



SED CONSULTING

strategic enterprise development

Australian Pork Limited

Three-Year Performance Review

June 2011



AUSTRALIAN
Pork[™]



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Abbreviations used

AHA	Animal Health Australia
AOP	Annual operating plan
APL	Australian Pork Limited
BCA	Benefit/cost analysis
CRRDC	Council of Rural R&D Corporations
DAFF	Department of Agriculture, Fisheries and Forestry
KPI	Key performance indicator
MAT	Moving annual total
MLA	Meat & Livestock Australia
PCRC	Pork Cooperative Research Centre
PISC	Primary Industries Standing Committee
RDAC	Research & Development Advisory Committee
(R)RDC	(Rural) Research & Development Corporation
SFA	Statutory funding agreement
SG	Specialist Group

Disclaimer

The information contained in this document has been gained from anecdotal evidence and research. It has been prepared in good faith and is based on a review of numerous APL and Commonwealth Government documents, interviews with stakeholders including APL directors and management, DAFF staff and the results of surveys and interviews with Australian pork producers and industry representatives. Neither SED Consulting nor its servants, consultants, agents or staff shall be responsible in any way whatsoever to any person in respect to the report, including errors or omission therein, however caused.

Acknowledgments

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Executive summary

Introduction

This report describes the three-year statutory performance review undertaken for Australian Pork Limited (APL) by SED Consulting and colleagues. As required under APL's statutory funding agreement (SFA) with the Commonwealth Government, the requirement of this performance review was to assess the effectiveness and efficiency of APL in carrying out its obligations to stakeholders, including levy payers, members and Government.

This review of APL's performance over the period July 2007 to December 2010 seeks to provide a practical and balanced assessment of the company rather than a clinical audit. It has also attempted to identify areas which may assist APL to continuously improve its performance.

The methodology for the review comprised:

1. A desktop review of over 70 documents relating to APL's performance.
2. An online survey of stakeholders, which was extensively promoted to members. After a slow start, 99 responses were eventually collected.
3. Face-to-face or telephone interviews with approximately 40 stakeholders including APL directors and staff, APL delegates, APL members, other pig producers, officers of the Department of Agriculture, Forestry and Fisheries (DAFF) and others.
4. Analysis and preparation of this report.

This Final Report has been produced following feedback received on the Draft Report (May 2011) from APL Board and staff and from DAFF staff.

Overview of APL

APL is unique among the rural industry service bodies. It is a producer-owned company that serves as an industry R&D corporation, marketing body and policy / peak body for Australian pig producers. No other levy-funded industry body incorporates the recognised peak body function.

The legal framework on which APL is built comprises the Pig Industry Act 2001 (C'th) and the statutory funding agreement (SFA), which came into effect in 2001. The SFA is the contract between the Minister and APL and governs the arrangements under which the Commonwealth makes marketing, R&D and matching payments to APL as the recognised industry services body.

Pig producers pay a levy of \$2.525 per pig slaughtered, of which APL receives \$2.35, the remaining \$0.175 being provided to the National Residue Survey. Of the \$2.35, \$1.35 is allocated to marketing and \$1.00 to R&D. Eligible R&D expenditure is matched by the Commonwealth to a maximum of 0.5% of

gross value of production of pigmeat. The split of levy between R&D and marketing activities was altered in January 2010 when the R&D component was increased and marketing decreased by 30c.

The levy has not increased since 1994, meaning that the real value of the APL revenue stream has declined by about 33% in real terms since that time. The impact of a reducing budget on APL's capacity to achieve its goals in an increasingly complex business environment should not be underestimated.

APL's operating environment

During the review period, the Australian pork industry underwent significant restructure. Pigmeat production slumped early in the review period and this was reflected in a substantial decline in domestic slaughter numbers in 2008/9. The restructure of the pigmeat industry was caused by the combined impact of an unprecedented level of competition from the imports of pork products from Canada, the US and Denmark and rapidly escalating domestic producer input costs due to drought and high grain prices.

A degree of stability returned to the pork market in 2009/10. Moving annual total pig slaughter numbers have steadily increased since late 2009, although they remain well below the levels reached prior to the collapse in 2008.

The re-focusing of the Australian pigmeat industry on the domestic fresh pork market consumption has helped stabilise the industry. This has been facilitated by the combined impact of the Industry and APL's marketing and research and innovation initiatives. On the other hand this repositioning of the industry has exposed it more directly to competition from substitute meats and foods. The retail cost of pork has increased significantly through the review period compared to other food substitutes such as poultry, beef and veal, but not in comparison to fish, lamb and mutton.

A final factor influencing the operating environment of the pork industry and APL is changing social attitudes to animal welfare. In responding to this, the pork industry decided in November 2010 to phase out sow stalls. As sow stalls are widely used to maximise farrowing rates, this decision is currently meeting with a mixed reaction from producers.

Performance review: corporate governance and operations

Producers who pay pig slaughter levies are entitled to register as members and exercise voting rights in proportion to the amount of levies paid. Groups of members may also nominate, on an annual basis, a delegate to represent their collective interests.

At the head of the APL's organisational structure is the Board comprising nine directors and an Executive Team comprising a CEO and five General Managers. The relationship between the CEO and the Chairman is sound. Interaction between senior managers and Board members occurs regularly and freely and is facilitated by the Board committee system.

The management structure comprises five divisions: Communication; Finance and Administration; Marketing; Policy; and Research and Innovation. This appears to be an appropriate structure for the company, reflecting logical functional boundaries, although it does seem to create confusion for some observers because there is no alignment between funding streams (R&D, marketing and matching funds) and internal divisions.

APL delegates elect five producer directors to the APL Board. The Board recruits four specialist directors with skills and expertise in areas such as marketing, research and finance and consistent with the criteria set out in the company's constitution and the SFA. This balance of industry knowledge and experience on the one hand and corporate expertise on the other is operating satisfactorily and effectively and is broadly consistent with the *ASX Corporate Governance Principles and Recommendations (2010)*.

The review suggests consideration of the responsibilities of current Board members being expanded to include roles which explicitly relate to the engagement of government at all levels and the strengthening of APL's position in the wider community. However, the already significant unpaid burden placed upon Board members is acknowledged.

During the review period, the Board's performance has been assessed by an independent consultant and the results have been positive. The Board of APL has performed very well over the review period. Interviews with Board directors and the CEO have indicated a high level of satisfaction with all aspects of Board proceedings.

There are seven Board committees, each with a charter and agreed membership. Each of these committees is chaired by a director and includes other nominated Board members. This number of committees, given the size of APL and the Board's current focus on reducing administrative costs where possible, is high. Indeed the work of some of these committees, such as the Animal Welfare Committee, is perhaps more appropriately done by the whole Board and this is what sometimes happens in practice. A merger of the Marketing Development, Pan Pork Expo Management and Quality Assurance Committees with the Research Development Advisory Committee may be worth considering.

The review found no suggestion of any breach of conflict of interest principles by the APL Board during the review period. The Board has in place appropriate systems and controls to ensure that the relevant interests of directors are disclosed and reviewed on an annual basis and notified as and when they arise in relation to a particular matter.

The rising costs of administration and operation since 1994 have impacted on the financial sustainability of APL and the company has recorded operating deficits since 2008-09. APL has reduced management and operating costs where possible, including a recent restructure.

The application of the different levy components (R&D, non-R&D) across APL is complex because the two components are not mirrored in the organisational structure. For example, some of the R&D levy is

invested by the Marketing and Policy divisions. This review was provided with clear evidence that the process for allocating expenditure as either 'R&D' or 'non-R&D' is very carefully managed and transparent. The application of funds in accordance with the APL's statutory obligations, agreements and strategic plan are clearly documented in the annual report along with explanations of variances in expenditure and revenue against budget. The annual financial report is prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards.

No evidence was found of funds being spent for agri-political purposes, which is prohibited under clause 5.3 of the SFA, and financial audits were completed in each of the three years of the review showing APL's compliance with clauses 5-7 of the SFA, including non-expenditure on agri-political activity.

Notwithstanding the above points, discussions with DAFF and APL indicate that there is not unanimity of opinion in relation to the transparency of APL's investments in relation to R&D and non-R&D expenditure. This review has interrogated the internal procedures used by APL for such decisions (and associated budget reporting matrices) and is satisfied that such processes are both rigorous and appropriate. It would appear that the differences of opinion could be overcome by ongoing good-will and liaison to clarify any concerns.

APL's financial report is independently audited. The Board's Audit, Risk and Corporate Governance Committee, which is chaired by a director and includes two other directors, plays a key role in the auditing process and advises the Board on internal and external financial audit issues.

Risk management, fraud control management, and intellectual property management form part of the terms of reference approved by the Board for the Audit, Risk and Corporate Governance Committee which is required to advise the Board on these matters. APL manages its exposure to key financial risks, including interest rate, credit and liquidity risks in accordance with the company's investment and reserves policies. The Board reviews and agrees policies for managing these risks on an annual basis. The risk exposures, responses and policies are set out in the Annual Report.

APL has a body of 'delegates' who are elected by Members to provide representation to the broader membership base. The delegate system is a requirement of Schedule 2 part (b) of the SFA and is described in Section 10 of the APL Constitution. A delegate may be, but is not required to be, a Director or member of APL.

Delegates' terms are renewed annually following a strictly defined process that involves the APL Board's determination of a minimum 'Delegate Levy Amount', which is the minimum aggregate of levy paid by those members nominating an individual to the position. In 2010/11 this figure was \$290,000. The Constitution allows for candidates to reallocate votes in excess of the Delegate Levy Amount.

There are 30 delegates. Collectively the group represents over \$8.9 million dollars of slaughter levy paid or 85% of total production.

The review found that APL staff appear highly motivated and professional in their conduct and are well regarded by people outside the organisation. Business decisions are invariably driven by data – *ex ante* and *ex-post* – and thorough consultation with stakeholders. If anything, the burden of 'due process' may be on the high side but this is to be preferred over a lack of transparency. APL is operating as efficiently as can be expected from an organisation working under the scrutiny to which industry service bodies are subjected.

The R&D function appears to be professionally and efficiently conducted. Some suggestions, such as the application of a 'stage-gate' innovation funnel and a rationalisation of projects, are provided and may offer incremental improvement.

Performance review: planning and reporting

While this Performance Review is for the three-year period covering 2007/08 to December 2010, the main focus relates to 2009/10 (and the first six months of 2010/11). The primary reason for this focus is APL's publication of a new strategic plan (2010/15) during the period which has resulted in significant positive change in relation to planning and reporting.

This review has found that APL has generally met the strategic planning requirements of the SFA. Of note is the fact that instead of a three-year rolling strategic plan, APL now employs a five-year rolling plan, understood to be usual contemporary practice across rural RDCs. The review has not identified any limitations in regard to the timing and availability of the 2010/15 plan.

In terms of content, the 2005/10 strategic plan, whilst good, had several flaws, but the 2010/15 strategic plan is a vast improvement. The new core objectives, industry outcomes, strategies and (most) KPIs are a significant improvement. Nevertheless the review has identified some areas which APL may consider could lead to further improvement, mainly in relation to some KPIs, clarification of linkages to Government rural R&D priorities and clarification of some elements of the budget.

There may be some conjecture as to whether the 2010/15 Strategic Plan adequately meets all elements of the SFA, specifically in relation to sections 8.2 (i) and (j) which deal with Government R&D priorities and broad resource allocation. While noted, this is not considered to be a significant issue.

Interviews with APL staff and DAFF personnel indicate that extensive and appropriate consultation was undertaken in the development of the 2010/15 plan.

This review has also found that APL has met the operating planning requirements of the SFA. Indeed, over the review period, annual operating plans are considered to be the most consistently impressive documents produced. Nor has the review identified any issues in relation to the timing of the preparation and delivery of AOPs.

The APL annual operating plans contain a significant level of detail. The plans clearly link back to APL's strategies and performance indicators. The two most recent plans are the best of the AOPs and fully

meet the requirements of the SFA. However, this review has identified some elements where further improvements might be made. These relate to the refinement of some KPIs which are outside the direct control of APL, the clarification of budgets and coverage of risk management.

The implementation of AOPs has been found to be rigorous and comprehensive with outcomes reported in annual reports. Where deviations from AOPs are made then commentary as to the reasons why is provided.

This review has found that the annual reports prepared over the planning period meet the requirements of the SFA and of Corporations Law.

All of the annual reports examined are comprehensive documents. If anything, they may be overly detailed as they are quite significant documents to work through, especially for levy payers. Once again, it is evident that the most recent annual report best displays the continuous improvement approach which is apparent within APL. The 2009/10 annual report provides a far clearer linkage to the strategic plan. In addition the report's coverage of important aspects (especially from a Government investment perspective) is a significant improvement on previous reports.

During the consultation process, there were some comments from DAFF representatives that there was a limited relationship between the content of annual operating plans and annual reports. Certainly such a comment has substance for earlier annual reports but is less valid in relation to the 2009/10 report. Nevertheless, the linkage between AOPs and annual reports should be a continued focus for APL.

Some commentary is provided in relation to how APL could further help both Government and levy payers to more easily assess 'value for money'.

Performance review: liaison with stakeholders

The elected delegates act as a means of two-way communication between the APL management and Board and the members. There are 30 delegates. This appears to a large number relative to the size of the industry, but this review accepts APL's argument that this investment in its relationship with the member base is warranted, and that a reduction in delegate numbers would deliver only marginal cost savings.

APL uses a number of vehicles to communicate with its member base and other stakeholders, including the monthly *Pork It Up* newsletter, press releases, post, fax and e-mail. Budget constraints have prevented the communications function from being more proactive but APL was able to assist producers affected by natural disasters in early 2011, using e-mail and other contact to advise where feed could be acquired (for example).

APL's communication with levy payers appears to be well regarded and this was reflected in the survey results from this review. There is, however, a clear sentiment among some levy payers at least that smaller producers are not listened to. This may reflect notable policy positions taken during the review

period – specifically, the decision to phase out sow stalls – which is seen by some as a position better suiting larger corporate producers. Several interviewees and survey respondents also indicated a desire to see APL staff in their local area more often. The costs involved clearly make regular face-to-face contact between staff and producers a difficult proposition for a company of the size of APL.

The listing of producers which has resulted from the PigPass program (and which has recently become available to APL for communication purposes) should assist APL to more directly communicate with a far broader segment of levy payers than that afforded by its current membership listing.

Consultations with officers of various divisions of DAFF, with APL staff and with the CRRDCs indicate that the relationship between APL and Government has improved over the period of the review and is quite strong. APL is regarded as being responsive to requests from, and reasonable in its requests of, the Levies Revenue Service. The Agricultural Productivity and R&D Policy and Governance sections of DAFF had highlighted deficiencies in planning and reporting but noted that these had been gradually improved (see above).

APL is regarded as being among the most collaborative of the rural industry service bodies. Its participation in animal welfare debate and policy setting is considered by Government and others to be exemplary. There is a very close relationship with extensive cross-linkages between APL and the Pork Cooperative Research Centre (PCRC), of which APL is a participant.

Performance review: delivery of benefits to industry

It is not within the scope of this review to undertake, *de novo*, an econometric evaluation of the benefits delivered by APL. Instead the review has sought to examine existing evidence that (i) APL is undertaking sufficient and robust evaluation of its activities and (ii) this evaluation is demonstrating APL's delivery of positive outcomes for each of its stakeholders.

The evaluation of the performance of rural RDCs is more difficult than for public companies. Metrics such as return on assets, share price and net profit are not directly relevant to organisations such as APL. The review has demonstrated that APL is determined to increase its efforts in objectively evaluating and reporting on how its activities benefit stakeholders. This is true across all functions of APL.

APL uses a variety of internal and external processes to help it make *ex ante* and *ex post* evaluations, including benefit/cost analyses, market research and surveys. However, while APL undertakes significant evaluation and reporting of the benefits it delivers, this reporting is often too complex to allow easy assessment. Some rich information in documents other than annual reports, which could also assist stakeholders to better assess value for money, is not being broadly reported. APL should (and is) make greater use of this information and simplify its presentation of evaluation data. It should also analyse the progressive relationship between *ex ante* and *ex post* analyses so as to identify ways in which these analyses can be improved. This will enable an improved investment decision process.

On the basis of documents viewed, interviews undertaken and survey results, this review has concluded that APL is overall providing positive value to the industry and the broader community. Some of the benefits are described in the report and include, for example: the benefit/cost ratios for four randomly selected projects of 9, 8, 1.1 and 43 respectively; APL's management of the H1N1 issue; increases in the percentage of consumers rating pork as low in fat; and increased awareness of Australian pork logo, to name a few.

It may be, however, that APL stakeholders are not recognising these benefits or that they disagree about their significance. During interviews conducted for this review and in the survey, answers from stakeholders pertaining to the efficiency, value for money and responsiveness of APL were all slightly skewed to the negative (scores approximately 2.7-2.8, where 3 is 'average'). Of APL's core functions, 'Building consumer demand' received the highest approval rating while 'Increasing efficiency of pigmeat value chains' received the lowest.

Questions on what areas APL need to improve, or should do more or less of, led to a range of responses – most negative, some positive. One of the themes that emerged was a perception among some at least that small producers are overlooked in favour of larger ones. There were also criticisms of excessive bureaucracy, overstaffing, an 'ivory tower' mentality and a failure to speak to producers where they live. Strident criticisms were made by a small number about APL's perceived capitulation to minority voices on sow stalls. Marketing (and to a lesser extent R&D) also received some criticism.

The results of both the interviews and survey must be interpreted with caution as they cover only a very small proportion of members and other stakeholders. The survey was more likely to attract those with grievances than those who are content with APL's performance.

For these reasons, and taking into account the broader input from personal interviews as well as the recent history of the industry, the review has concluded that APL is generally well regarded across its stakeholder base. In no way should this conclusion appear dismissive of the negative commentary made by some industry participants about APL's performance. Such comments are important to note and to act upon as part of a continuous improvement philosophy to improve overall performance and transparency.

Changes since the previous performance review

The 2007 performance review by Hassall and Associates made six specific recommendations for performance improvement by APL. APL developed an action plan and, in the opinion of the reviewers, diligently addressed each of the recommendations of the 2007 review.

Conclusions and recommendations

It is the view of this report that APL has met its SFA requirements. APL has been found to be a very well run company. The processes it uses to manage its investments are highly regarded and there is evidence that benefits have accrued to stakeholders as a result.

APL is a complex organisation, operating in a difficult environment and seeking to cover a number of key activities (marketing, research and development, policy, communication) with relatively limited financial and human resources. This complexity of both the operating environment and performance evaluation is not well understood by all of APL's stakeholders, particularly smaller pork producers.

APL has no choice but to confront these challenges. In our view, the review period has seen APL bed down a very solid set of processes and systems for the conduct of its operations. At the same time, however, the organisation may have done itself a disservice by not managing to distil the outcomes of a complex 'machine' into a series of simple, readily-understood indicators and vehicles.

This might be summarised by the term 'simplicity on the other side of complexity' – in other words, not simple-mindedness but rather a clarity of message underpinned by a bedrock of detail. It is a concept that should be adopted by APL as both its mantra and *modus operandi* in its planning, in the implementation of those plans and the reporting of outcomes and outputs to shareholders.

In addition to this broad theme, the following specific recommendations for the improvement of APL's performance are made:

- 1 There would appear to be scope to rationalise the current number of Board committees and reduce the overall impact of their operation on staff and Board resources.
- 2 Future strategic plans may benefit from some minor alteration to structure but should explicitly cover the Government's R&D priorities and a broad resource allocation across research, marketing and other activities. Within these strategic plans (and annual operating plans), key performance indicators should be related to issues that are largely within the control of APL (or qualified as such).
- 3 Future AOPs may benefit from some minor alteration to structure and definitions, especially in relation to budget allocation.
- 4 APL should review and refine its reporting to stakeholders (for example, in annual reports and general stakeholder communication) to simply and succinctly demonstrate achievements by the organisation so that easier identification of the value delivered can be made. Such reporting should place continued emphasis on independent evaluation studies.
- 5 APL should analyse the relationship between *ex ante* and *ex post* analyses to identify ways in which these analyses (and thus investment decisions and evaluation processes) can be improved.

Introduction

Purpose of the review

This report describes the three-year statutory performance review undertaken for Australian Pork Limited (APL) by SED Consulting and colleagues. As required under APL's statutory funding agreement (SFA) with the Commonwealth Government, the requirement of this performance review has been to assess the effectiveness and efficiency of APL in carrying out its obligations to stakeholders, including levy payers, members and Government. Specifically, the review has been required to examine:

- *The performance of the Company in meeting its obligations under the Agreement [SFA] with the Commonwealth;*
- *The Company's implementation of its strategic and operating plans and the Company's effectiveness in meeting its priorities, targets and budgets set out in these plans;*
- *The efficiency with which the Company carried out those plans, including, but not limited to, consideration of the following:*
 - *APL structure and processes;*
 - *Liaison with stakeholders;*
 - *Corporate governance;*
 - *Industry strategy and delivery; and*
 - *Corporate operations;*
- *The delivery of benefits to the industry foreshadowed by the Company's strategic and operating plans; and*
- *The effectiveness in which APL has addressed the recommendations from the 2007 Performance Review.*

This review of APL's performance over the period July 2007 to December 2010 has sought to provide a practical and balanced assessment of the company rather than a clinical audit. While the review has aimed to ensure that all elements of the terms of reference for the project (especially in relation to compliance to the SFA) have been rigorously completed, the reviewers have sought to delve more deeply into APL's plans and operations with a view to identifying areas which may assist APL to further improve its performance.

Review methodology

The methodology for the review comprised:

1. A desktop review of over 70 documents relating to APL's performance. These documents are listed in 'Appendix 1: Documents reviewed'.
2. An online survey of stakeholders. The survey questionnaire is provided in 'Appendix 2: Survey questionnaire'. The survey included questions that were asked in the 2007 review to allow comparison between the review periods. It was advertised through:
 - o A dedicated web page, the address of which was also advertised. The web page provided summary information on the objectives and conduct of the performance review as well as the link to the survey. The site also encouraged stakeholders to contact the consultants if they wished to express a view on APL.
 - o APL's monthly newsletter, *Pork It Up*, and the independent publication, the *Australian Pork Newspaper*.
 - o Brief presentations at meetings of the Victorian Farmers Federation Pig Group, held in Shepparton on 22 March, and at the NSW Farmers Pork Meeting at Dubbo on 23 March 2011.
 - o Direct e-mail to producers listed on the member database (three occasions).

By the initial cut-off date of 28 April only 47 responses to the survey had been received, so a decision was made in conjunction with APL to extend the deadline to 8 May and a further mass e-mail was sent to members. By 8 May, 99 responses had been collected and the survey was closed. Results are summarised in 'Appendix 3: Results of survey'.

3. Face-to-face or telephone interviews with approximately 40 stakeholders including APL directors and staff, APL delegates, APL members, other pig producers, officers of the Department of Agriculture, Forestry and Fisheries (DAFF), the Council of Rural R&D Corporations (CRRDC), pig industry researchers, processors and others. This step included observing the Research and Development Advisory Committee's annual priority-setting meeting. A list of interviewees is provided in 'Appendix 4: Stakeholders consulted'.
4. Analysis and preparation of this report.

This Final Report has been produced following feedback received on the Draft Report (May 2011) from APL Board and staff and from DAFF staff.

Overview of APL

Role of APL

APL is unique among the rural industry service bodies. It is a producer-owned company that serves as an industry R&D corporation, marketing body and policy / peak body for Australian pig producers. No other levy-funded industry body incorporates the recognised peak body function.

This unique combination of roles presents both advantages and disadvantages. It avoids on the one hand the significant transaction costs associated with the separation of 'service' and 'peak' roles and simplifies the industry's interaction with bodies such as Animal Health Australia; on the other hand, it can create concerns about a lack of accountability and transparency.

Both extremes of view were expressed to the consultants, but the appropriateness or otherwise of the model is outside the scope of this review. We note, however, an excerpt from the Productivity Commission's Draft Report into *Rural Research & Development Corporations* (September, 2010) which observed that:

- *In contrast, IOCs [industry owned corporations] are also responsible for marketing and, in the case of the Australian Egg Corporation (AEC) and Australian Pork Limited (APL), industry representation. These additional roles are funded by industry levies without any matching contribution from the Government. This is appropriate because producers should be able to capture sufficient benefits from marketing and industry representation to justify funding it themselves (that is, 'spillovers' beyond the relevant industry are unlikely to be so large that producers would significantly underinvest).*
- *The industry-representation role is more financially secure by being within the 'secure funding frame' of APL.*
- *The Commission accepts that there can be synergies not only between marketing and R&D, but also with industry representation. In practice, most independent businesses combine these functions under one roof without problems, and indeed encourage close liaison between them.*

Legal framework

The Pig Industry Act 2001 (C'th) provides for the Minister of Agriculture, Fisheries and Forestry to enter into a contract with an eligible industry services body for the pork industry. The eligible body is defined as being a body registered under the Corporations Law as a company limited by guarantee. This body replaces the Australian Pork Corporation and the Pig Research and Development Corporation, the predecessor statutory bodies and recipients of the marketing, and R&D and matching payments, respectively.

The contract foreshadowed in the Act between the Minister and the eligible pork industry services body is referred to as the statutory funding agreement (SFA). The SFA came into effect in 2001. It governs the arrangements under which the Commonwealth makes marketing, R&D and matching payments to the industry services body, Australian Pork Limited.

APL's performance in meeting the obligations of the SFA forms the basis of this review. The three-yearly review is required under clause 11.4 of the SFA.

APL and DAFF are currently negotiating a revised SFA.

Funding

Pig producers pay a levy of \$2.525 per pig slaughtered, of which APL receives \$2.35, the remaining \$0.175 being provided to the National Residue Survey. Of the \$2.35, \$1.35 is allocated to marketing and \$1.00 to R&D. Eligible R&D expenditure is matched by the Commonwealth Government to a maximum of 0.5% of gross value of production of pigmeat. The split of levy between R&D and marketing activities was altered in January 2010 when the R&D component was increased and marketing decreased by 30c.

The overall levy has not increased since 1994, meaning a steady decrease in the real value of the APL revenue stream. An analysis provided to this review by APL shows that \$2.35 was worth about \$1.57 in 1994 dollars by 2009, a decline of about 33% in real terms. The impact of a reducing budget on APL's capacity to achieve its goals in an increasingly complex business environment should not be underestimated. Expectations of levy payers will not have decreased, nor will regulatory and compliance requirements for both the industry and APL. The significant pressure on APL staff as a result is an issue that needs continuous monitoring.

APL's operating environment

During the review period, the Australian pork industry underwent significant restructure. Pigmeat production slumped early in the review period and this was reflected in a substantial decline in domestic slaughter numbers in 2008/9.

Annual pig slaughtering for the year ending 30 June 2008 was 5.29M. During 2009, annual slaughtering fell from 5.29M to 4.8M. This was a decline of 810K pigs in one single year. This decline in slaughtering was arrested in 2010 when annual pig slaughtering was 4.56M and the current moving annual total (MAT) figure for pig slaughtering up to March 2011 was 4.62M.

The restructure of the pigmeat industry has been caused by the combined impact of an unprecedented level of competition from the imports of pork products from Canada, the US and Denmark and rapidly escalating domestic producer input costs due to drought and resultant high grain prices.

Until 1990, virtually no imports of pigmeat were permitted (except for canned hams). Since then quarantine prohibitions on the importation of pigmeat have been progressively amended, in accordance with Australia's commitments under the Uruguay Round (in particular, the WTO Agreement on Sanitary and Phytosanitary Measures). This has permitted duty-free imports of uncooked (frozen) and cooked pigmeat from several major exporting countries.

Imports have increased steadily since the market was opened – first from Canada in 1990 (mainly legs and shoulders for ham), then Denmark in 1997 (mainly middles for bacon), and more recently from the United States (mainly shoulders and legs). By 2007, imports supplied about one third of total domestic consumption.

The opening of the market to imported cuts had the effect of capping prices for equivalent locally-produced cuts at world prices, as imported cuts comprise as much as 90% of the value of a pig. This caused domestic producers to cap or reduce output and to switch to the fresh pork market and niche export markets.

In the second half of 2007, industry profitability collapsed, with reported losses averaging about \$20 - \$30 per pig. Cost factors contributing to this included the price of feed wheat and many other grains soaring to unprecedented levels of almost \$500 per tonne in late 2007 as a consequence of drought in Australia and supply problems in some other countries. The strengthening of the Australian dollar against the US dollar and the Japanese yen also made Australian pigmeat less competitive.

The industry responded to this cost-price squeeze by submitting a case to the Federal Government which argued that the significant rise in imports established a case for 'safeguard action' under the WTO rules which are intended to act as a safety valve in exceptional circumstances, providing an opportunity for industries to adjust to increased competition from imports associated with trade concessions. In March 2008, the Productivity Commission produced a report entitled *Safeguards Inquiry into the Import of Pigmeat*. The Commission found that safeguard action against imports of frozen meat was not warranted. It concluded that higher domestic feed costs, not increased imports, were overwhelmingly the cause of serious injury to the domestic industry.

A degree of stability returned to the pork market in 2009/10. MAT pig slaughter numbers have steadily increased since late 2009, although they remain well below the levels reached prior to the collapse in 2008.

The re-focusing of the Australian pigmeat industry on domestic fresh pork consumption has helped stabilise the industry. This has been facilitated by the combined impact of the Industry and APL's marketing, research and innovation initiatives. On the other hand, this repositioning of the industry has exposed it more directly to competition from substitute meats and foods. In this context, it is noteworthy that there is evidence that the retail cost of pork has increased significantly through the review period

compared to other food substitutes such as poultry, beef and veal, but not in comparison to fish, lamb and mutton. The recently published Herald Sun NATSEM analysis of the retail cost of a typical basket of food for households in Melbourne shows that, after adjusting for inflation, between 2005 and 2010 the cost of pork rose by \$11 and bacon and ham by \$7, while the cost of poultry fell by \$21 and beef and veal by \$31. On the other hand, fish rose by \$7 and lamb and mutton by \$17. Nevertheless, the domestic consumption of pork over the period appears to be remaining stable.

A final factor influencing the operating environment of the pork industry and APL is changing social attitudes to animal welfare. In responding to this the pork industry decided in November 2010 to gradually phase out sow stalls. As sow stalls are widely used to maximise farrowing rates, this decision is currently meeting with a mixed reaction from producers, including those who consider that the change impacts negatively on productivity.

Performance review: Corporate governance and operations

Introduction

In the course of this performance review, all aspects of the governance of APL over the review period have been examined including:

- Organisational structure;
- Board composition, performance review and proceedings;
- Board committee structure and membership;
- Application of funds, financial management and reporting;
- Audit;
- Relationship with industry and key stakeholder interests, including government and producers;
- Risk Management, Fraud Control, and IP Management Plans; and
- The management of conflicts of interest.

The following analysis is based on information provided during structured interviews with the Chairman, seven of the nine Directors, the CEO and senior APL managers and also on the study and analysis of those written Board and Board committee reports made available during the course of the review. It also takes account of key economic changes that have occurred in APL's operating environment over the past five years which have resulted in a restructure of the pigmeat industry during the review period.

Organisational structure

Producers who pay pig slaughter levies are entitled to register as APL members and exercise voting rights in proportion to the amount of levies paid. Groups of members may also nominate, on an annual basis, a delegate to represent their collective interests.

At the head of APL's organisational structure is the Board comprising nine directors and an executive team comprising a CEO and five General Managers.

The relationship between the CEO and the Chairman is the 'buckle in the belt' of any company's organisational life. Both the CEO and the Chairman joined APL at about the same time and each has a clear understanding of the other's responsibilities. Communication between them is regular and transparent with a healthy respect for the other's knowledge and capacity.

Interaction between senior managers and Board members occurs regularly and freely and is facilitated by the Board committee system. The operation of the Research and Development Advisory Committee is particularly effective and noteworthy in this regard.

The management structure comprises five divisions:

1. Communication;
2. Finance and Administration;
3. Marketing;
4. Policy; and
5. Research and Innovation.

This appears to be an appropriate structure for the company, reflecting logical functional boundaries. It does, however, seem to create confusion for some observers because there is no alignment between funding streams (R&D, marketing and matching funds) and internal divisions. R&D funds, for example, are spent across all areas in cases where genuine R&D activity is carried out (for example, on market research).

This 'matrix' arrangement, which upon review is supported, is discussed further below under 'Application of funds'.

Board

Composition

APL delegates elect five producer directors to the APL Board. The Board recruits four specialist directors with skills and expertise in areas such as marketing, research and finance and consistent with the criteria set out in the company's constitution and the SFA. This balance of industry knowledge and experience

on the one hand, and corporate expertise on the other, appears to be operating satisfactorily and effectively.

The composition of the APL Board is broadly consistent with the *ASX Corporate Governance Principles and Recommendations (2010)*. In particular, the APL Board complies with the ASX Corporate Governance Council recommendation that a Board should be of a size and composition that is conducive to making appropriate decisions and comprise individuals with a variety of skills and perspectives relevant to the needs of the corporation they are directing. While the ASX recommends that the majority of members of a Board be 'independent' directors, and in the case of APL all directors can be defined as 'independent', only a minority are drawn from outside the pork industry. This is consistent with a requirement of APL's constitution that *'the five Elected Director positions are to be elected by the Delegates'* and therefore drawn from the industry, while the remaining directors bring specialist skills to the Board. It should also be noted that the ASX recommendations are not prescriptive, but proposed as guidelines only.

As a means of reducing overhead costs, APL has considered reducing the total number of Board members from nine to seven. Anticipated savings were expected to be in order of \$120,000 per annum. However, a number of other considerations need to be taken into account before such a decision might be taken. These include:

- The need to ensure that the Board adequately reflects the geographic spread of the industry. Nine members are more likely to achieve this;
- The need to ensure that the smaller Board can adequately engage the disparately located small producers in the industry with whom effective engagement is essential in order to sustain the growth of the industry and the universal application of APL's policies and standards; and
- The need for the Board to more fully engage government at all levels and further strengthen APL's position in the wider community.

In preference to reducing Board members from nine to seven, the responsibilities of current Board members could be expanded to include roles which explicitly relate to the engagement of government at all levels and the strengthening of APL's position in the wider community.

The pork industry is a regionally-based industry. The well-being of the industry depends not only the effective marketing of pork products and increased production efficiencies derived from the application of new science and technology, but also on the strength of the relationship between the industry and the particular regional communities that support it. The role of local government authorities in responding to planning applications from the pork industry, the capacity of regional education providers to upskill the labour pool available to the pork industry and the amenity of small towns and

regional centres which service pork producers and processing operations, are all important factors that influence the long term well-being of the pork industry.

The interdependence between rural industry and regional communities, which is so well understood by the dairy industry, could also become a stronger focus of the pork industry. Pork producers and processors would benefit from activity and policies designed to strengthen the relationship between the pork industry and the particular regional communities that service it. The APL Board and individual Board members, who mostly live in regional communities, can play a key leadership role in this area.

However, the already significant unpaid burden already placed upon Board members is acknowledged.

Board performance review and proceedings

As set out in the company's constitution, the Board evaluates its performance on a regular basis to ensure accountability to members and their delegates. During the review period, the Board's performance assessment has been carried out by an independent consultant and the results have been positive.

The Board of APL has performed at a high level over the review period, particularly in providing leadership and clear strategic direction to the management of APL and the wider industry during a period in which the industry faced serious economic challenges, challenges which have been largely beyond the Board and APL's capacity to control. Against the background of the Australian Government Productivity Commission report on the *Safeguards Inquiry into the Import of Piguemeat* in March 2008, the Board has responded to the crisis in the industry by focusing the APL on five core objectives as set out in the 2010-2015 Strategic Plan (see 'Strategic plans' below). These core objectives are clearly understood by APL management and are reflected in the management structure, operating budget and key activities of APL and in the measurement of outcomes.

Interviews with Board directors and the CEO have indicated a high level of satisfaction with Board performance in a number of areas:

- The way Board meetings are chaired and directors are engaged;
- The robustness of debate around the Board table, particularly where it relates to strategic policy making and the allocation and use of company funds;
- The delegation of matters to Board committees for detailed consideration; and
- The operation of those committees.

Board committee structure and membership

There are seven Board committees, each with a charter and agreed membership. They are:

- Audit, Risk and Corporate Governance;
- Human Resources and Remuneration;
- Pan Pacific Pork Expo (PPPE);
- Animal Welfare;
- Market Development;
- Research and Development Advisory; and
- Quality Assurance.

Each of these committees is chaired by a director and includes other nominated Board members.

While committees such as Audit, Risk and Corporate Governance, Human Resources and Remuneration, Marketing Development and the Research and Development Advisory Committee play a critical role in the governance and management of APL and should not be discontinued, the total number of committees is high, given the size of APL and the Board's current focus on reducing administrative costs where possible. Indeed the work of some of these committees, such as the Animal Welfare Committee, is perhaps more appropriately done by the whole Board, which is what happens in practice. The Animal Welfare Committee did not meet in 2009-10 because the issues involved were of such importance that they were covered as part of the full Board's agenda and dealt with directly by the Board.

A merger of the Marketing Development, Pan Pork Expo Management and Quality Assurance Committees with the Research Development Advisory Committee may be worth considering as a means of rationalising the current number of Board committees and reducing the overall impact of their operation on staff and Board resources.

Recommendation: There would appear to be scope to rationalise the current number of Board Committees and reduce the overall impact of their operation on staff and Board resources.

Management of conflict of interest

No suggestion was found of any breach of conflict of interest principles by the APL Board during the review period. The Board has in place appropriate systems and controls to ensure that the relevant interests of directors are disclosed and reviewed on an annual basis and notified as and when they arise in relation to a particular matter.

The systems and controls to manage potential conflicts of interest are to be applauded as the small, highly structured and integrated nature of the industry is such that the potential for such breaches at APL is high. It is noted, for example, that seven of the nine Board directors including the Chairman

declared related party transaction interests in 2009-10. This is both appropriate and necessary and reflects well on the level of industry experience at Board level. It also highlights the need for constant vigilance in this respect by the directors.

Application of funds

As noted above, the total pig slaughter levy has not changed since 1994. The rising costs of administration and operation since then have impacted on the financial sustainability of APL and the company has recorded operating deficits since 2008-09. APL has reduced management and operating costs where possible. For example, it recently completed a restructure in which marketing positions in Singapore, Queensland, Western Australia and South Australia were made redundant.

The application of the different levy components (R&D, marketing or 'non-R&D' and matching) across APL is complex because the two components are not mirrored in the organisational structure. For example, some of the R&D levy is invested, appropriately, by the Marketing and Policy divisions. There is clear evidence that the process for allocating expenditure as either 'R&D' or 'non-R&D' is very carefully managed and transparent. Indeed, documents such as the *APL Policy R&D Matching Funding Spreadsheet* provide a very clear process for expenditure allocation. We understand that hard copies of these spreadsheets have been viewed by DAFF. The review has also sighted the draft document *APL Cost Allocation Policy* which, once agreed with DAFF as an appendix to the new SFA, will provide further clarity.

The application of funds in accordance with the APL's statutory obligations, agreements and strategic plan are clearly documented in the annual report along with explanations of variances in expenditure and revenue against budget. The annual financial report is prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards.

Finally, although we did not conduct a detailed financial audit, no evidence was found that funds were spent by APL for agri-political purposes, as prohibited under Clause 5.3 of the SFA. 'Agri-political activity' is defined quite specifically under the SFA as meaning:

...any activity intended by the Company to exert political influence on Government to advantage one political party or political candidate over another, and includes but is not limited to the following activities:

- (a) funding or making donations to a political party, member of parliament or candidate for parliament;*
- (b) advertising, or funding advertising, that supports or opposes a political party, member of parliament or candidate for parliament;*

- (c) *developing, designing, participating in or funding a parliamentary election campaign or other party political campaign; or*
- (d) *recommending or advising, through whatever media, how persons should vote at a parliamentary election;*

It was explained to this review that nothing in the definition above precludes APL from seeking to influence the political debate to the benefit of the pork industry, primarily through providing research-derived evidence to support what it sees as good policy.

More important than our own direct efforts, we note the completion of financial audits in each of the three years of the review showing APL's compliance with clauses 5-7 of the SFA, including non-expenditure on agri-political activity.

Notwithstanding the above points, discussions with DAFF and APL indicate that there is not unanimity of opinion in relation to the transparency of APL's investments in relation to R&D and non-R&D expenditure. This review has interrogated the internal procedures used by APL for such decisions (and associated budget reporting matrices) and is satisfied that such processes are both rigorous and appropriate. It would appear that the differences of opinion could be overcome by ongoing liaison to clarify any concerns.

Audit

APL's financial report which comprises the balance sheet, the statement of comprehensive income, statement of changes in equity and statement of cash flows, and a summary of significant accounting policies and other explanatory notes and the directors declaration is independently audited. The Board's Audit, Risk and Corporate Governance Committee, chaired by a director and including two other directors, plays a key role in the auditing process and advises the Board on internal and external financial audit issues.

Risk Management Plan, Fraud Control Plan, and IP Management

Risk, fraud control and intellectual property management form part of the terms of reference approved by the Board for the Audit, Risk and Corporate Governance Committee which is required to advise the Board on these matters. APL manages its exposure to key financial risks, including interest rate, credit and liquidity risks in accordance the company's investment and reserves policies. The Board reviews and agrees policies for managing these risks on an annual basis. The risk exposures, responses and policies are set out in the annual report.

The delegate system

APL has a body of 'delegates' who are elected by members to provide representation to the broader membership base. The delegate system is a requirement of Schedule 2(b) of the SFA and is described in

Section 10 of the APL Constitution. A delegate may be, but is not required to be, a director or member of APL.

Delegates' terms are renewed annually following a strictly defined process that involves the APL Board's determination of a minimum 'Delegate Levy Amount', which is the minimum aggregate of levy paid by those members nominating an individual to the position. In 2010/11 this figure was \$290,000. The constitution allows for candidates to reallocate votes in excess of the Delegate Levy Amount.

There are 30 delegates. Collectively the group represents over \$8.9 million dollars of slaughter levy paid or 85% of total production.

Operations management

General comments

It is not within the scope of this review to dissect every business process and system and comment upon its efficiency or otherwise. However, we make the following observations:

- Staff appear highly motivated and professional in their conduct. Requests for information were promptly responded to and over-catered for and there were few questions asked that had not been carefully considered.
- Notwithstanding, it is apparent that APL staff are 'stretched' in fulfilling their responsibilities with relatively limited resources.
- APL personnel are held in high regard by people outside the organisation.
- Business decisions are invariably driven by data – *ex ante* and *ex-post* – and thorough consultation with stakeholders. The R&D planning process is an example. If anything, the burden of 'due process' may be on the high side but this is to be preferred over a lack of transparency.

In our view, APL is operating very efficiently, especially as can be expected from an organisation working under the scrutiny to which industry service bodies are subjected. Such scrutiny (and this performance review is one example) inevitably increases transaction costs. The complex but necessary process adopted by APL to account for its expenditure of R&D, marketing and matching funds is the clearest example of where such costs are incurred.

Research & Development

Some observations are offered on the R&D function, which is the area of APL's business for which across-RDC comparisons are possible.

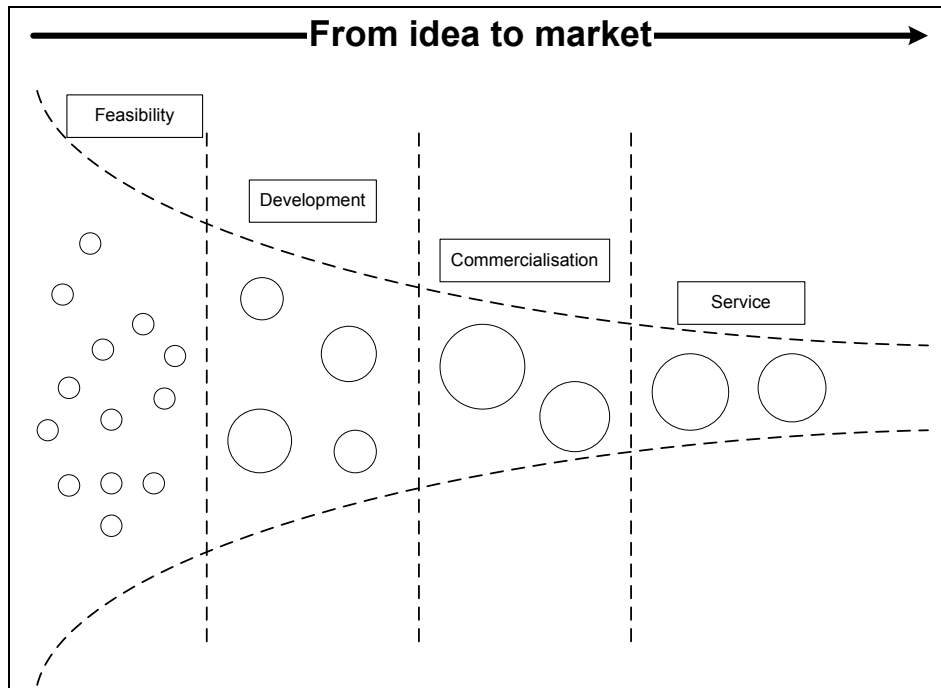
This review was advised that the R&D functions of APL have been substantially altered over the review period. Such changes appear to be working well.

-
- The Specialist Groups (including some current changes to better align these groups to the new objectives within the strategic plan) would appear to be adding significant value;
 - The development of business plans by each SG and the greater use of *ex ante* benefit/cost analyses (BCAs) in assessing investments is valuable; and
 - The implementation of a 'health check' for the R&D portfolio is strongly supported. The evaluation of *'Percentage of projects with new and known researchers as a Principal Investigator of projects commissioned/active in 2010/11'* is particularly noteworthy.

Some suggestions which may add value to the processes and performance of R&D within APL are:

- For a relatively modest R&D portfolio, the number of research projects is high (at the last RDAC meeting some 140 projects were listed, of which 31 were rejected, many of these going to the Pork CRC). The transaction costs for review of proposals, contracting, project management, evaluation and reporting would be significant. Also, while a minimum number of projects is needed to reduce risk, it can be preferable to make more rapid progress in a few major areas than to advance slowly on multiple fronts. It is also noted that many of the small projects are carried out, despite the additional cost, because they are supported by smaller producers. It is understood that APL is seeking to reduce the number of projects and that is encouraged.
- As noted above, the implementation of the 'health check' in the R&D process is strongly supported. However, the coverage of 'new vs. known researchers', 'short vs. long term', and 'basic vs. applied' may benefit from additional diagnostics. For example, the 'risk vs. likelihood' assessment used in SG business plans could be another metric used and reported on across the portfolio. A further useful portfolio management 'check' may be to assess the portfolio in relation to the positioning of projects on the innovation (idea to market) pathway. The stylised 'innovation funnel' shown in Figure 1 may be a useful tool for RDAC to consider applying to the portfolio. It provides a further diagnostic as to the balance of the portfolio investment.

Figure 1 The 'innovation funnel'



The funnel encapsulates two important ideas about R&D portfolio management. First, it is ideal to have a relatively high number of small feasibility studies underway, reducing this number but resourcing each project more heavily as it moves along the funnel and risk decreases. Second, there should be stage-gates or defined evaluation criteria through which projects should pass before being progressed. These stage gates might include benefit/cost analyses or business plans, for example.

- The relationship between APL and the Pork CRC appears extremely strong. Joint membership at a research advisory level, plus collaboration at a program / project management level is strongly supported. As time goes on, it will be increasingly important for both organisations to clarify to their respective stakeholders the responsibilities of each. APL and the CRC are aware of this need but given the potential for confusion amongst stakeholders it is reiterated.

While these ideas are offered as food for thought based on our experiences with several RDCs, we repeat our general observation that the R&D function appears to be professionally and efficiently conducted.

Performance review: Planning and reporting

Introduction

While this performance review is for the three-year period covering 2007/08 to December 2010, the main focus relates to 2009/10 (and the first six months of 2010/11).

The primary reason for this focus is APL's publication of a new strategic plan (2010/2015) which has resulted in positive change in relation to planning and reporting. Nevertheless, some commentary is required for this review in relation to strategic and operational plans and annual reports for 2007/08 and 2008/09 and this is also provided below.

Strategic plans

The requirements of APL in relation to preparing strategic plans are covered in Section 8 of the SFA. In particular, APL is required to:

- Develop a written strategic plan covering a rolling three-year period within four months after the SFA commencement date;
- Review and update that strategic plan at least once every year; and
- Make the strategic plan generally available to levy payers.

This review has found that APL has generally met the strategic planning requirements of the SFA. Of note is the fact that instead of a three-year rolling strategic plan, APL now employs a five-year rolling plan, as is understood to be usual contemporary practice across rural RDCs.

Timing and availability

This review has not identified any limitations in regard to the timing and availability of the 2010/15 plan (note that this aspect was not examined for the 2005/10 plan as that was covered by the 2007 Hassall review).

The strategic plan was made readily available to all levy payers and industry.

Content

The 2005/10 strategic plan, whilst good, had several flaws, especially in relation to one of the overriding goals of the plan and the appropriateness (and attainability) of some of the key performance indicators (KPIs), notably:

- The over-riding goal of '*a minimum return on total capital employed (ROTCE) of 12-20%*' was at best optimistic and most likely outside of the realms of APL's control; and
- Because the organisation does not own the product, some of the KPIs listed (for example, volume of fresh pork sales, volume of exports to specific markets) were also largely beyond the control of APL.

Within the 2005/10 plan there was also limited information in relation to the split of investment across Marketing, R&D and Policy divisions. It would be expected that investors, both levy payers and the Commonwealth Government, may have been concerned with this lack of clarity. Finally, there was limited commentary and coverage of the Government's R&D priorities.

By contrast, the 2010/15 strategic plan is a vast improvement on its predecessor:

- The 5 new core objectives are clear, concise and pertinent. Given APL's charter they would seem to 'make sense';
- The strategies for each core objective are equally clear, concise and pertinent; and
- The industry outcomes are also clear, largely objective and consistent with what investors would be expecting. However, as per the 2005/10 strategic plan, some outcomes may be difficult for APL to universally control, given that the company does not own the product and cannot influence macro- and microeconomic drivers. KPIs such as *'increased sales in volume and value of Australian pork'* and *'increasing per capita consumption of Australian pork'* are laudable and very pertinent to levy payers but may not always be under the full influence of APL.

APL is very aware that such KPIs are not fully within its control but make the valid point that it is an important 'cultural' issue for the organisation. Such stretch KPIs, while aspirational, do provide focus to the organisation and are key industry outcomes that APL must strive to influence over the longer term. In that regard, where similar KPIs are included in future strategic plans, such KPIs should be qualified in regard to the degree to which APL can 'control' them.

There are also some elements of the plan which could be improved (although many of these are very much professional preferences rather than any mandatory requirements). These include:

- A brief 'situational analysis' (a reduced version of that provided in the 2009/10 operating plan) would help provide context to the plan, especially in relation to the plan's 'health check' (KPIs) and industry outcomes;
- Given the level of investment provided by the Commonwealth Government, a listing of its rural R&D priorities would be advantageous, not just from a Government recognition perspective but also to help advise levy payers of the priorities of Government;
- Some clarification of the forecast budget would also assist, especially the definition of factors such as *'total direct project costs'*, *'total allocated project costs'*, and *'total unallocated costs'*. There is also no clarification of what constitutes the line item *'grants'*;
- KPIs (although it is not necessary for them to be objectively defined) should be listed against each core objective;

- The relationship between industry outcomes for each core objective and the 'health check' is not clear. While it is noted that the 'health check' is aspirational, it would be beneficial for there to be tighter linkages;
- The 2010/15 strategic plan does not cover explicitly the requirements of point 8.2 in the SFA viz: *The strategic plan should cover issues such as:*
 - 8.2 (i): *the Government's R&D funding policy, direction and priorities; and*
 - 8.2 (j): *broad resource allocation for the life of the plan, including differentiation of proposed research and development, marketing and other activities.*

Recommendation: Future strategic plans may benefit from some minor alteration to structure but should explicitly cover the Government's R&D priorities and a broad resource allocation across research, marketing and other activities. Within these strategic plans (and annual operating plans), key performance indicators should be related to issues that are largely within the control of APL (or qualified as such).

Consultation

Consultation in relation to the 2005/10 plan is outside the scope of this review.

Interviews with APL staff and DAFF personnel indicate that extensive and appropriate consultation was undertaken in the development of the 2010/15 plan. The commentary within an early section of the plan, 'Strategic planning context & themes', supports this view:

The consultation process for this Strategic Plan included eight formal open-invitation producer meetings nationally, covering all states of Australia. Also conducted were workshops with various government departments, authorities and a multitude of individual meetings with supply chain players and other industry bodies.

In addition, an "open door" policy taken on submissions or contributions – in particular from APL pig producer members was enacted, resulting in the further collection of information and industry opinions.

Annual operating plans

The requirements in relation to APL's preparation of annual operating plans (AOPs) are covered in Section 8 (8.4 onwards) of the SFA. Specifically, APL is required to set out:

- (a) *the intended operations of the Company for the ensuing 12 months;*
- (b) *the marketing, research and development and strategic policy development programs of the Company;*

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- (c) a statement of how those programs align with and to what extent they will give effect to the objectives of the Company's strategic plan and the Government's broad research and development priorities;*
 - (d) performance indicators, timetables and milestones relating to the Company's proposed activities and expenditure;*
 - (e) estimates and budgets of income and expenditure, which:*
 - (i) set out the amounts likely to be spent by the Company in respect of each broad grouping of activities within the areas of marketing, research and development and strategic policy development which the Company proposes to undertake during the financial year;*
 - (ii) set out the indirect costs proposed to be spent by the Company including appropriate apportionment of costs of corporate services (including Directors' fees, AGM expenses, legal and audit expenses, etc) and similar support activities;*
 - (iii) set out the potential amount of the Company's qualifying R&D Expenditure in the financial year; and*
 - (iv) include three year forward estimates; and*
 - (f) any other matters the directors consider should be set out in the plan.*

Whilst specific comments are made in relation to certain aspects of APL's annual operating plans, this review has found that APL has met the operating planning requirements of the SFA. Indeed, of the documents reviewed, the AOPs are considered to be amongst the most consistently impressive documents produced.

Timing

This review has not identified any issues in relation to the timing of the preparation and delivery of AOPs.

Content

The APL AOPs contain a significant level of detail. The plans clearly link back to strategies and performance indicators. Proposed activities and expenditure are clearly shown.

There appears to have been a significant change of approach between the 2007/08 and 2008/09 plans compared with the most recent 2009/10 and more particularly the 2010/11 plan. Particularly noteworthy changes include:

- Elements missing from earlier plans (clear differentiation between what is being funded by Marketing, R&D and Policy) have been largely overcome by more recent versions. This is a very positive development;
- In earlier versions of the AOPs within this review period, clarity about how such plans linked in with Government R&D priorities was limited. This deficiency was in part still evident in the 2009/10 plan, but it has been significantly addressed in the 2010/11 plan;
- The situational analysis in the 2010/11 plan is clear and provides an informative context; and
- The 2010/11 plan details very clearly the objectives, industry outcomes, rationale, risks, KPIs and budget allocation between Marketing and R&D.

The two most recent plans are well constructed and clearly meet the requirements of the SFA. However, this review has identified some elements where further improvements might be made. These relate to:

- *Achievable KPIs*: similar to comments made in relation to the 2010/15 strategic plan, APL needs to carefully review the KPIs listed in its AOP to ensure that targets are within the control of the organisation and thus attainable. For example, Core Objective 1, Strategy 4 'Promoting Australian' provides targets for awareness of the Australian Pork Logo – which is appropriate given APL undertakes consumer marketing on this issue. However, targets for factors such as 'Value of exports' and 'Volume of exports' are not solely within the control of APL and can be significantly influenced by external factors (for example, exchange rates) far more than by APL promotional activities (but refer to the commentary on aspirational KPIs in the 'Strategic plans' section);
- *Clarification of budgets*: the clarity of the budget could benefit by the provision of definitions for certain items (e.g. 'direct project costs', 'allocated project costs'); and
- *Coverage of risk management*: while 'risks' are clearly delineated against each core objective, management strategies to counter such risks are not explicitly listed.

Implementation

The implementation of AOPs has been found to be rigorous and comprehensive. The outcome from their implementation is reported in annual reports. Where deviations from AOPs are made then commentary as to the reasons why is provided (for example, the measurement process used for some targets).

Recommendation: See earlier recommendation regarding KPIs.

Recommendation: Future AOPs may benefit from some minor alteration to structure and definitions, especially in relation to budget allocation.

Annual reports

The requirements in relation to APL's preparation of annual reports are set out in Schedule 7 of the SFA. Such annual reports must be in compliance with Corporations Law financial and other requirements. Schedule 7 also details a number of Commonwealth accountability requirements.

This review has found that the annual reports prepared over the review period (2007/08, 2008/09 and 2009/10) meet the above requirements.

Coverage

All of the annual reports examined are comprehensive documents. If anything, they may be overly detailed as they are quite significant documents to work through, especially for levy payers.

Once again, it is evident that the most recent annual report best displays the continuous improvement approach which is apparent within APL. The 2009/10 annual report, perhaps more than previous reports within the review period, directly and explicitly covers the requirements of the SFA, i.e. clauses 1 a) to p) within Schedule 7 of the SFA, viz:

- (a) *the receipt, use and expenditure of the Funds and Transferred Assets and Liabilities and the conduct of the Company's functions as Industry Services Body during the relevant year;*
- (b) *significant activities and transactions undertaken in the year;*
- (c) *report of outcomes against objectives;*
- (d) *the extent to which milestones specified in the plans were achieved, and key performance indicators met in respect of outcomes planned for - if a milestone or key performance indicator was not met, the reason why it was not met;*
- (e) *subsidiaries and joint ventures formed;*
- (f) *material changes to the membership of the company;*
- (g) *material variations to budgets;*
- (h) *explanation of revisions to plans;*
- (i) *funds spent on each marketing and significant policy development activity as well as other industry issues;*
- (j) *funds spent on each significant R&D and innovation activity and project allowing identification of expenditures of matching payments;*
- (k) *agreements entered into by the company relating to R&D and marketing and any other activity;*

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- (l) *the extent to which the company's R&D activities contributed to the Commonwealth's broad priorities for research and development expenditure and the achievement of public benefits;*
 - (m) *details of collaboration with industry and other research organisations;*
 - (n) *commercialisation;*
 - (o) *intellectual property creations and protection including management of intellectual property arising from R&D activities or acquired with the Funds; and*
 - (p) *any other material matters which the Commonwealth notifies the Company from time to time are to be covered in the report.*

The 2009/10 annual report provides a very clear linkage to the strategic plan. In addition the report's coverage of important aspects (especially from a Government investment perspective) is a significant improvement on previous reports. Noteworthy improvements include the sections on:

- Funds Spent on Each Significant Research, Development, Innovation Activity and Matching Australian Government Payments (Appendix B);
- Funds Spent on Each Marketing and Significant Policy Development Activity as well as other Industry Issues (Appendix C);
- Collaboration with Industry and Other Research Funding Organisations; and
- Supporting the National Primary Industries Research, Development and Extension Framework.

The alignment with Government rural R&D priorities and reporting on progress made during the year against these priorities is also much improved.

During the consultation process, some concern was expressed by DAFF about a limited relationship between what APL said it would do (that is, in annual operating plans) and their reporting of what was achieved (in annual reports). Certainly such commentary is not without substance in relation to early reports during the planning period, but would appear to be less valid in relation to the 2009/10 report. In the 2009/10 annual report there is a far more direct linkage between the targets listed within the AOP and what was achieved and reported in the annual report. Nevertheless, the linkage between AOPs and annual reports should be a continued focus for APL.

This review has sought to identify areas where further improvements in APL's reporting processes can be made. Annual reports provide a window for investors and other stakeholders to view the performance and value of the organisation. While the level of detailed reporting within the annual reports is highly commendable, there may be further opportunities for APL to assist the Government and levy payers to more easily assess 'value for money'. While not a mandatory requirement, the following may assist:

- Regular and highlighted summarised *ex post* benefit/cost analyses of marketing, R&D and policy activities (it is understood this is planned); and/or
- A simple table at the beginning of each annual report which details the key targets identified in the strategic plan and then reports against what has been achieved over the previous 12 months (and cumulatively) against such targets.

The 'Report on Performance' goes some way to achieving this clarity, but lacks the objective data that are subsequently provided against each of the core objectives of APL.

The following table provides a stylised example of such an overview (if included in the 2011/12 annual report and reporting against the 2010/15 strategic plan):

Core Objective	Strategy	Progress in 2011/12	Cumulative progress since 2010/11	2010/2015 Strategic Plan Target

Note that the section on 'Performance review: delivery of benefits to industry' makes some further comments in regard to evaluation.

Recommendation: APL should review and refine its reporting to stakeholders (for example in annual reports and general stakeholder communication) to simply and succinctly demonstrate achievements by the organisation so that easier identification of the value delivered can be made. Such reporting should place continued emphasis on independent evaluation studies.

Performance review: Liaison with stakeholders

Liaison with levy payers

As described above, APL has a structure of elected delegates who act as a means of two-way communication between APL management and Board and the members.

Our experience is that a delegate-style system, in which a group of respected individuals acts as a conduit between the membership and a service body, can be a very effective means of facilitating communication and, in particular, ensuring staff maintain a close link with the 'grass roots' of the

industry. APL management believes the system works well although not all delegates discharge their roles as actively as they might. Thirty appears to be a large number of delegates relative to the size of the industry. However, this review accepts APL's argument that this investment in its relationship with the member base is warranted, and that a reduction in delegate numbers would deliver only marginal cost savings.

APL uses a number of vehicles to communicate with its member base and other stakeholders. Members are asked when they renew their membership about their preferred form of contact. Currently 223 members opt to receive information from APL by e-mail; 65 by fax; 46 by mail. E-mail is encouraged for efficiency because it is quicker and cheaper but, clearly, many producers remain in favour of more traditional communication methods.

General communication vehicles include the monthly *Pork It Up* newsletter, which is sent to members; the *Pork Journal*; the independent *Australian Pork Newspaper*; and press releases to the mass media. Budget constraints have prevented the communications function from being more proactive but APL was able to assist producers affected by natural disasters in early 2011, using e-mail and other contact to advise where feed could be acquired (for example).

The Communication team commissions a six-monthly quantitative media analysis report by Media Monitors. The report shows the extent of APL coverage in across Australia through different media, including internet, in terms of individual reports and potential circulation.

The standard of APL's communication appears to be well regarded by levy payers. The survey conducted for this review included the question: '*How well does APL communicate with its levy payers and stakeholders?*'. The average response, in numerical terms, was 3.4 – about halfway between 'average' and 'above average'. In the context of other responses (see below), and compared to the reviewers' experience across other industries, this was a very positive rating.

While outside the timeframe of this review it is also noteworthy that a membership survey (2011) conducted for APL found that 83% of members (158 producers responded to the survey) were satisfied with the quality and quantity of information provided by APL and 85% of respondents were satisfied with the content of information they receive from APL.

There is, however, a clear sentiment among some levy payers at least that smaller producers are not being listened to by APL. This may reflect notable policy positions taken during the review period – specifically, the decision to phase out sow stalls – which is seen by some as a position better suiting larger corporate producers. However, this decision is consistent with one of the themes of APL's 2010/15 strategic plan: '*There exists a “no compromise” attitude to risk management around areas such as climate change, animal welfare and environmental sustainability*'.

Several interviewees and survey respondents also indicated a desire to see APL staff in their local area more often. It is not surprising and understandable to find agricultural producers seeking this type of interaction with their service body, although the costs involved clearly make regular face-to-face contact between staff and producers a difficult proposition for a company of the size of APL. In the 2009/10 annual report the disconnect between staff and many producers is acknowledged by the CEO: *'The nuts and bolts of the work being done on behalf of producers by APL in Canberra, and through our state offices is well hidden from our members. This is a pity in some ways, as they don't have the opportunity to see the enormous effort that staff put in to ensure better outcomes for their businesses and the industry in general'*.

The recent listing of producers which has resulted from the PigPass program (and which is available to APL for communication purposes) represents over three times the number of producers than the membership list and can greatly assist APL in communicating its activities and outcomes to the bulk of levy payers. This will be a very valuable resource for APL to enhance its communication efforts, especially with smaller producers.

DAFF officers interviewed for the review did not report a significant level of complaint to Government from pig producers, which is one indication that levy payers are at least reasonably satisfied with APL.

Liaison with Government

Consultations with officers of various divisions of DAFF, with APL staff and with the Council of Rural RDCs (CRRDC) indicate that the relationship between APL and Government has improved over the period of the review and is quite strong. APL is regarded as being responsive to requests from, and reasonable in its requests of, the Levies Revenue Service. The Agricultural Productivity and R&D Policy and Governance sections of DAFF had highlighted deficiencies in planning and reporting but noted that these had been gradually improved.

One specific area that has been raised relates to the requirement within the SFA for six-monthly meetings between APL (Chair or CEO) and the Minister or representative thereof. There is some conjecture as to whether such meetings have in the past been clearly scheduled or whether they have sometimes been confused with meetings between DAFF and APL when (it is understood) the previous Minister would opt to defer this responsibility. Regardless, such meetings are important from both DAFF's and APL's perspective. APL has such meetings clearly documented in its corporate calendar and a meeting between the Chair, CEO and Minister or his/her representative was held during the timeframe of this review.

Liaison with partners, collaborators and service providers

APL is clearly regarded a constructive contributor to collaborative ventures. For example, it is an active participant in Animal Health Australia (AHA). The General Manager Policy is a member of AHA's three-

person industry executive group and is reported to make an excellent contribution to its workings. APL's GM Research & Innovation was closely involved in the development of two Primary Industries Standing Committee (PISC)-sponsored R,D&E National Strategies in Animal Biosecurity and Animal Welfare, each of which involved a very significant time commitment.

APL is also reported to contribute actively to the CRRDC. Importantly, APL has collaborated strongly in joint efforts to demonstrate the collective value delivered by the RDCs. The importance of evaluation has been repeatedly emphasised by Government and was a major theme of the recent Productivity Commission review.

There is a very close relationship and extensive cross-linkages between APL and the Pork Cooperative Research Centre (PCRC), of which APL is a participant. Two APL directors are also on the Board of the PCRC and the APL Manager, Processing and Product Innovation is a PCRC Program Leader. APL and the PCRC hold joint 'Roadshows' as part of their technology transfer strategies. It is entirely sensible and to the benefit of both organisations that APL and the PCRC should work closely together – yet this does not always occur in other agricultural industries.

Performance review: Delivery of benefits to industry

Introduction

It is not within the scope of this review to undertake, *de novo*, an econometric evaluation of the benefits delivered by APL. Instead it has sought to examine existing evidence that: (i) APL is undertaking sufficient and robust evaluation of its activities and that (ii) this evaluation is demonstrating APL's delivery of positive outcomes for each of its stakeholders.

It is noted here that the evaluation of the performance of rural RDCs is different to that for most public companies. Metrics such as return on assets, share price and net profit after tax are not relevant to industry service bodies such as APL. These companies must instead develop measures that estimate the impact of their activities on the wellbeing of their levy payers and (in the case of the Commonwealth matching funds) of the Australian public.

It is also noted that the Productivity Commission, in its *Safeguards Inquiry into the Import of Pigmear* (2008), found that APL was not routinely evaluating or reporting the outcomes of its R&D program. It recommended that:

Regular independent reviews are necessary to ensure that government R&D funding directed to the pigmeat industry delivers net benefits to the community, and continues to satisfy program criteria. More detailed information needs to be provided by industry bodies on the performance of R&D projects that are funded by government, including evaluations of benefits and costs (recommendation 4.3, p. 78).

APL's approach to evaluation

This review believes that APL is an organisation determined to increase its efforts in objectively evaluating and reporting on how its activities benefit stakeholders. This was found to be true across all functions of APL.

APL uses a variety of internal and independent external processes to help it determine:

- Where investments should be made (e.g. what R&D project should be supported – *ex ante* evaluations); and
- The outputs / outcomes of such investments (e.g. the impact of a particular marketing initiative – *ex post* evaluations).

The preamble in the 2009/10 annual report states that in relation to evaluating APL's performance:

From the desired industry outcomes that have been identified, APL has established targets, according to key performance indicators, to measure the success in meeting the objectives set. The success of these targets for key performance indicators are measured through a number of mechanisms including:

- *The meeting of project milestones*
- *Results of statistical surveys of members, industry and stakeholders*
- *Cost benefit analyses*
- *Publicly and privately generated consumer and industry information.*

While internal documents provide the detail, the broad outcomes are often referenced in AOPs (which are not public documents), and more importantly from a levy payer's perspective, in annual reports.

Some evaluation processes employed by APL include the use of:

- External market research companies such as Nielsen, Media Monitors etc;
- Australian Bureau of Statistics (ABS) data;
- *Ex ante* benefit/cost analyses to assist in the selection of appropriate research projects;
- Independent external *ex post* analyses to assess the outcomes from specific marketing initiatives (e.g. Woolworths Winter Pork, IGA Australian Grown) and research initiatives (e.g. Project Muscle, PigPass, Physi-Trace, Myocarditis);
- Industry surveys undertaken in the first quarter of each financial year (August/September); and
- Technology transfer and adoption R & D surveys.

It is also noted that for certain areas of its R&D portfolio, APL uses the Pork CRC Benchmarking Project to assist evaluation.

However, while APL undertakes significant evaluation and reporting of the benefits it delivers, this reporting is often too complex to allow easy assessment. For example, the 2009/10 annual report specifically addresses progress achieved over the reporting period against the Government's rural R&D priorities covering productivity, supply chains, natural resource management, climate variability and change, biosecurity, skills and technology. However, a simplified summary of progress would assist Government to assess the delivery of benefits (both private and public) against their priorities.

Similarly, for each strategy within each of APL's five core objectives, the 2009/10 annual report lists result/outcome against target. While this is commendable, summarised data for levy payers would greatly assist their understanding of APL's impact on key result areas.

While the level of detail in annual reports is very high, there is also rich information in other documents that has not, to date (due to timing issues), been broadly reported but which may greatly assist stakeholders to better assess value for money. Some examples include:

- Charts in the Specialist Group 1 Business Plan (and reported to the Board in early 2011) which provide assessments of the impact of pork advertising showing a return of approximately \$3 to producers for every \$1 spent. It is noted that these assessments are new and are now being communicated to delegates and levy payers;
- IDA Economics' benefit/cost analyses of various components of APL's programs in September 2010, which showed a return of 3 to 1 for two new products (pork mince and MI pork) and 6 to 1 for APL's technology transfer programs; and
- The Specialist Group Business Plans which, apart from providing excellent detail on research areas, also provide an assessment of risk versus likelihood of success for projects. This is not only responsible portfolio management but investors may also benefit from understanding the detailed deliberations undertaken in managing investments on their behalf.

The level of rigour and detail uncovered by this review on the way APL manages and evaluates investments is impressive. While the difficulty in communicating these processes to investors is not underestimated it is suggested that increased efforts to simplify the outcomes for stakeholders will be worthwhile.

An example of good practice in this area is Meat & Livestock Australia's (MLA's) 'Evaluation series' of publications, notably *Building the Australian prime lamb industry: The industry impact* (October 2009). This publication, although quite long and detailed at 16 pages, sets out in clear terms the company's efforts and achievements in increasing on-farm productivity and promoting lamb.

As described in this report, APL is a significant user of benefit/cost analyses as an input to help investment decisions (*ex ante*) and to evaluate the impact of those investments (*ex post*). This is supported. A key activity for APL going forward should be to analyse the progressive relationship between *ex ante* and *ex post* analyses so as to identify ways in which these analyses can be improved. This will help facilitate an improved investment decision process and evaluation of benefits to stakeholders.

Recommendation: See recommendation above regarding reporting of achievements.

Recommendation: APL should analyse the relationship between *ex ante* and *ex post* analyses so as to identify ways in which these analyses (and thus investment decisions and evaluation processes) can be improved.

Evidence of the delivery of benefits

As noted above, it is not within the scope of this review to provide an estimation of the overall economic value delivered by APL. We have however reviewed the available evidence for the delivery or otherwise of benefits by APL.

On the basis of documents viewed, interviews undertaken and survey results, we conclude that APL is overall providing positive value to the industry and to the broader community. Some of the benefits delivered are described above. Others include those described in annual reports, for example:

- The benefit/cost ratios for 4 randomly selected projects of 9, 8, 1.1 and 43 respectively;
- APL's management of the H1N1 issue;
- Increases in the percentage of consumers rating pork as low in fat; and
- Increased awareness of Australian pork logo – to name a few.

It may be, however, that APL stakeholders are not recognising these benefits – for the reasons described in the previous section – or that they disagree about their significance. During the interviews conducted and in the survey, stakeholders were asked several questions pertaining to the value delivered by APL. In the survey, average responses to the questions, 'How efficient do you think APL is as an organisation?', 'How do you rate the value for money provided by APL?' and 'How well do you feel APL addresses the issues and concerns of producers?' were all slightly skewed to the negative (scores approximately 2.7-2.8, where 3 is 'average').

In respect to APL's performance in each of its five strategic directions, survey respondents provided the following rating, in order of decreasing satisfaction:

- 'Building consumer demand'

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- 'Managing industry issues'
 - 'Building networks'
 - 'Improving viability and productivity of farms'
 - 'Increasing efficiency of pigmeat value chains'.

Interestingly, the staff who responded to the survey ranked these five areas in the same order as other industry participants (with the exception that 'industry issues' was slightly ahead of 'consumer demand'). Across all areas, though, staff rated the performance of the organisation significantly higher than other respondents, averaging 3.6-4.3.

Questions on what areas APL need to improve, or should do more or less of, led to a range of responses. One of the themes that emerged was a perception among some, at least, that small producers are overlooked in favour of larger ones. There were also criticisms of excessive bureaucracy, overstaffing, an 'ivory tower' mentality and a failure to speak to producers where they live. Strident criticisms were made by a small number about APL's perceived capitulation to minority voices on sow stalls. Marketing and to a lesser extent R&D also received some criticism.

The results of both the interviews and the survey must be interpreted with caution as they cover only a very small proportion of members and other stakeholders. The survey was more likely to attract those with grievances than those who are content with APL's performance.

For these reasons, and taking into account the broader input from personal interviews as well as the recent history of the industry, it can be concluded that APL is generally well regarded across its stakeholder base.

In no way should this conclusion appear dismissive of the negative commentary made by some industry participants about APL's performance. Such comments are important to note and to act upon as part of a continuous improvement attitude to improve overall performance and transparency. As described above, the use of the PigPass database to clearly communicate benefits to producers should no doubt assist.

Changes since the previous performance review

2007 recommendations

The previous (2007) statutory performance review of APL, conducted by Hassall & Associates and collaborators, concluded that APL was operating effectively when judged over the similar broad range of criteria that are considered in this report.

Six specific areas for improvement were identified. APL developed an action plan to address these areas. They are listed in Table 1, with accompanying commentary on the changes made since 2007.

Table 1 Areas for improvement of APL performance identified in the 2007 review

	Areas for improvement	Steps taken to address	Other comments
1	Refine governance processes to ensure greater consistency in the principles, approach and the working of the Board Committees.	Terms of reference for all Board committees were reviewed and standardised.	Board Committee terms of reference sighted; all follow a consistent format.
2	Outline an explicit process to improve the level of involvement and motivation of staff.	Explicit process formulated and reviewed two-yearly following survey of staff; staff meetings and working groups instigated. Currently have a system of annual staff awards, bimonthly staff meeting and award.	Staff morale appears to be generally high. Evidence of a flexible approach to human resource management.
3	Increase the current level of participation of all staff in planning processes.	Increased staff participation achieved through the process described in (2) and in particular with the 2010-15 strategic planning process.	Evidence of widespread staff participation noted in documentation and discussions with staff.
4	Ensure guidance is established for joint planning processes that specifies a structured review of past efforts.	Documentation prepared for joint planning processes, specifying review of past efforts and results obtained.	Evidence sighted of highly structured and documented joint planning processes, including reviews of past efforts.
5	Increase the effort placed on describing and specifying the link between APL efforts, benefit flows and returns to levy payers.	Increased effort placed on strengthening links between effort / benefit flows / returns.	Evidence of improvement sighted by consultants. Refer to sections on planning and reporting, and evaluation.
6	Improve the specification of strategic and individual KPIs and ensure that these are integrated with a process to enable APL to clearly demonstrate benefits to levy payers.	Specification of strategic and individual KPIs annually reviewed and integrated with processes to demonstrate benefits.	Significant progress made although some further improvements suggested by this review.

Summary of findings

On the basis of this report's research and analysis, we believe that APL has diligently addressed the recommendations of the 2007 review.

Conclusions and recommendations

It is the view of SED Consulting and its collaborators in this review that APL has met its SFA requirements. A listing of the specific obligations, and evidence for APL's performance against them, is provided in 'Appendix 5: Obligations of APL under the SFA: summary table of performance'.

APL has been found to be a very well run company. The processes it uses to manage its investments are highly regarded and there is evidence that benefits have accrued to stakeholders as a result.

APL is a complex organisation, operating in a difficult environment and seeking to cover a number of key activities (marketing, research and development, policy, communication) with relatively limited financial and human resources. The quality of outcomes delivered by any rural industry services body is also inherently difficult to judge. Most outcomes are long term. The organisation has only a certain degree of control of its environment, and it must satisfy a broad base of individual stakeholders whose needs may not always be in alignment.

This complexity of both operating environment and performance evaluation is not understood by all its stakeholders, particularly smaller pork producers. For example, there were a number of comments made during this review that APL staff should spend more time on farms. This is clearly not a feasible proposition unless producers wish to pay a much higher levy or accept a lower level of service in other areas.

APL has no choice but to confront these challenges. The review period has seen APL bed down a very solid set of processes and systems for the conduct of its operations. At the same time, the organisation may have done itself a disservice by not managing to distil the outcomes of a complex 'machine' into a series of simple, readily-understood indicators and vehicles.

This might be summarised by the term 'simplicity on the other side of complexity'¹ – in other words, not simple-mindedness but rather a clarity of message underpinned by a bedrock of detail. It is a concept that should be adopted by APL as both its mantra and modus operandi in its planning, in the implementation of those plans and in the reporting of outcomes and outputs to shareholders as a result.

In addition to this broad theme, the following specific recommendations are offered for improvement of APL's performance:

- 1 There would appear to be scope to rationalise the current number of Board committees and reduce the overall impact of their operation on staff and Board resources.
- 2 Future strategic plans may benefit from some minor alteration to structure but should explicitly cover the Government's R&D priorities and a broad resource allocation across research, marketing and

¹ The term is attributed to the American jurist Oliver Wendell Holmes, who said 'I would not give a fig for the simplicity this side of complexity, but I would give my life for the simplicity on the other side of complexity' (cited by Paul Calthrop (Bain & Company), 'The paradox of organisational effectiveness', CEO Forum, 2006).

other activities. Within these strategic plans (and annual operating plans), key performance indicators should be related to issues that are largely within the control of APL (or qualified as such).

- 3 Future AOPs may benefit from some minor alteration to structure and definitions, especially in relation to budget allocation.
- 4 APL should review and refine its reporting to stakeholders (for example in annual reports and general stakeholder communication) to simply and succinctly demonstrate achievements by the organisation so that easier identification of the value delivered can be made. Such reporting should place continued emphasis on independent evaluation studies.
- 5 APL should analyse the relationship between *ex ante* and *ex post* analyses so as to identify ways in which these analyses (and thus investment decisions and evaluation processes) can be improved.

Appendixes

Appendix 1: Documents reviewed

CATEGORY	DOCUMENT
Act and SFA	Pig Industry Act 2001
	Statutory Funding Agreement [file name Pork contract FINAL 23 05 01]
	AGREEMENT 2011-15 between the COMMONWEALTH OF AUSTRALIA (ABN 24 113 085 695) and AUSTRALIAN PORK LIMITED (ABN 83 092 783 278) for the purposes of the <i>Pig Industry Act 2001</i>
Board documents	APL Board Review 2007 Summary
	APL Board Review report June 2010
	Schedule of Approved Authority final Feb 10
	Risk Management and Fraud Control Plan Master September 2010
	Code of Conduct - Directors
	Board Members Manual October 2008
	Conflict of Interest - Directors Current Sep 10
	Australian Pork Limited Standing Committee Contact Details as at Feb 2011
	Terms of Reference - APL Board Animal Welfare Committee 090511 Final Approved
	Terms of Reference - APL Board Audit Risk & Corporate Governance Committee 01-05
	Terms of Reference - APL Board Pan Pacific Pork Expo Committee (PPPE) 080610
	Terms of Reference - APL Board Quality Assurance Committee 010310 Final
	Terms of Reference - APL Board Market Development Committee 010210
	Terms of Reference - APL Board HR & Remuneration Committee 301009
	Terms of Reference - RD Advisory Committee 9 May 2011
	Numerous Board Papers on key issues as requested
	Corporate documents
AGM & Annual Conference presentations/resolutions - available at http://www.australianpork.com.au/pages/page214.asp	
Policies_and_Procedures Clean Feb 11	
Membership application form: Full Member	
Membership application form: Associate Corporate	
Membership application form: Associate Producer	
Delegate Nomination and Election Process [Feb 2010]	
APL Cost Allocation Policy (draft)	

CATEGORY	DOCUMENT
Strategic plans	Australia Pork Limited Strategic Plan 2010-2015
	Australia Pork Limited Strategic Plan 2005-2010
AOPs	2007-2008 AOP Final
	2008 AOP Final 08-09
	2009_2010 AOP Final_DAFF_25Jun09
	2010_2011 AOP Final 20 Jul 10
Other plans	The Australian Pork Industry National Research, Development & Extension (R,D & E) Strategy [Dec 2009]
Annual reports	Australia Pork Limited Annual Report 2009-2010
	Australia Pork Limited Annual Report 2008-2009
	Australia Pork Limited Annual Report 2007-2008
Performance reviews	Three Year Performance Review of Australian Pork Limited [2004]
	Australian Pork Limited 3-year Performance Review [2007]
Surveys etc	APL Delegate Survey #2 Report_F
	Teleforum2_Poll Results_031110
	Analysis of Town Hall Teleforum Data [pdf and Word vers]
	APL producer focus group topline F
	Membership survey report, 2011
	Membership survey report, 2011 – raw data
Outputs/ technical	R&D project summaries - available at http://www.australianpork.com.au/pages/page31.asp
	Marketing reports - available at http://www.australianpork.com.au/pages/page32.asp
	PorkSAFE fact sheets and producer alerts - available at http://www.australianpork.com.au/pages/page216.asp
	Policy submissions - available at http://www.australianpork.com.au/pages/page98.asp
	Companion Guide to the Model Code of Practice for the Welfare of Pigs (3rd edition, 2007) - available at http://www.australianpork.com.au/pages/page174.asp
	National Environmental Guidelines for Piggeries 2010 - available at http://www.australianpork.com.au/pages/page206.asp
	Australian Pig Annual (2006-08, December 2009 Supplement) - available at http://www.australianpork.com.au/pages/page149.asp
	Media releases 2007-2010 - available at http://www.australianpork.com.au/pages/page11.asp
	PorkSAFE Continuity Plan [file name PBCP_FinalDraft_020211]
Other docs	E-mails between APL and DAFF re perf rev

CATEGORY	DOCUMENT
	Board members and GM listing 301110
	Staff phone list as at 21Feb11
	20 10 09 Final Signed APL Report Project Mgt Review
	APL IA Report (Updated) - Marketing Budgeting Review Final 27 10 10
	APL Org Chart February 2011
	As Presentation RDC Bus Mgrs Mtg 9-10
	Three year review briefing notes from EM
	Membership at 180211 [spreadsheet]
R&I	20 10 09 Final Signed APL Report Project Mgt Review
	APL Cost benefit analysis APL ex post 2009 3 Dec 2009
	APL Ex post CBA 2010 20 Sept 2010 Final
	APL SG 5 Welfare Appendix I SG5 Priority Research Area Budget Priority Rating Justification and Budget Feb 2011
	APL SG 5 Welfare Appendix II SG5 Animal Welfare Policy Projects
	APL SG 5 Welfare Appendix III Welfare Priority Decision Tree
	APL SG 5 Welfare Appendix IV Risk Matrix SG5 Business Plan 2011 Final
	APL SG 5 Welfare Appendix V Ex ante analyses SG5 Feb 2011 v1
	APL SG 5 Welfare Business Plan February 2011 Final
	SG 5 Environment APL Specialist Group 5 Environment Business Plan 11-12 final
	SG 5 Environment Ex ante CBA 2011-12
	R&D Advisory Committee meeting to determine the draft R&D budget for 2011/2012: Board paper for meeting 19 May 2011 by Darryl D'Souza and Robert van Barneveld
	2011-12 R&D Projects by SG with RDAC Comments Appendix 2 April 2011
	2011-12 Supported R&D Projects by CO Strategy Program AOP Projects Appendix 3 April 2011
	RDC collaboration and leverage numbers FYI . Information compiled for the PC [Productivity Commission] (e-mail)
Marketing	Consumption of Pork in the Australian Foodservice Market, BIS Foodservice Omnibus, May 2010
	Advertising Performance Evaluation: Board paper for meeting 17 Feb 2011 by Peter Haydon [NB wrongly dated]
	April Event: Board paper for meeting 17 Feb 2011 by Peter Haydon
	Nielsen share of trade spreadsheet 3 Mar 2011
	Liam Silk - summer campaign forecast spreadsheet [undated - 2008?]
	Summer campaign evaluation [undated - early 2010?]
	Series of evaluations, attached to e-mail dated 22/6/10 from Steven Miller to Peter Haydon

CATEGORY	DOCUMENT
Comms	Media analysis report 1 July - 31 December 2010
	Media analysis report 1 January - 30 June 2010
External documents	Safeguards Inquiry into the Import of Pigmeat. Productivity Commission Inquiry Report. No. 44, 31 March 2008

Appendix 2: Survey questionnaire

The following questionnaire was open between 17 March and 8 May 2011 on the web site 'Survey Monkey'.

The questionnaire also formed the basis for one-on-one consultations, although the questions were adapted to the interviewees.

1. Welcome

Welcome to the Australian Pork Limited Performance Review survey.

The survey aims to gather feedback on the performance of APL in providing value for the financial contributions of members and Government. You can choose to make your responses anonymous and only collated results will be presented in reports and briefings. You will not be individually identifiable.

The survey takes approximately 10 minutes to complete and you will have the chance to provide your own comments / feedback.

Please click on the 'Next' button below to start.

2. About you

It will help us to analyse the survey results if we understand a little about your background. This information will not be used to identify you unless you choose to give your name. Even if you do provide your name, we will not identify you in the report.

1. Please provide your name (OPTIONAL)

2. Please indicate your role in the pig industry: (You may tick more than one option)

- Pigmeat producer
- Contract grower
- Stud breeder
- Part of a peak body or state farmer organisation
- Processor
- APL Director
- APL staff member
- Researcher in the pig industry
- Other service provider to the pig industry
- Government officer

- Other (please specify)

3. Are you a member of APL?

- Yes, a Full Member
- Yes, an Associate Producer Member
- Yes, an Associate Corporate Member
- No, not a Member

4. If you are a pig producer, please indicate the state in which you mainly conduct your business:

ACT	NSW	NT	Qld	SA	Tas	Vic	WA
-----	-----	----	-----	----	-----	-----	----

5. If you are a pig producer with breeding sows, please indicate the size of your herd (sow numbers)

3. Value and performance

The following questions seek your views on the value offered by APL to your business and to the industry, and on the performance of APL across a range of areas.

1. Using the ranking system below, please indicate how familiar you are with APL's activities in each of the following areas:

	I know nothing about APL's activities	I know a little about APL's activities	I have a reasonable understanding of APL's activities	I have quite a good understanding of APL's activities	I understand APL's activities very well
Building consumer demand					
Improving viability and productivity of farms					
Increasing efficiency of pigmeat value chains					
Managing industry issues such as trade, labelling, crisis emergency planning and management, biosecurity, animal welfare regulations, environmental sustainability?					
Building networks, connecting the industry and community relations					

2. Please rate APL's performance in each of the following functions:

	Very poor	Quite poor	Average	Above average	Excellent
Building consumer demand					
Improving viability and productivity of farms					
Increasing efficiency of pigmeat value chains					
Managing industry issues such as trade, labelling, crisis emergency planning and management, biosecurity, animal welfare regulations, environmental sustainability?					
Building networks, connecting the industry and community relations					

3. How efficient do you think APL is as an organisation?

Very poor	Quite poor	Average	Above average	Excellent
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Comments:

4. How do you rate the value for money provided by APL?

Very poor	Quite poor	Average	Above average	Excellent
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Comments:

4. Membership and reporting

This section looks specifically at how APL manages its membership base, including its communications with members.

1. If you are a levy payer but not a member, why not? (You may tick more than one option)

- It's not worth the trouble
- I don't like APL
- It's not relevant for me
- I didn't know I could become a member
- I don't know what membership entails
- Other

Comments:

2. If you are a Member, how easy was it to become a Member?

Really difficult	Quite difficult	Average	Quite easy	Really easy	I am not a Member
------------------	-----------------	---------	------------	-------------	-------------------

Comments:

3. How do you currently receive information from APL? (You may tick more than one option)

- E-mail
- Fax
- Post
- Download from web site
- From Delegates
- Road shows and other producer meetings
- I don't receive information about APL

Comments:

4. How well does APL communicate with its stakeholders and levy payers?

Very poor	Quite poor	Average	Above average	Excellent
-----------	------------	---------	---------------	-----------

Comments:

5. How do you think APL could improve its communication with producers?

6. How well do you feel APL addresses the issues and concerns of producers?

Very poor	Quite poor	Average	Above average	Excellent
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Comments:

5. Other views

This section seeks your views on any other matters not covered above.

1. What are the main areas in which you think APL needs to improve?
2. Are there specific areas where you believe that APL should be increasing its effort?
3. Are there specific areas where you believe that APL should be decreasing its effort?
4. Are there any other comments that you would like to make that are pertinent to the performance of APL?

Appendix 3: Results of survey

This section provides additional detail on the stakeholder survey to supplement the key findings presented in the body of the report.

The survey was closed on 8 May with 99 responses.

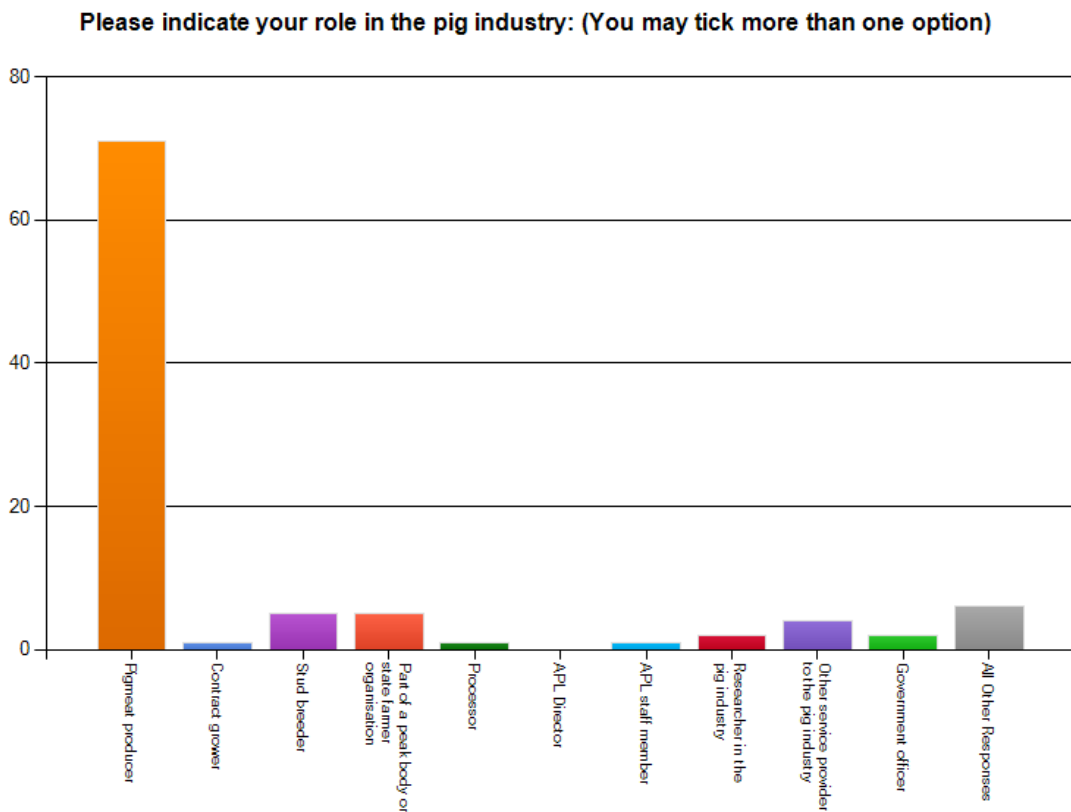
Except where indicated below, the responses of staff have been filtered out, as staff contributed a significant number (18) of the responses. (Note: one staff member has remained in the data set, because he/she also is also a researcher.) Staff results are reported separately where these are of particular interest.

Responses to questions

Q2.1 Name

35 of 99 respondents provided their names.

Q2.2 Role in the pig industry



71 of the respondents were pigmeat producers. As indicated above, 18 of the respondents were staff members of APL. The six respondents who indicated 'Other' as their role described themselves as

'training provider', 'ag college', 'farrow to finish', 'delegate and retired producer', 'livestock interest' and 'pork sales'.

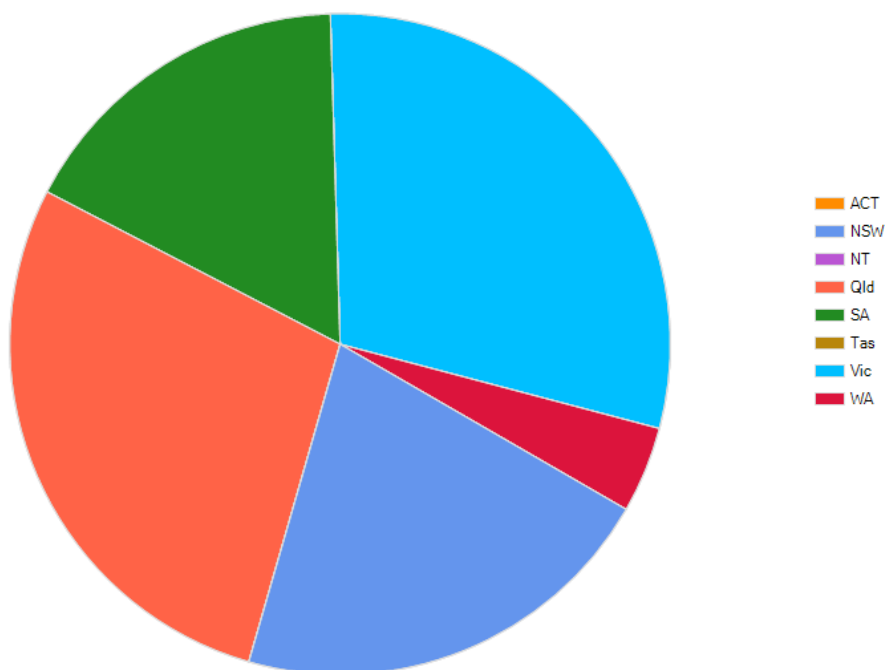
Q2.3 Membership

Of the non-staff respondents:

- 64 were members;
- 6 were associate producer members;
- 2 were associate corporate members;
- 4 were non-members (2 government officers, one researcher and one retired producer / delegate).

Q2.4 Business location (producers)

If you are a pig producer, please indicate the state in which you mainly conduct your business:



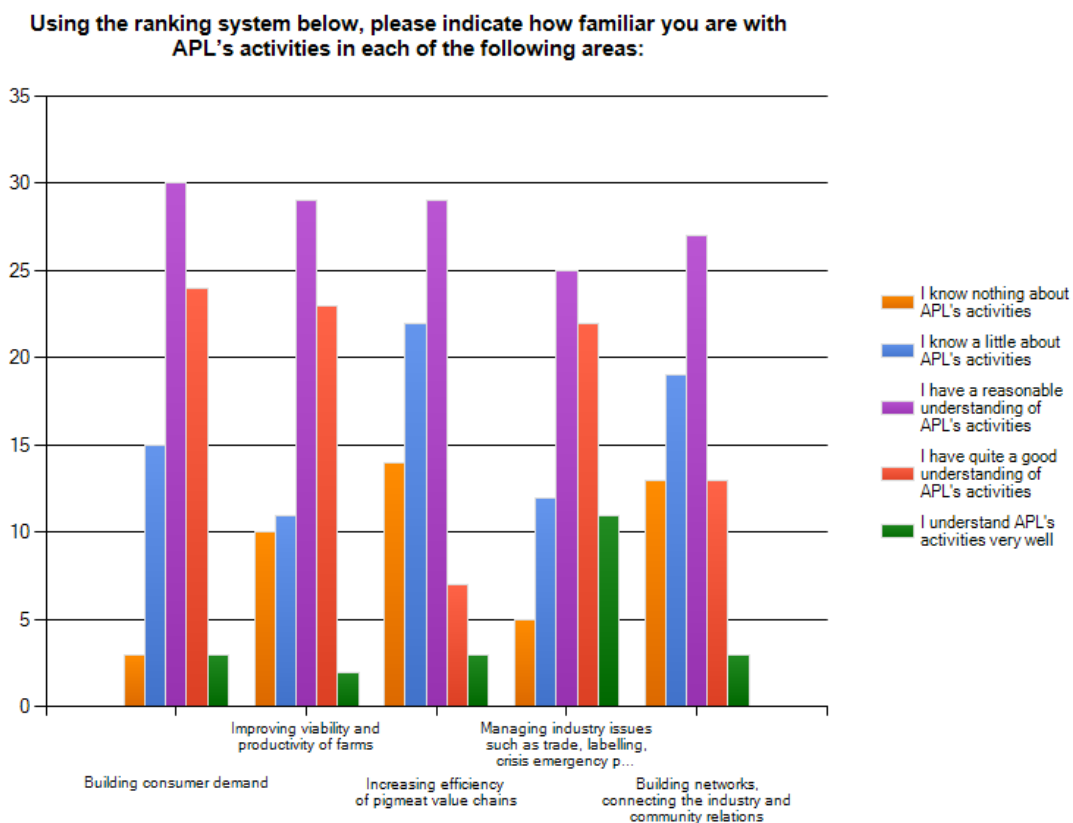
Q2.5 Size of herd (producers)

Distribution of respondents by herd size was as follows:

No. sows	No. respondents
<100	12
100-299	17
300-999	20
1000-4999	13
>=5000	7
Total	69

(Note: the '69' figure does not quite match the '71' reported above. Some producers did not report their herd size.)

Q3.1 Familiarity with APL activities



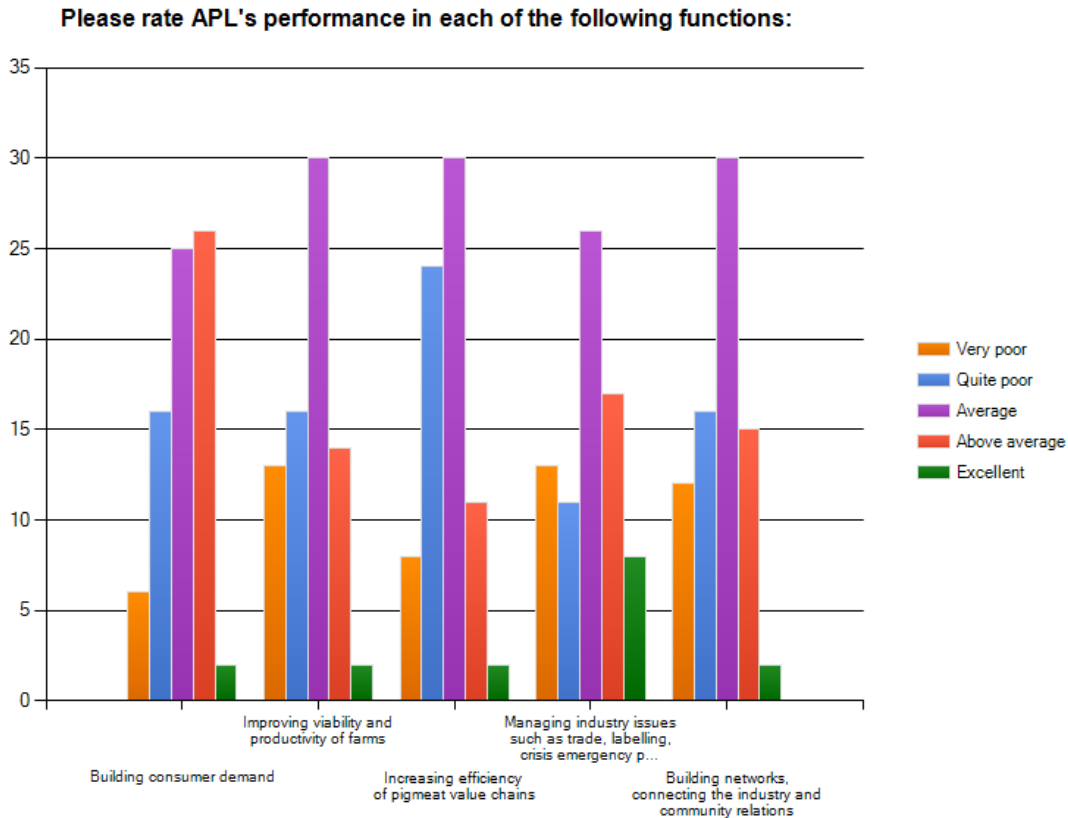
Most people responding to the survey claimed to have at least a reasonable understanding of APL's activities. In order of decreasing familiarity:

- 'Managing industry issues'
- 'Building consumer demand'
- 'Improving viability and productivity of farms'

- 'Building networks'
- 'Increasing efficiency of pigmeat value chains'.

The results are probably not surprising given the high profile of certain issues (such as sow stalls) during the review period and the visibility of much of the consumer demand activity.

Q3.2 APL performance

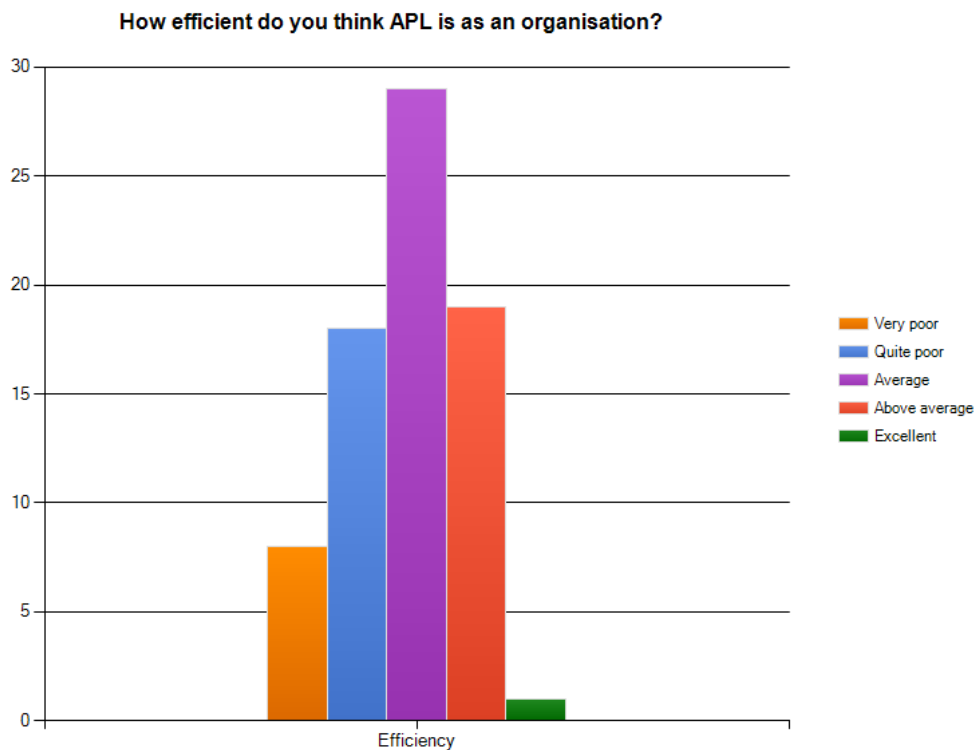


On a strictly mathematical basis, grading the scores from 1-5, each of the five areas received a slightly negative ranking on average. In order of decreasing satisfaction:

- 'Building consumer demand'
- 'Managing industry issues'
- 'Building networks'
- 'Improving viability and productivity of farms'
- 'Increasing efficiency of pigmeat value chains'.

Interestingly, the staff who responded to the survey ranked these five areas in the same order as outsiders (with the exception that 'industry issues' was slightly ahead of 'consumer demand'). Across all areas, though, staff rated the performance of the organisation significantly higher than other respondents, averaging 3.6-4.3.

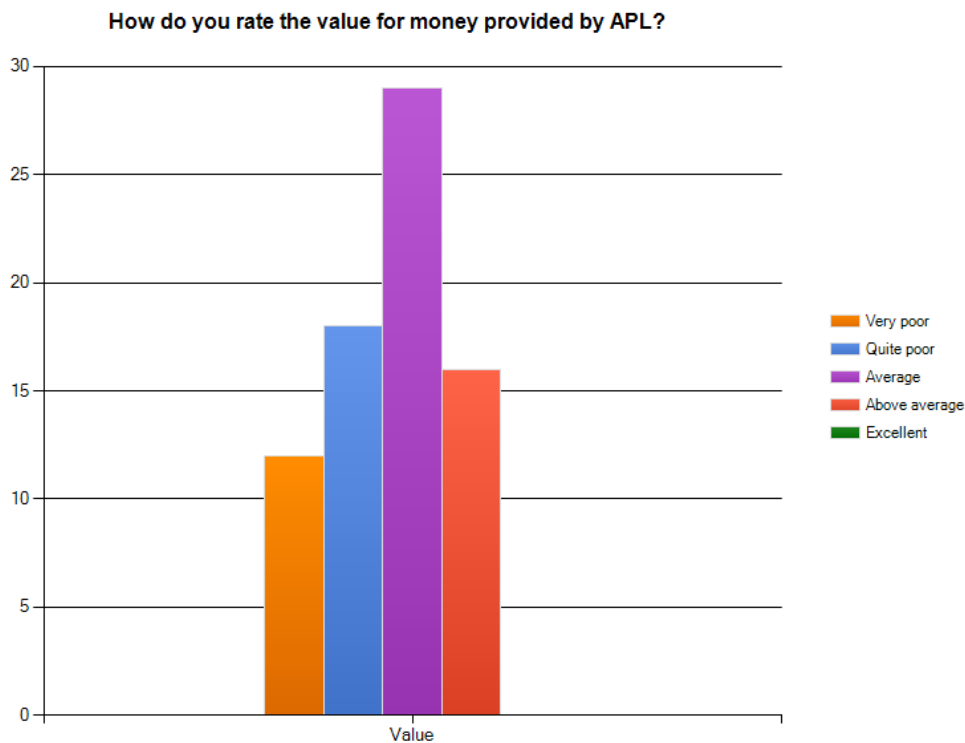
Q3.3 APL efficiency



Again, the results are skewed slightly below 'average'. There were 17 comments made, most negative, concerning APL favouring large over small producers; excessive bureaucracy / being out of touch; authoritarian behaviour / inadequate consultation (sow stalls); poor project management and efficiency; and the poor state of the industry generally. On the other hand, one respondent commented that APL was improving every year and nearing an 'above average' listing.

The staff who responded to the survey rated APL's efficiency as 4, i.e. above average.

Q3.4 Value for money



Again, the results are skewed to the negative (score approx 2.7). There were 15 comments which fell into similar themes as those described for Q3.3.

Q4.1 Why not a member?

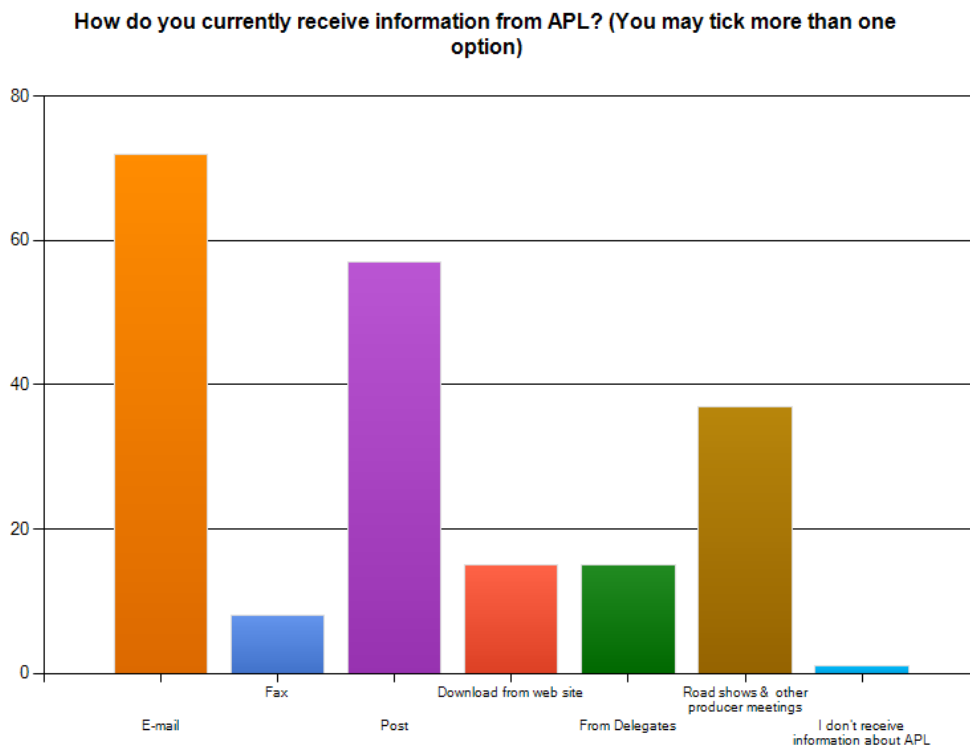
There were only three responses to this question apart from 'Not relevant', and two of those should not have answered as both were members. The one valid response was against 'I don't like APL'.

Q4.2 How easy to become a member?



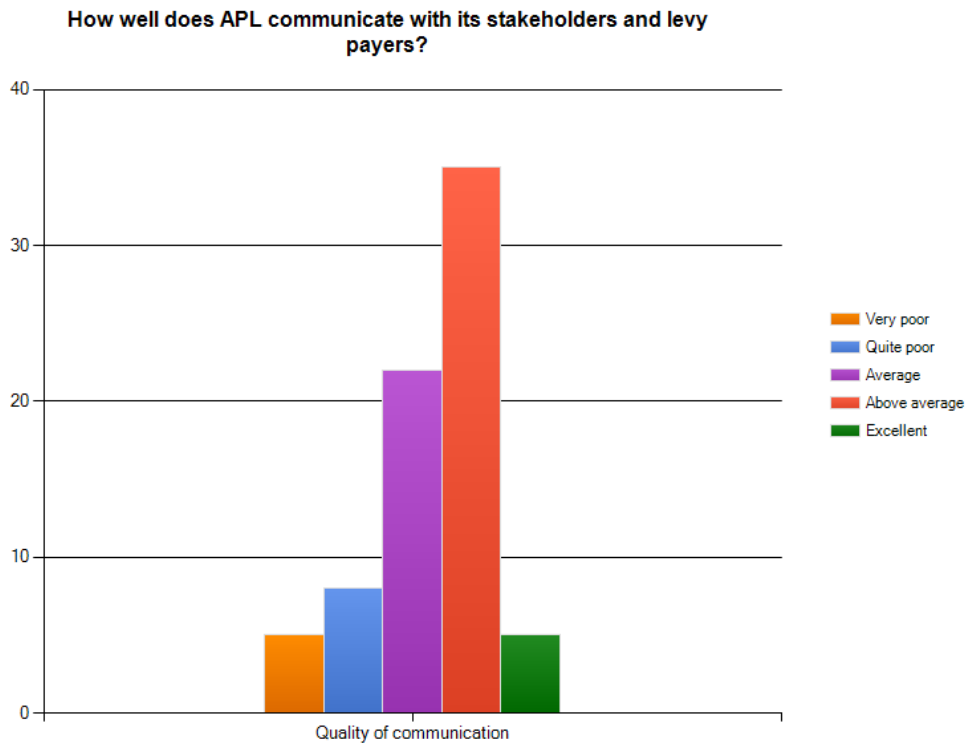
In general, people respondents seem to have had few problems with the membership application process. There were five comments, four of which referred to the process as confusing, difficult (the need for a JP to sign the levy declaration) or slow.

Q4.3 How information received from APL



There is little to say about this chart except to note the relatively low number who say they receive information from road shows and other producer meetings – 50% of respondents. Six comments were received and these were evenly balanced between the positive (prompt alerts about diseases and ‘animal lib security risks’) and negative (‘1 road show in 10 years’, ‘Lots of duplication’).

Q4.4 How well APL communicates

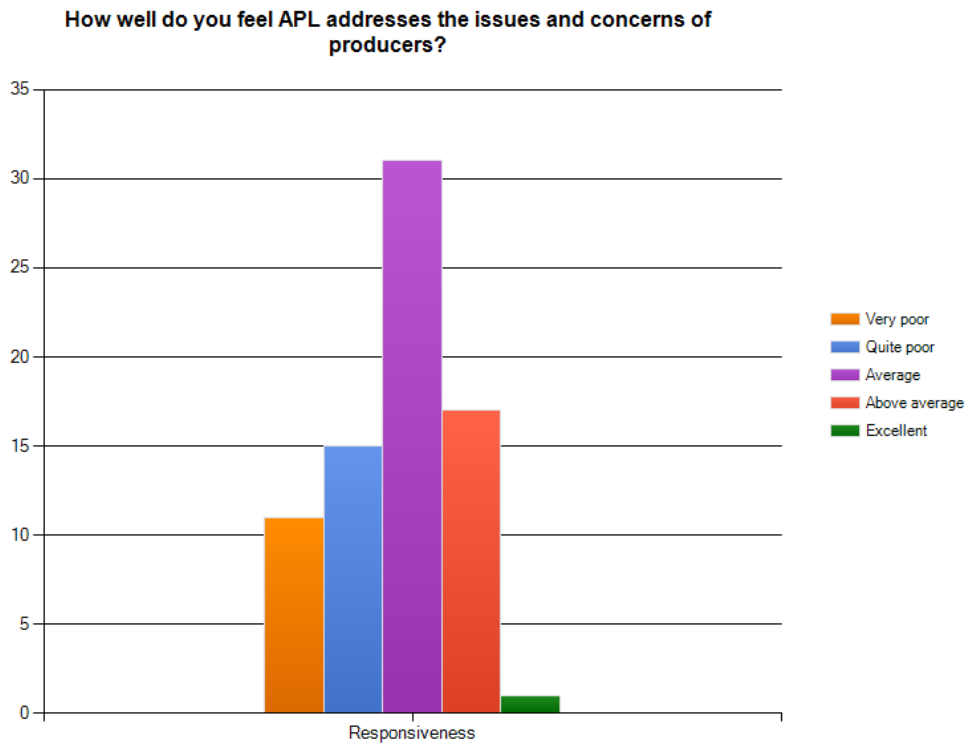


The response to this question would appear to be very positive, especially considering the other responses in the survey. There were 12 comments, suggesting that APL's 'consultation' is one-way; that roadshows are not always timed well; and that information is sometimes inaccurate. On the other hand, APL was praised for its regularity of communications; its handling of tough issues; and the quality of its communications considering the geographic spread of producers.

Q4.5 How to improve communications

There were 27 responses to this question, but no consistent messages. Some wanted more farm or face-to-face visits; others wanted more regular e-mail contact; a few expressed the view (again) that smaller producers are not listened to; and a number simply expressed support or condemnation for current efforts.

Q4.6 How well APL addresses concerns of producers



The general sentiment of responses to this question is slightly on the negative side (approx 2.8). There were 12 comments, and these were generally negative, again referring to APL favouring larger members, with several referring to poor marketing and failure to deal with imports.

Q5.1 Main areas to improve

Q5.2 Need to increase effort

Q5.3 Need to decrease effort

Q5.4 Any other comments

The comments provided in these four sections are considered together as there was considerable overlap between them. Most comments were negative but there were some in support of APL and in particular its communications.

Grouping the comments into themes, we find the following emerging, in broad order of decreasing prominence:

- Efficiency and organisational orientation: including a focus on the corporate farms and failing to look after smaller producers. Several comments were made on lack of efficiency, excessive staffing, bureaucracy and being isolated from the grassroots in Canberra.

-
- Marketing: general desire to see increased effort (although generic marketing was also criticised) and particular comments on promoting free-range pork. There were some criticisms that the 'Pork on your fork' ads are offensive.
 - Better labelling of product: in relation to country of origin and for recognition of free-range pork.
 - 'Rolling over' to the welfare lobby (although some were supportive of APL's stance).
 - APIQ: poor management, excessive costs.
 - R&D duplication, irrelevance and an observation that most meaningful research is better conducted by large private companies.
 - Communication: providing better targeted information (although several comments were complimentary of APL in this regard).

Observations

The results of the survey hover generally around the 'average' to slightly 'below average'. However we need to be careful in our interpretation, because a survey such as this will tend to attract those with a complaint. People who are generally happy with a situation are less likely to feel the need to make a noise.

In that sense, the relatively low response rate could actually be encouraging for APL. We believe there were plenty of opportunities for people to participate in the survey. The low response might either indicate general satisfaction with APL or a feeling that there is little point responding to the survey.

On the other hand, we must look for valid grievances. Notwithstanding the above caveats, a few themes emerge from the responses and are worth noting:

1. There is a perception among some stakeholders at least that small producers are overlooked in favour of larger ones. As expected, it is generally the smaller herd owners who have made this observation.
2. There are criticisms of excessive bureaucracy, overstaffing, 'ivory tower' mentality, failure to speak to producers where they live. This is a common complaint among levy payers of all RDCs. To some extent it may reflect a lack of awareness of the constraints under which APL operates (e.g. the reality that not all producers can be visited personally by staff).
3. Marketing (and to a lesser extent R&D) receive some criticism – again, this is not surprising, as neither area is likely to satisfy every member of a broad constituent base because of their different needs and values.

-
4. Some producers are clearly unhappy with APL's perceived 'soft' stance on welfare and 'green' issues – although others are supportive. Again, with a diversity of views among stakeholders it is inevitable that there will be a range of reactions to recent events.
 5. Communication seems to be seen as a strong point. Only a minority of respondents rated APL's communications as below 'average'.

Appendix 4: Stakeholders consulted

Approximately 40 individuals from the following organisations or stakeholder groups were personally consulted during the conduct of this review:

- APL directors;
- APL senior managers and staff;
- APL delegates;
- APL members and other levy payers;
- R&D Specialist Group members;
- DAFF – R&D Policy & Governance, Research and Development and Food Security; Livestock Industries and Animal Welfare Branch, Agricultural Productivity; Levies Revenue Service;
- CRC for an Internationally Competitive Australian Pork Industry (Pork CRC);
- Research providers;
- Animal Health Australia; and
- Council of Rural Research Development Corporations.

In addition to the above, there were 99 responses to the online survey.

Appendix 5: Obligations of APL under the SFA: summary table of performance

CLAUSE AND REQUIREMENT	STATUS
3. Constitution	
3.2 Notify the Commonwealth of any proposed motion to change the Constitution	Obligation not invoked during the review period.
4. Payment of Levy Funds and Matching Funds	
4.5 Give the Commonwealth a tax invoice in relation to any taxable supply by the Company to the Commonwealth	Fully satisfied. Ongoing requirement.
4.6 Pay the Commonwealth if invoiced for expenses incurred in collection, recovery, etc of the R&D levy	Fully satisfied on a monthly basis.
5. Application of the Funds	
5.1 Spend the Funds only on Approved Activities, and in a manner consistent with strategic plan, operating plan and the Guidelines	Fully satisfied ² . Financial audits sighted.
5.3, 5.4 Not spend the Funds on Agri-political Activity; if any doubt, Chair to consult the Minister or a representative	Fully satisfied. Financial audits sighted and other checks made. Requirement to consult with the Minister not invoked during the review period.
5.5 Not spend Funds on payments to Industry representative bodies [NB: does not preclude membership fees]	Fully satisfied. Financial audits sighted.
6. Funds bank account	
6.1 Funds management: - hold only the Funds in the account - notify the Commonwealth of the account details - establish and maintain accounting systems, procedures and controls to ensure appropriate use of Funds - notify the Commonwealth of details of the above - keep complete and detailed accounts of receipt, use and expenditure of the Funds - keep accounts and records separately in relation to marketing, R&D, matching and Adjustment Payments and Transferred Funds - keep accounts and records in relation to the Funds identifiably separate from other accounts and records.	Fully satisfied. Financial audits sighted.
6.2 Use interest earned in accordance with the Agreement	Fully satisfied. Financial audits sighted.

² While we note the Chair's comment in his covering letters to the audits as sent to the Minister that '*...Australian Pork Limited disclaims any assumption of responsibility for any reliance on this report to any person other than the Commonwealth, or for any purpose other than for which the report was prepared*', SED assumes that it can rely on the veracity of the audits and their findings as an input to this performance review.

CLAUSE AND REQUIREMENT	STATUS
7. Use of Transferred Assets and Liabilities	
7.1 Spend the Transferred Assets and Liabilities only on Approved Activities, and in a manner consistent with strategic plan, operating plan and the Guidelines	Fully satisfied although ceased to be relevant during the review period (financial audits sighted).
7.2, 7.3 Not spend the Transferred Assets and Liabilities on Agri-political Activity; if any doubt, Chair to consult the Minister or a representative	Fully satisfied although ceased to be relevant during the review period (financial audits sighted).
7.4 Not destroy or otherwise dispose of Statutory Authority Records which are part of the Transferred Assets and Liabilities without prior approval of the Commonwealth	Fully satisfied although ceased to be relevant during the review period (financial audits sighted).
8. Strategic and operational plans	
8.1 Develop a written strategic plan covering a rolling three-year period within four months of commencement date, review and update at least annually, make generally available to Levy Payers	Fully satisfied. Plans are for a rolling five-year period, which is now the industry standard, and have been reviewed and updated annually.
8.2 Strategic plan to cover vision / mission; objectives and priorities; assessment of operating environment including current and future trends and implications; views of stakeholders and clients; corporate governance statement; strategies; proposed outcomes, outputs and strategies aligned with Company objects, including outcomes in broad industry and community benefit; performance indicators; Government R&D funding policy, direction and priorities; and broad resource allocation including split between R&D, marketing and other activities	Fully satisfied. Note comments on the large improvement between the 2005/10 and 2010/15 strategic plans in respect to clarity of core objectives, strategies and industry outcomes. Some possible improvements are suggested.
8.3 In developing the strategic plan, use reasonable endeavours to consult with Levy Payers; take into account Government's broad R&D priorities and the Guidelines; adopt best business practice including the relevant Australian Standards	Fully satisfied. Evidence was obtained of extensive and appropriate consultation and plans show linkages to Government priorities. We could not find relevant Australian Standards but believe business practices closely approximate best practice.

CLAUSE AND REQUIREMENT	STATUS
8.4 Each year develop an operating plan that covers intended operations of Company for the next 12 months; marketing, R&D and strategic policy development programs; statement of how these align with objectives of strategic plan and Government R&D priorities; performance indicators, timetables and milestones related to proposed activities and expenditure; and estimates of income and expenditure, including amounts likely to be spent in each area, indirect costs including apportionment of corporate service costs; potential amount of qualifying R&D Expenditure and 3-year forward estimates; and any other matters considered important by the directors	Fully satisfied. Note comments on improvement from 2007/08 and 2008/09 to 2009/10 and 2010/11 plans in respect to differentiation of Marketing, R&D and Policy expenditure; clarity of linkage to Government priorities; quality of situational context; and detail of objectives, industry outcomes, rationale, risks, key performance indicators and budget allocation between R&D and Marketing. Some possible improvements are suggested.
8.5 In preparing plans, take into account reporting requirements of Clause 10	Fully satisfied. The strategic and annual operating plans align with the annual reports, although the clarity of linkage was less apparent in the early annual reports; 2009/10 was a significant improvement. Some further improvements are suggested.
8.6 Submit all plans specified above or variations thereof to the Commonwealth within 7 days of adoption	Fully satisfied. Written confirmation received from APL; no concerns expressed by DAFF.
9. Other plans	
9.1 Within 6 months after Commencement Date develop and implement Risk Management, Fraud Control and Intellectual Property Management Plans	Fully satisfied. Plans were developed prior to the review period but updated during 2010 and provided to DAFF on endorsement by the Board in October.
10. Reports and meetings	

CLAUSE AND REQUIREMENT	STATUS
<p>10.1, Sch 7 Meet annual reporting requirements set out in Sch 7: comply with Corporations Law and cover receipt, use and expenditure of Funds and Transferred Assets and Liabilities, conduct of functions as Industry Services Body; significant activities and transactions; outcomes against objectives; extent of meeting milestones and performance indicators and reasons for not meeting; subsidiaries and joint ventures formed; material changes to membership; material variations to budgets; explanation of revision to plans; funds spent on each significant R&D and policy development activity and other industry issues; funds spent on each significant R&D and innovation activity and project allowing identification of expenditures of matching payments; agreements entered into re R&D, marketing and other activities; extent of contribution to Government R&D priorities and achievement of public benefits; details of collaboration with industry and research organisations; commercialisation; intellectual property creation and protection; and other material matters as notified by the Commonwealth. Provide 560 copies to Commonwealth within 7 days of finalisation</p>	<p>Fully satisfied. Note, however, the improvement from the 2008/09 to 2009/10 annual reports in clarity of linkage with strategic and annual operating plans. Some further improvements are suggested. Corporations Law requirements appear to have been met.</p>
<p>10.2 Report to the Commonwealth on 6-monthly basis re matters which may or will affect achievement of objectives or compliance with obligations</p>	<p>Fully satisfied. Written confirmation received from APL that any such matters have been covered in 6-monthly meetings if applicable; no concerns expressed by DAFF.</p>
<p>10.3 Provide to the Commonwealth any other report as requested within a reasonable time</p>	<p>Fully satisfied. DAFF reported that APL has responded promptly to requests.</p>
<p>10.4 Chair or CEO to meet the Minister or his or her authorised representative at not less than 6-monthly intervals, or at any other time requested by the Commonwealth on reasonable notice, re performance in performing Industry Services Body function and in delivery of the Government's broad priorities for Industry research and development and other matters</p>	<p>Fully satisfied. Meetings were held with the Minister on the following dates:</p> <ul style="list-style-type: none"> • 13 Dec 2007 • 24 Jul 2008 • 20 Jan 2009 • 3 Jun 2009 • 4 Dec 2009 • 2 Jun 2010 • 26 Oct 2010 • 12 May 2011
<p>10.5 Agree that annual reports may be provided to Parliament</p>	<p>Fully satisfied. Ongoing requirement.</p>

CLAUSE AND REQUIREMENT	STATUS
11. Review of performance	
11.1, 11.2 Provide all reasonable assistance requested by Commonwealth in respect to evaluation or enquiry re performance against obligations under Agreement	Obligation not invoked during the review period.
11.4, 11.5, 11.6 Engage an independent organisation to carry out a Performance Review every three years; provide a copy of the Review to the Commonwealth within 7 days of completion; make copies generally available to Levy Payers at next general meeting; make copies publicly available	Fully satisfied.
11.7 Assist Commonwealth if it conducts its own Performance Review	Obligation not invoked during the review period.
12. Access to records and use of information	
12.1, 12.2, 12.3 Permit and assist the Commonwealth to inspect premises and examine and copy accounts records related to the Agreement; make personnel available to answer questions	Obligation not invoked during the review period.
12.4 Use Confidential Information provided by the Commonwealth only to administer or enforce the Agreement, not disclose the Confidential Information	Fully satisfied. Ongoing requirement.
12.6 Agree that material related to third party obligations and commercially sensitive material may be Confidential Information and notify the Commonwealth accordingly	Fully satisfied. Ongoing requirement.
12.7 Grant the Commonwealth a licence to use Intellectual Property in any document subject to 12.4 and 12.5	Fully satisfied. Ongoing requirement.
12.8 Agree to assist with reasonable arrangements for access to Statutory Authority Records as required	Fully satisfied. Ongoing requirement.
13. Audit	
13.1 Auditor to report on compliance with obligations under the Agreement with respect to Funds	Fully satisfied. Audit reports sighted.
13.2 Give the Commonwealth a copy of the auditor's report within 7 days of receipt	Generally not satisfied. Auditors' reports were submitted between 8 and 40 days after receipt during the review period.
13.4, 13.5 If audit requested by the Commonwealth, obtain the report or opinion of last auditor or engage another auditor and provide to the Commonwealth within 1 day of completion; pay for this if Company found to be in breach of Agreement	Obligation not invoked during the review period.

CLAUSE AND REQUIREMENT	STATUS
13.6 Establish an audit committee in accordance with best accounting practice	Fully satisfied. Audit, risk and corporate governance committee is constituted and managed in a manner consistent with ASX-recommended best practice.
14. Indemnity	
14 Indemnify Commonwealth, its officers and agents against breach of Agreement or loss or damage of property etc	Fully satisfied. Ongoing requirement.
16. Termination and recovery	
16.2 Repay Funds or Transferred Assets and Liabilities used or expended not in accordance with the Agreement	Obligation not invoked during the review period.
16.4 Acknowledge that the Commonwealth may revoke Industry Services Body status at any time	Fully satisfied. Ongoing requirement.
16.5, 16.6, 16.8 Repay Funds or Transferred Assets and Liabilities if Industry Services Body status revoked	Obligation not invoked during the review period.
17. Conflict of interest	
17.1 Warrant that no conflict exists at date of Agreement	Not relevant to the review period.
17.2 Notify Minister of any conflict of interest arising or risk thereof	Obligation not invoked during the review period.
18. Acknowledgment of funding	
18 Ensure that all significant publications and publicity in regard to use of Matching Funds acknowledge the Matching Funds in approved form	Fully satisfied. Numerous examples of publications and publicity sighted, all conforming.
22. Resolution of disputes	
22.1 Seek to resolve disputes before commencing legal action	Obligation not invoked during the review period.
22.2 Continue to perform obligations in event of legal action	Obligation not invoked during the review period.
23. Assignment	
23 Do not assign agreement	Fully satisfied.
29. Notice	
29 Provide notices as specified	Obligation not invoked during the review period.