE DILIGENCE
- ADOPTION DUE DILIGENCE

The operating model

- Active management of investments in true partnership with research providers
- Build cross-functional contract management teams
- Open and transparent merit-based process targeted at delivering on the GRDC’s Purpose
THANK YOU

GOVERNANCE ISSUES

- LEVIES REVIEW AND LEVY PAYER REGISTER
- ANNUAL OPERATING PLAN
- GRDC BOARD SELECTION FRAMEWORK
- RO CONSULTATION FRAMEWORK
R&D PLAN CONSULTATION

- Seeking approval from DAWR on consultation plan
- Following consultation with Panels an issues paper will be released for broad consultation.
- Draft plan available for consultation late November/December
- GRDC Board approval in March prior to provision to Minister and ROs
## Current Framework

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<th>Description</th>
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| **Financial management** | • Difficulty in predicting income within the operating year.  
  - Revenue and expenditure assumptions required for portfolio budget statement in March prior to planting for the financial year in question. This includes the approval for any approved deficit expenditure.  
  - *eg* since the lodging of the PBS we are now assuming between an additional $17-30 million of the 2016-17 crop will not be sold until 2017-18.  
  - Management of R&D expenditure within a financial year is the only real tool available to manage GRDC expenditure within the arrangements approved by the Dept of Finance. This has a range of potentially perverse outcomes due to the timeframe of R&D.  
  - Difficulty in ability to use reserves as commercial company:  
    - Dept of Finance requirements for management of cash reserves are strict and risk averse  
    - *eg* in 2016 MLA made a one-off $150 million investment to install objective carcass measurement technology across the red meat industry |
| **Staffing issues**   | • Presently the Australian Government places requirements on public sector agencies to manage the size of the Australian Public Service. This places the requirement on agencies to ensure staffing is consistent with ASL estimates in the Portfolio Budget Statement.  
  • The GRDC is required to follow the Australian Public Service Bargaining Framework. This requires the GRDC to collectively negotiate an enterprise agreement for non-senior employees.  
  • Cultural impediments exist as part of the continuation of the GRDC within the Public Service; *eg*  
    - Government policy requirements on managing the APS may conflict with negotiated conditions  
    - Impediments to performance management to ensure commercial performance  
    - Some skilled employees do not wish to work in the public service  
  • Restrictions on staffing levels and flexibility that enable the GRDC to compete in a competitive labour market or performance manage staff in a commercial manner impedes the ability to manage grower and government investment for maximum return. |
## Current Framework

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| **Ability to perform R&D**              | • GRDC does not have the statutory power to conduct R&D in its own right.  
• One of the driving purposes behind the creation of Sugar Research Australia was to facilitate the undertaking of research by the industry RDC as part of ensuring contestability in research provision.                                                                                       |
| **Limitations on subsidiary investments** | • Limitations to partner with private research providers where the GRDC holds a controlling interest due to loss of R&D tax concessions, financial reporting requirements and new Parliamentary accountabilities for Commonwealth entities seeking to establish subsidiaries.  
• Commonwealth entities must not allow a company it has a controlling interest in to do anything that it cannot do in its own right. This means that where the GRDC has a controlling interest in a company it is not able to perform R&D. |
| **Accountability to levy payers**       | • Deciding on a model of governance that will bring accountabilities of the GRDC towards levy paying grain growers is not without risk of politicisation; however failure to articulate a clear and stable governance pathway is likely to result in rejection of a model regardless of potential benefits to levy paying grain growers.  
• The development of a governance position will need to straddle competing views in order to survive industry scrutiny during consultation. To do so the eventual model will need to accommodate the need for:  
  - Skills based board selection  
  - Stability currently gained through legislative selection process  
  - The desire of grower groups for grower accountability and attachment through the appointment of board members.   |
Levy Payer Database and Levies Reform Process

• It is a strategic imperative for the GRDC to connect to levy paying growers
• GRDC has agreed to be a pilot industry for DAWR’s pilot levy payer register
• GRDC is interested in ways that enhanced data could be gathered through or matched with the levy payer register to assist in:
  – Identifying and establishing communication channels with growers
  – Leveraging other grower connected organisations, such as DAWR or bulk handlers
  – Introducing grower segmentation
  – Enhancing understanding of risk/return elements in grower profitability
  – Enhancing understanding of the full value chain of grower profitability

Levy Payer Database and Levies Reform Process

• GRDC has met with DAWR as part of the levies reform process following the delay of levy regulation sunsetting.
  Key proposals:
  – Review levy principles and guidelines
  – Provide new ways to demonstrate industry support for a new/change to a levy other than ballot
  – Provide greater flexibility by placing operational levy details (such as levy rate) in more flexible instruments such as Minister’s rules
  – Review criteria for representative organisations and then review suitability of all representative organisations
GRDC Board Selection Framework

- **PIRD Act** determines process for director selection.
- **Process to date:**
  - Minister has appointed Andrew Earle as Presiding Member of the Selection Committee and has requested the establishment of a selection committee.
  - GRDC has advertised for nominations as directors at the request of the Presiding Member

THANK YOU