

Appendix E **DAFF changes for greater consistency among IOC SFAs**

Summary of Proposed Major Changes to all new SFA as of 22/12/09

This listing follows the format of the SFA rather than priorities:

Definitions:

The *Guidelines* have been extended to include:

- other priorities, directives or directions communicated to the Company from time to time by the Minister in writing;
- guidelines for cost allocation as outlined in new schedules. (These pick up the key elements of the government's Program Framework developed by DOFD arising from the Andrew Murray Review and is aimed at improving the transparency and accountability associated with government spending. Funds are now appropriated by the government to fund programs to achieve agreed outcomes.);
- a number of definitions, such as "Activities" and "Programs" have been inserted to line up with DOFD Program Framework guidelines.

Performance Review: the definition has been extended to include other matters which may be required to be included by the Minister.

Skills Based Board: a new definition has been included to define a skills based board as one which can demonstrate director expertise against each of a number of key areas of company management. This is supported by the definition of a "Nomination Committee" to select board members. This draws from the ASX Corporate Governance Principles and Recommendations, Second Edition, August 2007.

Company Constitutions: this section has been extended to include a requirement for the company to consult with the Commonwealth on proposed changes to its Constitution to ensure that the Constitution it will remain appropriate to a body performing the functions of the declared industry services body under the Act;

Board Corporate Governance: An new section has been included requiring the company to should closely follow the ASX Corporate Governance Principles and Recommendations, Second Edition, August 2007. In particular, the Company should aim:

- to structure its board to add value as outlined in Principle 2 of the abovementioned ASX Corporate Principles and Recommendations;
- for the establishment of a Skills Based Board selected by a Nomination Committee; and
- the Company must report in the SFA six-monthly meetings of steps it has taken to improve Board corporate governance including with respect to the above two points.

Management of Funds: This section has been extended to require the accounting systems, processes and controls to manage the Funds to take into account the Risk Management and Fraud Control plans (with audit opinions on the effectiveness of the controls put in place to be included in the annual SFA compliance audits).

Strategic Plan: this section has been extended to require the Company:

- to work with the Department to ensure that its strategic and annual operational plans meet the requirements of the Program Framework as set out in the Schedule;
- to hold formal consultations to seek input from key industry representative bodies;
- to consult with the Minister; and
- comply with the Guidelines.

Annual Operating Plans: requirements have been extended to require that in developing its Annual Operational Plan the Company must specifically give a priority to:

- community and levy payer expectations and concerns in setting Company executive remuneration packages;
- investments to support the development and implementation of the National Primary Industries Research, Development and Extension Framework;
- collaboration with other research and development corporations on priority research and development issues; and
- evaluation of the costs and benefits of Company investments in research and development. In this regard the Company must:
 - (i) participate in any evaluation project established for all RDCs; and
 - (ii) increase its [expenditure/number of projects] on evaluation of R&D projects by an [average of <> a year] over the term of this Agreement from a base level to agreed with by the department.
- In preparing plans under this clause, the Company must ensure that systems and processes are place to meet its annual performance reporting obligations.
- The Company must report on progress against the plans including against matters set out above in the six-monthly meetings and annual repots.

Other plans: Risk Management Plans, Fraud Control Plans and an Intellectual Property Management Plans are now to be developed in consultation with the department to ensure that the plans cover all material risks associated with the company business and has developed suitable controls to manage the risks.

Meetings: In addition to meeting with the Minister, the Company must meet with key industry representative bodies at not less than six-monthly intervals to:

- review industry priorities for R&D and marketing investments; and
- report on its performance against its plans.

Performance Reviews: requirements have been extended to include:

- the terms of reference of the Performance Review to be agreed with the Minister;
- the board's response to the Performance Review Report recommendations and a proposed implementation plan to be provide to the Minister within 28 days of the board's acceptance of the Performance Review Report; and
- reports on progress on the implementation plan to be provided to the Minister at the SFA six-monthly meetings.

Annual reports: requirements are to be extended to include, inter alia reporting on,:

- collaboration with other RDCs to fund R&D to address the National and Rural Research and Development Priorities;
- collaboration with other RDCs to deliver R&D or marketing services in a more efficient and effective manner;
- expenditures on evaluation and outcomes of the evaluations undertaken;
- how the Company's responded to any directives or directions given by the Minister under the Guidelines;
- how the Company contributed to the priorities of Levy Payers, the National and Rural Research and Development Priorities and supported the National Primary Industries Research, Development and Extension Framework;
- funds spent on Research and Development and Marketing Programs, allowing clear identification of total expenditure of Commonwealth Matching Funds and the full cost of the respective Programs (with cost being allocated according to the Cost Allocation Policy);
- details of executive and board remuneration;

Cost Allocation Policy: A cost allocation policy to enable the implementation of the Program Framework needs to be agreed with the department and will be subject to annual compliance audits. The Cost Allocation policy is to be the subject of a separate Schedule.

Program Framework Guidelines: the Guidelines drawing on those released by DOFD are to be the subject of a separate schedule. The company will be required to comply with the "intent" of the Guidelines.

INFORMATION PAPER

RECENT INNOVATIONS IN THE DEVELOPMENT OF STATUTORY FUNDING AGREEMENTS

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INFORMATION PAPER

RECENT INNOVATIONS IN THE DEVELOPMENT OF STATUTORY FUNDING AGREEMENTS

BACKGROUND

Statutory Funding Agreements (SFAs) support the relevant legislation to facilitate industry-owned companies (IOCs) to obtain statutory levies and Commonwealth matching funds. These funds are appropriated each year in the Commonwealth's budget to the Agriculture, Fisheries and Forestry Portfolio. The Minister is accountable to Parliament for ensuring that the funds are spent for the purposes for which they were appropriated and that they are spent efficiently, effectively and ethically.

SFAs are the prime mechanism to assist the Minister to discharge this responsibility. They are routinely upgraded when they are renewed to take account, inter alia, of the most recent performance review, changes in Government policy and priorities, including, with respect to the management and expenditure of public monies, and developments in stakeholder expectations.

2004 SFA Review

The last major review of the SFA accountability framework was in 2004 following the Rural and Regional Affairs and Transport Legislation Senate Committee Report *Australian Wool Innovation Limited - Application and expenditure of funds advanced under Statutory Funding Agreement dated 31 December 2000, February 2004*. The review took into account the findings the Senate Committee Report and a business risk assessment undertaken by DAFF. At that time key changes to the SFAs were:

- introduction of a “sun-set” clause in each SFA requiring renegotiation to take account of the latest performance review report;
- extension of the definition of agri-political activities to embrace such activities as the use of funds by IOC boards to fund their election campaigns;
- the introduction of a requirement for each IOC chair and CEO to report annually to the Minister on their compliance with the SFA (a Compliance Report);
- clarification of the scope of independent SFA compliance audit to cover the operations of the systems and controls relied upon by the IOC to manage the funds (Audit Compliance Report);
- clarification of the definition of “funds” to include statutory levies, Commonwealth matching funds and any income which is derived from these sources; and
- the need to update fraud control, risk management and intellectual management (IP) plans each three years.

The above changes have been incorporated in all new SFAs.

PART 1: DISCUSSION OF EVOLVING STAKEHOLDER NEEDS

IOCs operate in a changing environment and changes in stakeholder expectations now need to be taken into account in new SFAs: Recent changes which need to be reflected in new SFAs include:

1. **Ministers expectations:** the need to more directly identify the Minister's expectations with respect to the spending of the funds to better discharge his obligations to Parliament;
2. **Government priorities:** SFAs are the appropriate vehicle to remind IOCs of the need to support government priorities and emerging policies. In recent times these include contributions to the National Primary Industries Research, Development and Extension Framework and collaboration with other RDCs on priority research and development issues;
3. **stakeholder consultation and reporting :** the IOC business environment will continue to evolve and there is a need to ensure that consultation and feedback arrangements are in place to enable changing stakeholder needs and expectations to be met;
4. **IOC board corporate governance:** responsibility for the efficient, effective and ethic expenditure of the funds is vested in IOC boards. Consequently there is a need to better ensure that boards are:
 - (a) have a suitable range and diversity of skills;
 - (b) have an awareness of their obligations under legislation as declared industry services bodies for the expenditure of public monies; and
 - (c) apply best practice governance arrangements with respect to the management of the funds including routine evaluation of the impacts that the expenditure of the funds are having to determine the level of private and public good generated from the expenditure.
5. **performance improvements:** successive performance reviews have identified the need for IOCs to be better able to demonstrate the delivery of value for money including a requirement as publically funded companies that IOCs will take account of community and levy payer concern in conducting their operations including the setting of remuneration packages;
6. **performance reviews and evaluations:** there is a need to ensure that maximum value is obtained from performance reviews and that the recommendations are fully implemented in a timely manner. There is also a need to ensure that information to assist with evaluation and performance review processes are routinely collected to enable monitoring of performance against plans;
7. **IOC Constitutions:** over time expectations with respect to the operations of a declared industry services body will change and there is a need to ensure that IOC constitutions remain appropriate to evolving industry and government expectations;
8. **fraud control, risk management and IP plans:** there is need to ensure that fraud control, risk management and IP plans are developed to a professional standard, are fully implement, subject to annual Compliance Audits, kept under review and updated as necessary at least each three years;

9. **annual reporting:** annual reports are required to meet a diverse range of needs and it may be that it is not practicable to include all the information required under the SFA in the annual report to members which tabled at an AGM. Supplementary information can be provided to DAFF where this is the case. In general such information should be provided within 5 months of the end of the financial year.

PART 2: PROPOSED RESPONSES

Proposed Response 1. Ministers expectations

- **Guidelines:** The *Guidelines* in the SFA Definitions have been extended to include the need for IOCs to take account of “*other priorities, directives or directions communicated to the IOC from time to time by the Minister in writing*”;
- **Reporting:** there is an associated requirement to report on progress made in implementing the priorities, directives or directions through the six-monthly meetings and annual reports.

Proposed Response 2. Government priorities

- **Annual Operational Plans:** specific requirements in developing Annual Operational Plans (AOPs) have been introduced for an IOC to give priority to:
 - (a) community and levy payer expectations and concerns in setting IOC executive remuneration packages;
 - (b) investments to support the development and implementation of the National Primary Industries Research, Development and Extension Framework; and
 - (c) collaboration with other research and development corporations on priority research and development issues.
- **AOP Progress Reporting:** IOCs must report on progress in implementing the AOPs including the above government priorities.

Proposed Response 3. IOC board corporate governance

- **Board Corporate Governance:** a new section is being inserted into SFA which requires an IOC to closely follow the *ASX Corporate Governance Principles and Recommendations, Second Edition, August 2007*. In particular, the IOC is required to aim to:
 - (a) structure its board to add value as outlined in Principle 2 of the ASX Corporate Principles and Recommendations; and
 - (b) establishment of a Skills Based Board selected by a Nomination Committee.
- **Reporting on governance improvements:** The IOC must also report to the Minister in the six-monthly meetings held under the SFA of steps it has taken to improve Board corporate governance in accordance with the above.

Proposed Response 4. Performance improvements

- **Operations Sunlight:** central to continued stakeholder support for R&D and marketing investment programs is the ability of IOCs to demonstrate that

value for money is being delivered. IOCs, just like government departments and statutory RDCs, operate in a non-contestable environment with an associated risk that inefficiencies can go unchecked. To help manage risks of this nature, in 2006 the government adopted a suite of measures under *Operations Sunlight* to enhance budget transparency and accountability. In 2008 the government extended *Operations Sunlight* to include recommendations from the Andrew Murray Report. Key reforms arising from *Operations Sunlight* were implemented in the 2009-10 Federal Budget and included a tightening of the outcomes and outputs framework, changing budgets to improve their readability and usefulness, improving the transparency of estimates, expanding budget reporting, and improving the financial framework.

- **Application of the Reforms to RDCs:** These reforms applied to the statutory RDCs in the 2010 Federal Budget process. Under these reforms funds are now appropriated by the government to fund *programs* to achieve agreed *outcomes*. These changes will be implemented across the IOCs as their SFAs are renewed over the next two years.
- **Program Framework:** the changes will be implemented mainly through the application of the government's Program Framework. Guidance drawn from instructions provided by the Commonwealth Department of Finance and Deregulation will be included in two Schedules, one covering planning and the other program cost allocation. DAFF will work with IOCs to implement the Program Framework.
- **Changes to Strategic and Annual Operating Plans:** changes are being made to the SFA provisions relating to the development of strategic and annual operating plans to require IOCs to work with DAFF to ensure that the intent of the Program Framework is implemented.

Proposed Response 5. Performance Reviews and Evaluations: Proper implementation of the Program Framework will include an ongoing program of evaluations. This will greatly assist continuous performance review processes, specifically:

- **Changes to performance review requirements:** these include:
 - (a) the terms of reference of the Performance Review to be agreed with the Minister;
 - (b) IOC board's response to the Performance Review Report and the proposed implementation plan to be provided to the Minister within 28 days of the board's acceptance of the Performance Review Report; and
 - (c) reports on progress on the implementation plan to be provided to the Minister at the SFA six-monthly meetings.
- **Additional evaluation requirements:** IOC will be required to contribute to the Council of RDC Chairs Evaluation Program, or other similar RDC wide evaluation processes and demonstrate an increasing commitment to evaluation processes such through an increase in annual expenditure on evaluation or in the number of projects undertaken.

Proposed Response 6. IOC Constitutions: changes to SFAs, government and community requirements and expectations regarding the operations of declared industry services bodies may require changes to IOC constitutions.

- **Changes to IOC Constitutions:** an additional clause has been inserted to include a requirement for the company to consult with the Commonwealth on proposed changes to its Constitution. This is to ensure that the Constitution will remain appropriate to a body performing the functions of the declared industry services body under the Act;
- **Government expectations:** the IOC constitutions are governed by the Corporations Act 2001 and SFAs are contractual arrangements under Commonwealth legislation. In declaring an IOC to be the industry services body under the legislation the Minister considers the appropriateness of the IOC's constitution for an industry services body. With incremental changes made to both constitutions and SFAs over time, it is important that the IOC's constitution remains sensitive to changing requirements.

Proposed Response 7. stakeholder consultation and reporting: the IOC business environment will continue to evolve and there is a need to ensure that consultation arrangements are in place to enable changing stakeholder needs and expectations to be identified at an early stage:

- **Strategic plans:** in addition to ensuring that the Minister and levy payers are consulted in the development of IOC strategic plans, there is now a requirement for relevant industry representative bodies (IRBs) to be consulted;
- **Six monthly meeting:** in addition to the six monthly meetings with the Minister, IOCs will also be required to meet six monthly with IRBs as well.

Proposed Response 8 . fraud control, risk management and IP plans:

- **Management of Funds:** This section in SFAs has been extended to require the accounting systems, processes and controls to manage the Funds to take into account the Risk Management and Fraud Control plans;
- **Compliance Audits:** provisions relating to compliance audits have been extended to cover requirements for an audit opinions on the effectiveness of the controls put in place to be included in the annual SFA compliance audits.

Proposed Response 9 Annual reports: requirements are being extended to include, inter alia reporting on:

- collaboration with other RDCs to fund R&D to address the National and Rural Research and Development Priorities;
- collaboration with other RDCs to deliver R&D or marketing services in a more efficient and effective manner;
- expenditures on evaluation and outcomes of the evaluations undertaken;
- how the Company has responded to any directives or directions given by the Minister under the Guidelines;

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- how the Company contributed to the priorities of Levy Payers, the National and Rural Research and Development Priorities and supported the National Primary Industries Research, Development and Extension Framework;
- funds spent on the Research and Development Program and Marketing Program, allowing clear identification of total expenditure of Commonwealth Matching Funds and the full cost of the respective Programs (with cost being allocated according to the Cost Allocation Policy);
- details of executive and board remuneration.