



Performance review 2016

Australian Egg Corporation Limited

Final Report

July 2016

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Report statement

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 AECL and Commonwealth Government documents, interviews with stakeholders including AECL directors and management, DAWR staff and the results of surveys with Australian Egg producers and industry representatives. Neither SED, 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.

Acknowledgements

This report was prepared by SED Advisory and we wish to acknowledge and thank the many people who contributed to its preparation. In particular we thank James Kellaway and Sue Hardwick at AECL who ensured that we were promptly provided with any information we required from the organisation. We are also grateful for the cooperation of AECL Board members, other AECL management and staff of DAWR, as well as the many producers and other industry members who gave valuable input to this review.

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1. Executive summary

1.1 Methodology

This report summarises the four-year statutory performance review undertaken for Australian Egg Corporation Limited (AECL) by SED Advisory. As required under AECL's Statutory Funding Agreement (SFA) with the Commonwealth Government, this performance review has assessed the effectiveness and efficiency of AECL in carrying out its obligations to stakeholders, including levy payers, members and Government.

This review of AECL's performance, from the period of the new SFA signed in October 2012 to December 2015, seeks to provide a practical and balanced assessment of the company from a whole of organisation governance perspective. That is, the organisation's performance from the dual perspectives of those stakeholders that stand to benefit from the activities of the organisation and also those who regulate and monitor its activities on behalf of these beneficiaries. In addition, it has also sought to identify areas which may assist AECL to continuously improve its performance. By using this perspective, the assessment of activities carried out by the organisation is aligned to its overall purpose.

The methodology for the review comprised the mapping of the governance requirements of the organisation (Figure 1), identifying the key information to assess the appropriateness of delivering to stakeholder needs and the effectiveness of the delivery of these services. This was assessed using five distinct perspectives:

- a. **Documentation:** A desktop review of over 40 documents relating to AECL's performance;
- b. **Beneficiary stakeholders:** Assessment of an extensive independent on-line survey of stakeholders conducted by Effective Governance Pty Ltd in May 2016 which was extensively promoted to members, containing responses from 64 egg producers representing 50% of Australia's layer flock;
- c. **Regulatory stakeholders:** Meeting with officers of the Department of Agriculture and Water Resources and follow-up desktop review of documentation;
- d. **Performance effectiveness:** Face-to-face or telephone interviews with stakeholders, including AECL directors and staff and associated documentation regarding correspondence with members and producers; and
- e. **Analysis:** Desktop review of documentation and undertake a gap analysis of performance to best practice governance principles in the preparation of this report.

This review has been previously issued in draft form v2 to representatives of both AECL and DAWR to ensure factual accuracy. This report v3 has considered and incorporated, where deemed appropriate by SED, all amendments and is issued as a final report.

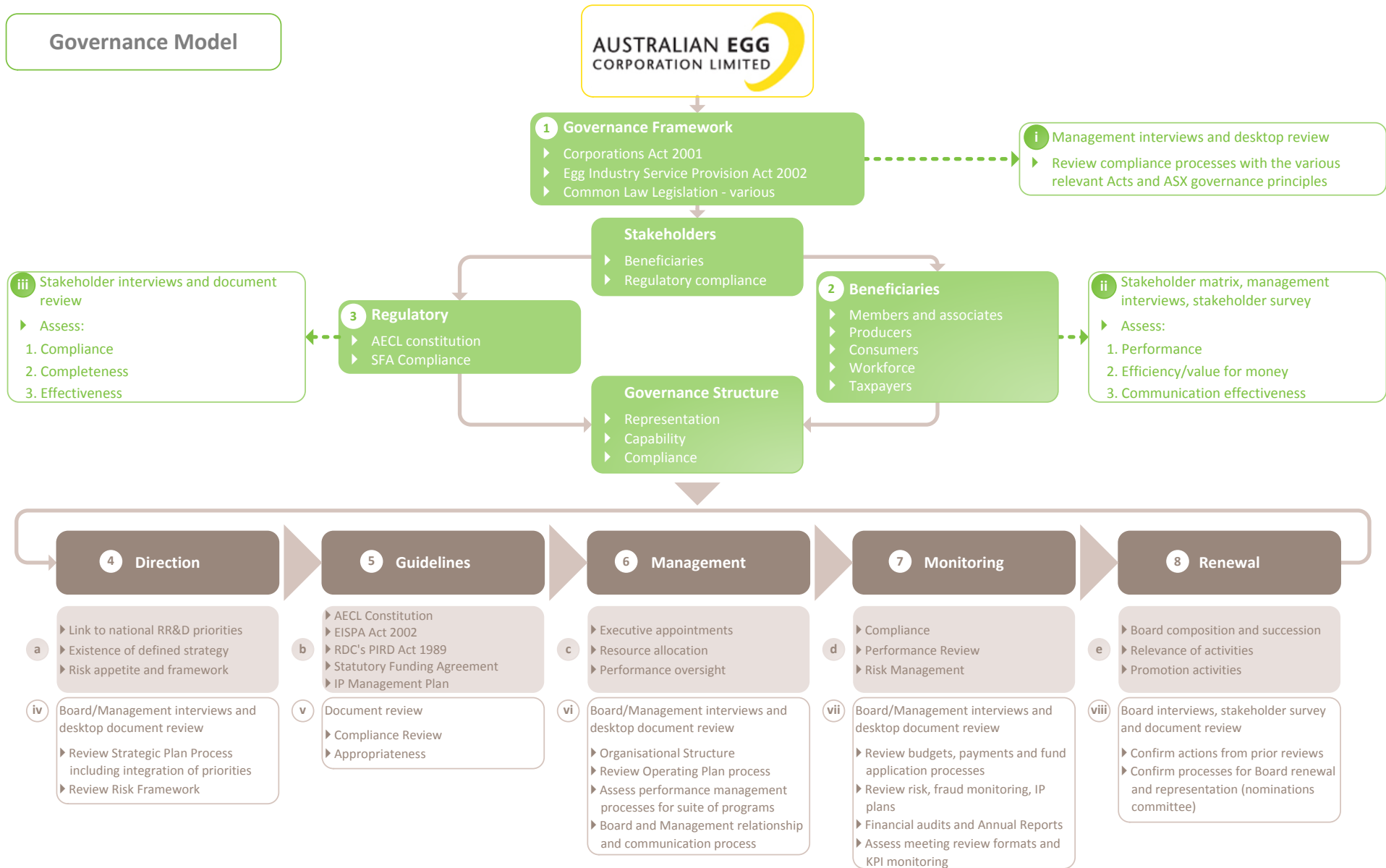


Figure 1 – Governance model

1.2 Recommendations arising from the review

AECL is a well-structured and managed organisation that has implemented recommended improvements from previous reviews and also delivered efficient and cost effective promotion of eggs and R&D for the benefit of the Australian egg industry.

Stakeholder feedback confirms a general consensus that the AECL has discharged its responsibilities in an effective and professional manner. This is supported by external evaluation of AECL's R&D investments, which indicates that projects are considered relevant and generating benefits for levy payers and the Australian community.

It is noted for completeness, that notwithstanding the 2015 action brought against the AECL and three directors by the Australian Competition and Consumer Commission (ACCC) in relation to whether or not there was 'an attempt to induce a cartel' has been determined by Justice White, with no activity proved; his decision is subject to an appeal by the ACCC and hence remains a matter to be determined before the courts. As such, SED makes no further assessment or comment except to identify potential improvements to governance processes as a result of this.

In terms of delivering for stakeholders, an effective organisation is one that continues to pursue strategic industry needs and new opportunities, thus often challenging historically defined boundaries and creating new exposure to risk. This governance mindset is to be encouraged, so as to continue to deliver for stakeholders, but it must be framed in a robust strategic risk framework.

Recommendations articulated throughout this report, and summarised in the table below, should be considered in the context of performance improvement, rather than as a reflection of any inherent weaknesses in the organisation. The recommendations are framed within the governance model that was adopted for this review.

Governance Element	Summary Comments	Recommendations
1 Governance Framework	<p>Process <i>Review via management interviews and desktop review</i></p> <ul style="list-style-type: none"> Compliance processes with relevant Acts and ASX governance principles Corporations Act 2001 Egg Industry Service Provision Act 2002 Common law legislation <p>Review comment Compliant with sound processes</p>	<p>1.1 Review recently restructured Audit & Risk committee terms of reference in line with recommended three lines of defence risk model (appendix 10.6.1)</p> <p>1.2 Incorporate strategic risk areas into regular Board reporting</p>
2 Beneficiaries	<p>Process <i>Stakeholder matrix assessment, management interviews and stakeholder survey</i></p> <p>Assessment of:</p> <ol style="list-style-type: none"> Performance Efficiency/value for money Communication effectiveness <p>Review comment Appropriate engagement of stakeholders</p>	<p>2.1 Focus some future communications to levy payers on education of the role of AECL to better manage expectations</p>
3 Regulatory	<p>Process <i>Stakeholder interviews and document reviews</i></p> <p>Assessment of:</p> <ol style="list-style-type: none"> Compliance Completeness Effectiveness <p>Review comment Operationally sound. Advocacy in the governance role is of ongoing concern</p> <p>Review Strong compliance</p>	<p>3.1 Actively work with Government Continue to work on establishing a separate representative egg industry body (EFA). When resolved, reframe media communication strategy as per recommendation 2.1)</p> <p>3.2 Notwithstanding 3.1, to be effective AECL must at times make public statements, and should not refrain from all public comment. To mitigate potential for contention, AECL should obtain clarity as to what constitutes appropriate industry comment as opposed to Agri-political activity. This should be framed within clear guidelines and overseen by the Audit and Risk Committee</p>

Governance Element	Summary Comments	Recommendations
4 Direction	<p>Process <i>Board/Management interviews and desktop document review:</i></p> <ul style="list-style-type: none"> ▶ Review SP process including integration of priorities and Risk Framework. ▶ Link to national RR&D priorities. ▶ Existence of defined strategy. ▶ Risk appetite and framework. <p>Review comment Adherence to SFA and sound planning approach evident.</p>	<p>4.1 Strengthen the nexus between risk and strategy at Board level by adopting more formal risk appetite statement and adopting a priority assessment matrix that assesses risk in strategic decisions (appendix 10.6.2)</p> <p>4.2 Investigate options to complement the ROI model of performance measurement with an R&D measure for justification of investment</p> <p>4.3 Develop a clear position on the strategy of retained earnings, reserves and re-investment</p>
5 Guidelines	<p>Process <i>Desktop document compliance review:</i></p> <ul style="list-style-type: none"> ▶ AECL Constitution. ▶ EISPA Act 2002. ▶ RDCs PIRD Act 1989. ▶ Statutory Funding Agreement. ▶ IP Management Plan. <p>Review comment</p> <ul style="list-style-type: none"> ▶ SFA compliance & reporting is effective. ▶ Sound management practices through the secretarial function. 	<p>5.1 Investigate implementation of compliance/risk management software to systemise processes and provide controlled audit trails and reporting</p>
6 Management	<p>Process <i>Board/Management interviews and desktop document review:</i></p> <ul style="list-style-type: none"> ▶ Executive appointments & structure. ▶ Resource allocation and operating plan. ▶ Management performance oversight. ▶ Board/Mgt r/ship & communication. <p>Review comment Effective Board and management relationship with appropriate oversight.</p>	<p>6.1 Strengthen the alignment of PD's to the AOP with the use of individual scorecards</p>

Governance Element	Summary Comments	Recommendations
7 Monitoring	<p>Process <i>Board/Management interviews and desktop document review</i></p> <ul style="list-style-type: none"> ▶ Budgets, payments and fund application processes ▶ Review risk, fraud monitoring, IP plans ▶ Financial audits and annual reports ▶ Meeting format and KPI monitoring ▶ Compliance <p>Review comment Generally effective monitoring and thorough reporting</p>	<p>7.1 Implement more effective KPI monitoring to measure effectiveness in addition to the traditional activity measures (appendix 10.6.3)</p> <p>7.2 Develop exception reporting and dashboard reporting for the Board</p>
8 Renewal	<p>Process <i>Board interviews, stakeholder survey and document review</i></p> <ul style="list-style-type: none"> ▶ Board composition and succession ▶ Relevance of activities ▶ Confirm actions from prior reviews ▶ Board renewal and representation (nominations committee) <p>Review comment While processes are adequate, this function could be formalised and enhanced.</p>	<p>8.1 Formalise directors succession plan for the impending retirement of long term chairman</p> <p>8.2 Implement more formal Board renewal processes within best practice nominations committee guidelines</p> <p>8.3 Continue with independent Board assessment tri-annually and annual internal Board reviews using an agreed governance scorecard</p> <p>8.4 Pursue development and innovation initiatives to support renewal of established senior management</p>

2. Introduction

2.1 Purpose of the review

2.1.1 Overview

The Australian Egg Corporation Limited (AECL) is the rural Research and Development Corporation (RDC) that supports the egg industry throughout Australia. AECL's mandate is to provide research, development and extension services that improve the sustainability and efficiency of the sector.

Statutory industry levies are strategically invested in research and development and extension programs that are aligned to targeted marketing initiatives. These initiatives deliver a range of outcomes and benefits for the Australian egg industry and the broader Australian community.

The principal funding mechanism for the AECL is the Statutory Funding Agreement (SFA) between AECL and the Commonwealth of Australia, which sets out a series of responsibilities and obligations for both parties with regard to the statutory industry levy and the matching Commonwealth funding for research and development.

One such obligation is that AECL must commission an independent review of its performance six months prior to the expiry of the SFA.

Broadly, the performance review is required to establish how well AECL has met the expectations of the parties that fund it. These expectations are embodied in the SFA, the Government's Rural Research and Development (RR&D) priorities, the company's constitution and its strategic and operating plans. Performance against expectations is captured to varying degrees in company policies and procedures, annual reports, any independent and internal performance reviews and project / program assessments and, most importantly, in the tangible and intangible outcomes delivered to stakeholders. SED has not sought to replicate these various documents in this review; however we have referred to extracts from them as appropriate.

It is noted that the Australian Egg Corporation Limited is strongly committed to completing these reviews of the company's performance, activities and operations consistent with its SFA with the Commonwealth Government. Through the process it has been clear that it seeks to elicit ideas for organisational improvements, consistent with its attitude to continuous improvement.

2.1.2 Specific requirements

Specifically, the performance review was conducted in accordance with SFA clause 12, which takes into account:

- a. The performance of the Company in meeting its obligations under the SFA;
- b. The Company's development and implementation of its strategic, operating, risk management, fraud control and intellectual property management plans, and the Company's effectiveness in meeting priorities, targets and budgets set out in those plans;
- c. The efficiency with which the Company carried out those plans; and
- d. The delivery of benefits to the industry foreshadowed in those plans.

The review is commissioned, therefore, to identify AECL's effectiveness and efficiency in meeting the priorities set out in its strategic and annual operating plans, including the cost benefits to industry and government. This strategic and risk setting has formed the primary emphasis of this review, whilst also assessing:

- ▶ AECL's accountability and transparency to the government, levy payers and industry stakeholders;
- ▶ AECL's responsiveness to meeting its SFA obligations and the government's national and rural R&D priorities, development and implementing its plans, and the wider public good benefits of its investments;
- ▶ Consultation with key stakeholders on AECL's performance and value for money; and
- ▶ Stakeholders including government, levy payers and industry.

The review covers the period since the last review reported in May 2011, noting the new SFA came into force in October 2012. It includes assessment of data from each of the financial years 2011-2015 and also the previous AECL Performance Review for the period February 2007 to January 2011, which was completed by *AgEconPlus Consulting*.

2.2 Framework for review

The framework adopted by SED provided for thorough mapping of all key information so as to assess the appropriateness of delivering to AECL's stakeholder needs and the effectiveness of delivery of these services. It has also enabled context for recommended improvements to AECL's performance in delivering research, development, extension and marketing services.

To ensure completeness, the review was undertaken in three stages, as outlined in Figure 2:

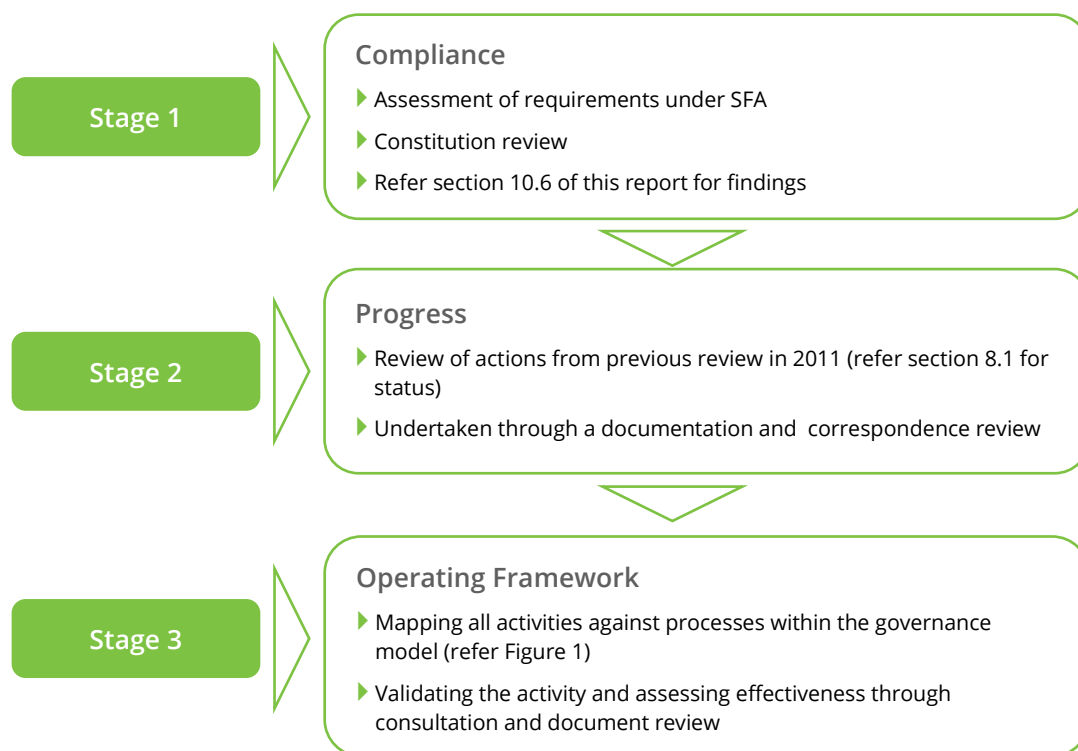


Figure 2 – Review framework

3. Overview of AECL

3.1 Role of AECL

The Australian Egg Corporation Limited (AECL) is an Industry Services Body (ISB) or provider of marketing and Research & Development (R&D) services. It is established for the benefit of all stakeholders, principally egg producers. AECL is primarily funded through statutory levies, collected under the Primary Industries (Excise) Levies Act 1999, and Australian Government funds for the purposes of 'approved' R&D. AECL has growing and significant responsibilities. In the most recent financial year, it managed total revenue of \$9.359M and invested in a total of 72 projects across its three operating pillars.

AECL is a public, non-listed company, was registered with the Australian Securities and Investments Commission (ASIC) on 18 November 2002 and commenced operations on 1 February 2003. The Act, the Statutory Funding Agreement (SFA) between AECL and the Australian Government and the company's constitution provide the framework for all AECL operations. AECL is one of 15 Rural Research and Development Corporations (RDCs).

AECL's charter is to service all known Australian egg producers irrespective of their size, location or farming system which distribute a wide variety of eggs and egg products to the local and international market. In addition to stakeholders which contribute financially to AECL, the company works cooperatively with supply chain partners and external service providers to achieve the objectives and strategies detailed in its strategic and annual operational plans.

AECL is not an industry representative body.

3.2 Legal framework

As noted above, the *Egg Industry Services Provision Act 2002*, AECL's constitution and the SFA provide a legal framework for AECL operations. AECL duties and responsibilities for management of levy funds are outlined in the SFA. The SFA helps to ensure effective corporate governance, diligence and oversight in fulfilling the corporation's duties. Clause 12 of the SFA clearly identifies the requirement for AECL to undertake a performance review six months before the expiry of the current agreement.

SED has undertaken this review in a broader context than the SFA, constitution and specific EISPA legislation to consider Corporations Law, generally accepted governance principles and other relevant legislation.

3.3 Statutory funding

As per the third SFA that AECL entered into with the Australian Government during October 2012, AECL must commission an independent performance review of AECL's performance, activities and operations. After which, it is envisaged that a new SFA will be negotiated with the Australian Government.

The SFA specifies the statutory levies collected under the Act and the matching funds from the Australian Government. These comprise compulsory levies per chick for promotion and R&D, with increments specified.

The requirements of all these components, along with AECL's performance delivery, are detailed in Appendix 10.6 of this report and discussed generally throughout.

3.4 Constitution

3.4.1 Review summary

AECL's constitution was last reviewed and updated in July 2007. This review followed AECL's first performance review and formed part of the negotiation of the new SFA at the time.

The review at the time concluded that AECL was:

- ▶ Properly constituted as a public non-listed company limited by guarantee;
- ▶ Changes to the constitution reflected the requirements of the SFA; and
- ▶ Reflected the amendment that was made to the way the AECL Board was elected, moving to elections on annual rotation and increasing aggregate remuneration to \$150k. This was considered appropriate and in line with RDC's of similar size.

As part of the consultation, SED did not identify requirements for further change to the constitution despite some ongoing concern that small producers feel under-represented. Ongoing application of good governance principles should mitigate instances or perception of parochial representative thinking, rather than the desired whole-of-stakeholder consideration of issues by the collective Board.

3.4.2 Assessment of compliance

For completeness, an assessment of compliance with the constitution is provided below, cross referenced to summarised clauses contained in the constitution.

Clause	Requirement	Status
1. 1.1 - 1.6	Preliminary Name, type, replacement rules definitions, interpretation, joint members.	This is principally definitions and pre-amble to the constitution proper.
2. 2.1 (a)	The Objects of the Company Leadership on industry service provision including promotion and R&D; Receive levy funds and be accountable for their expenditure; Seek funds from other persons; Manage funds and associated risks; Investigate / evaluate requirements for industry service provision; Provide funds for services; Provide cost effective services to enhance competitiveness; Ensure dissemination, adoption and commercialisation of service outputs; Exploit Intellectual Property (IP); Services to egg producers; and To engage in any activity that benefits the Australian Egg Industry.	The 11 objects primarily drive the AECL planning process and service delivery. The application of these is evidenced by the adopted planning process and management checklists in governing the organisation. It is noted that AECL can exercise powers under the Corporations Act to carry out the objects specified.
2.1 (b)	The Company must not make grants to another Company representing the Australian egg industry.	Nil granting activity undertaken. Sighted processes for goods and services provided on commercial terms. It is noted that the fledgling Egg Farmers Australia group has been supported utilising Non-fund income and has been disclosed, though the department does not approve strategic or annual plans in which EFA has been written about.
2.1 (c-d)	Agri-political activity Must not engage in such activity and if believes it is required to: Must consult with the Minister or nominated representative.	There has been contention in this area. It has already been noted that the ACCC finding handed down in favour of AECL is

Clause	Requirement	Status
		<p>now subject to appeal and as such no further comment is made.</p> <p>The role of AECL in making public statements on industry issues is contentious, however the AECL refraining from public comment is not deemed an appropriate solution. AECL should actively work with appropriate levels of Government to obtain clarity as to what constitutes appropriate communication on industry matters and where that line is crossed to Agri-political activity. This should be framed within clear guidelines and overseen by the Audit and Risk Committee.</p>
3.	<p>Liability of Members</p> <p>The liability of members is limited.</p>	Noted.
4.	<p>Contribution by Members</p> <p>Contribution of Individual members is limited to \$1 at Company windup.</p>	Noted.
5.	<p>No Dividends or Distribution</p> <p>All funds to be directed toward the Company objects.</p>	It was observed and confirmed that all funds were directed toward the company objects during the review period, noting SED's reliance on what were determined to be robust internal controls and external audits in place
6.	<p>Admission of Members</p> <p>Egg producers are eligible,</p> <p>Application process for membership,</p> <p>Admission of membership,</p> <p>Decisions on membership,</p> <p>Initial members,</p> <p>Expulsion of members,</p> <p>Cessation of membership,</p> <p>Membership not Transferable,</p> <p>Equitable and other claims.</p>	Consultation with the Company Secretary reveals that membership processes have been open and appropriate.
7.	<p>Rights of Members</p> <p>Voting rights are determined on the basis of laying hen numbers.</p> <p>Members to receive annual reports, members able to attend/speak at meetings.</p>	No member rights issues revealed through consultation or through the survey results.
8.	Associate Members and their Rights	Nil issues.
9.	<p>For persons with a relationship with the Australian Egg industry and at the Board's discretion.</p> <p>Do not have voting rights.</p>	
10.	<p>General Meetings</p> <p>Board responsibility to call meetings,</p> <p>Advanced notice to be given to members.</p>	Consultation indicates appropriate advanced notice provided to members.
11.	<p>Proceedings of Meetings</p> <p>Purpose is review of financial accounts, elect Board members, appoint auditor.</p> <p>Board approval required for resolutions. A quorum is 10 members.</p> <p>Votes are via a show of hands and matters can be referred to a poll of members.</p>	<p>Meetings have been held in accordance with the constitution.</p> <p>It is noted that compliance checklists for such activity are of high standard.</p>
12.	Votes of Members	Noted and nil issues identified.

Clause	Requirement	Status
	Voting rights, appointment of proxies, power of attorney.	
13.	<p>Directors</p> <p>Minimum of 3, maximum of 7, up to 4 elected directors and 3 specialists including the Managing Director.</p> <p>Half the elected directors to retire and stand for re-election each year.</p> <p>Aggregate remuneration is capped at \$150k pa for nonexecutive directors. This does not include travel costs/extra services.</p>	<p>AECL Board consistent with its constitution (i.e. 3 elected directors and 3 specialist directors).</p> <p>Casual vacancy filled by Catherine Cooper who is now Audit & Risk Committee chair.</p> <p>Remuneration levels are reported in aggregate in the annual reports and Board expenses separately identified.</p> <p>In the course of the review it was confirmed that all payments within the established cap.</p>
14.	<p>Appointment of a Managing Director</p> <p>Is by the Board who may confer or excise powers to the Managing Director exercisable by the Board.</p>	AECL compliant with its constitution.
15.	<p>Proceedings of Directors</p> <p>The Board may meet, adjourn or otherwise regulate its meetings at it sees fit, delegate powers to committee, resolutions in writing.</p>	AECL Board has been compliant with its constitution. Documentation of all meetings is of high quality.
16.	<p>Powers of the Board</p> <p>The management and control of the business and affairs of the Company are vested in the Board.</p> <p>Use of seal</p>	This is for noting only and no issue of non-compliance identified.
17.	<p>Notices</p> <p>A notice may be given by the Company to any member.</p>	Noted but not activated during the review period.
18.	<p>Winding Up</p> <p>Residual assets returned to member</p>	Not relevant to the review period.
19.	<p>Indemnity of Officers</p> <p>Company to indemnify officers</p>	Noted and no issues during the review period.

3.4.3 Recommendations

There are no recommendations for further changes to the constitution. Governance guidelines in the form of operating charters, as part of the directors' general powers within the constitution, could be strengthened to include good governing practices. It is recommended that these include:

- ▶ Continued support for periodic independent board reviews (consistent with the recent review undertaken); and
- ▶ Formalising guidelines for ongoing renewal for directors through the inclusion of nominations committee practices including:
 - ▶ Determination of criteria of fitness and propriety for Board and executive roles;
 - ▶ Advice and support on Board composition covering skills, experience and expertise to discharge responsibilities within legislative framework and to drive the strategic plan;
 - ▶ Evaluate Board Performance;
 - ▶ Identify and nominate individuals qualified to become Board members when required; and
 - ▶ Monitor and assess the continuing education program for directors.

4. Performance review: Corporate governance and operations

4.1 Introduction

The 2016 review has been conducted within a defined governance methodology. The benefit of adopting this approach is that all activities are viewed through the lens of stakeholders, whether they be direct beneficiaries of the organisation's activities or those regulatory stakeholders that seek to ensure beneficial stakeholder's interests are best served. The activities to discharge governance responsibilities are grouped by five key functions: Direction; Guidelines; Management; Monitoring; and Renewal.

4.2 Organisational structure

4.2.1 Management

The implementation of AECLs strategy is the responsibility of nine permanent staff (including the Managing Director) as outlined in the organisational chart in Figure 3.

It is evident that a clear line of sight exists from the strategic plan to the Annual Operating Plans (AOP) through to individual responsibilities. Each AECL staff member has a detailed position description outlining responsibilities, conditions of service and termination entitlements. Each role reflects the requirements of the strategic plan and the AOPs.

Interviews conducted with the Managing Director, the Company Secretary and the three pillar champions confirmed a strong technical grasp of their respective roles, the regulatory framework, the organisation's expectations, its direction and the operating environment.

There was strong evidence of active involvement in the process of planning, priority setting, delivery and measurement of each function. It is commendable that the AECL management team participates in an annual workshop to formulate each year's annual operating plan. While not specifically assessed, anecdotally the feedback from Board and stakeholders commended the calibre and capability of the management team and its ability to represent and communicate effectively on behalf of the industry.

Direct observation from the review did identify an issue that warrants attention. The high calibre of administrative management is evident, thorough and well structured; however, it is apparent that the time applied to Board and compliance matters is considerable, conservatively estimated as representing up to almost 2 of the staff 8 FTE resource. Investment in systemising compliance activities and more critical assessment of key measures is likely to assist to calibrate this. Further, it will mitigate exposure to risk of key personnel with long tenure and possessing considerable corporate knowledge.



AECL Organisational Chart

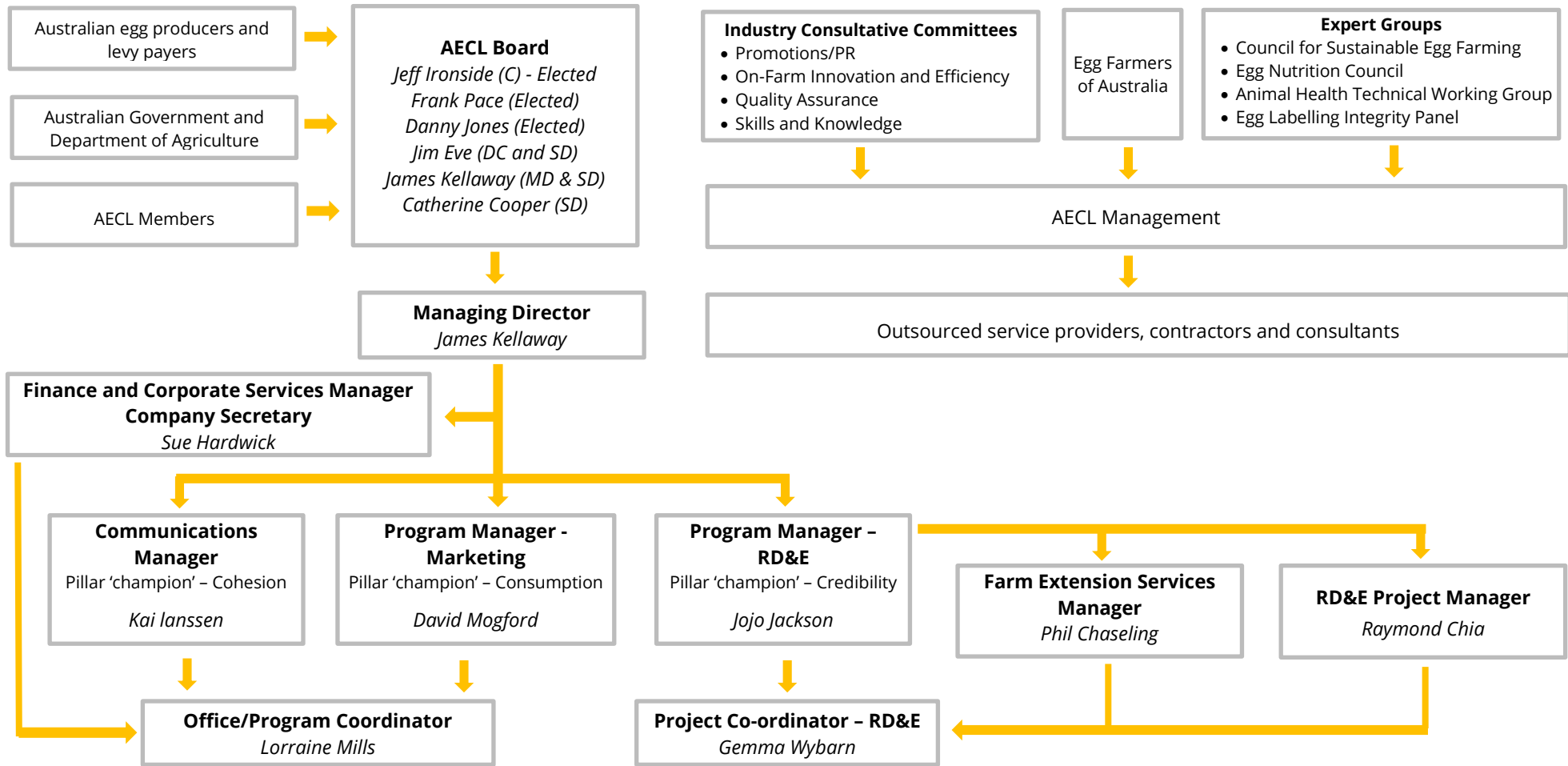


Figure 3 – AECL organisational chart

4.3 Board

The AECL Board is charged with the responsibility of governing the company effectively for the benefit of stakeholders. Governance is more than compliance, it is a way of thinking and acting on behalf of stakeholders, and assessing and managing the balance between strategic, compliance and operational focus in discharging responsibilities. While this review has not intended to undertake a formal and thorough Board review, it has nonetheless made assessments and observations consistent with best practice guidelines for government-funded operations. The assessment has utilised eight dimensions mapped into the overall governance framework. SED has relied upon an external Board Performance Assessment conducted in 2013 by *Ixion Board Governance* and personal interviews.

Dimension	Assessment criteria	Review
Strategy and purpose	Direction, plans, policies, values, government priorities	Covered in section 5 of this report.
Structure	Size, roles, responsibilities, clarity and community	Covered below in 4.3.1.
People	Capability, capacity, duties, development and induction	Covered below in 4.3.1.
Processes	Agendas, timetables, Board information	Covered below in 4.3.1.2.
Dynamics	Relationships, behaviours and decision making	Covered below in 4.3.1.1.
Stakeholders	Engagement with ministers, departments, staff, communities	Covered in section 6.2. It is noted, however, that this relationship could be improved at Board level.
Accountability and results	Ethics, measuring, monitoring, risk management	Covered in sections 5 and 6 below.
Compliance and reporting	Legislative, governance and audit	Covered below in 4.3.1.2.

4.3.1 Board composition and dynamics

4.3.1.1 Board

Observations made in the assessment of the AECL Board structure, composition and operation in discharging its responsibilities include:

1. An efficient board reporting and oversight process delivered by a collegiate board comprising the Managing Director (a 'specialist' director), two other independent 'specialist' directors and three 'elected' directors (currently egg producers). As required by the constitution, elections are held annually with every board on rotation for election by the members.
2. A strong mix of skills-based directors balanced with directors comprising industry experience and effective utilisation of consultative committees and expert advisory groups.
3. The common view, supported by this review, is that it contains a right-size Board to effectively govern the corporation.
4. Strong and effective Board operating guidelines within planning calendars and commitment to conducting its business in accordance with ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations (ASX 2007). These measures are reported in the annual report.

5. Active participation through high rates of attendance at Board meetings.
6. In line with current governance practice, AECL has in place an Audit & Risk Committee inaugurated in April 2016, combining the previously established Finance and Audit Committee and the Governance and Risk Committee.
7. Makes appropriate declarations for directors' conflicts of interest.
8. Pursues best practice and fosters a culture of continuous improvement, with the Board always looking for improved performance.
9. Endeavours to always comply with the Corporations Act, its own constitution and the SFA within the framework of the Egg Industry Service Provision Act 2002.
10. Undertakes widespread consultation with stakeholders as part of setting R&D priorities.
11. A good working relationship with the executive team that is respectful but appropriately challenging.
12. Consideration of issues that is appropriately weighted with a clear view that egg producers are most important stakeholder (members), with a secondary outcome that, by default, viable businesses ultimately support taxpayers and the Commonwealth.
13. Other comments for improvement as follows:
 - 13.1 The content of information contained in the Board papers is considerable and the capacity to read and absorb the content of the papers is questionable. Adoption of one-page reporting of key measures would assist in this area.
 - 13.2 Succession planning has been an issue, with the current chairman in the role for 13 years. That said, it is evident this is being addressed, with a planned change in late 2016. This tenure is not an issue per se, so long as there are appropriate renewal policies in place. Adoption of these within a nominations committee charter is recommended for good governance. This process will also assist with the timeliness and effectiveness of filling vacancies including specialist director positions.
 - 13.3 Managing strategic risk is critical to effective governance. It is apparent that the Board is more risk averse and focused on regulating as a result of recent events. While management tends to focus its attention on the stakeholder beneficiaries, which provides some balance, the Board could benefit from a review of the role of integrating strategic risk more overtly into its function. Provided in appendix 10.6.1 and 10.6.2 are two recommended models to support the Board in more effectively engaging with this responsibility. These processes promote greater rigour and more considered assessment of risk by concentrating critical thinking within agreed strategy and risk appetite.
 - 13.4 Working to obtain clear definition of expectations and alternative structures for industry representation and advocacy is of critical importance to long-term industry profitability and sustainability. It is widely understood that the ideal model for the industry is to segregate activities within the functions summarised in Figure 4:

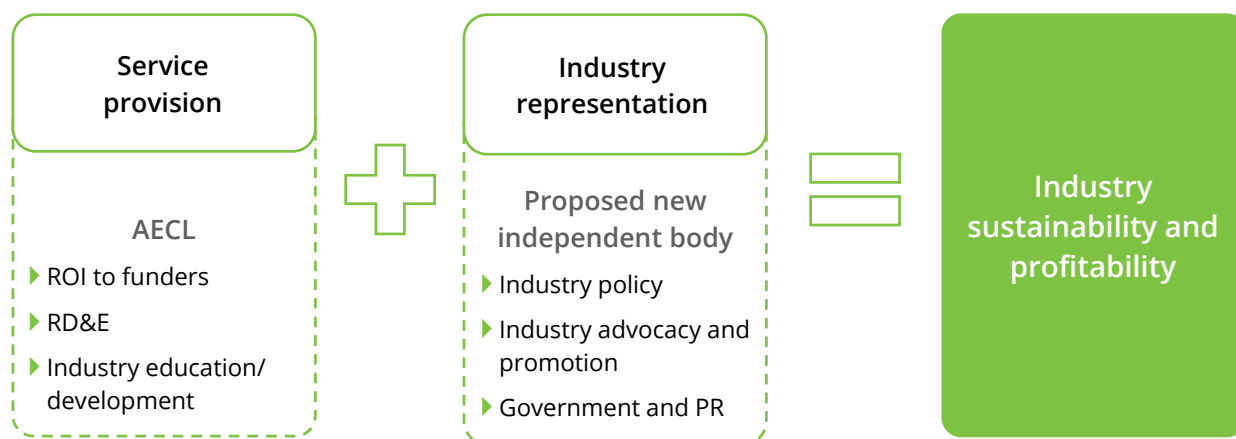


Figure 4 – Industry segregation model

4.3.1.2 Board processes and calendar

To conduct this review, sample checks of Board papers (dated April 21, 2016 and October 22, 2015) were made, with relevant observations including:

- ▶ The attention to compliance and Board process is of high quality. The link between resolutions made at meetings and the eventual action is completed thoroughly and managed using carried forward action sheets.
- ▶ Content is generally balanced effectively between operational review and strategic focus. The inclusion of a strategic intent paper in the April 2016 Board papers is rated as being of high quality.
- ▶ Governance and structural issues are appropriately prominent. The paper on establishing an egg industry body (peak representative/advocacy body such as *Australian Bankers Association*) was well researched and structured for Board consideration, being clear about implications of non-compliance, i.e. AECL's inability to undertake the role directly under the terms of the SFA and its prohibition under the agreement as the company cannot engage in agri-political activity.
- ▶ Compliance checklists were evident for SFA and ASIC, providing clarity and transparency of obligations.
- ▶ Policies are evident with intellectual property, fraud control and risk management plans tabled. It is noted that these have been redrafted by the Company Secretary, also utilising input from counterparts in other RDC's. All policies are reviewed twice annually to accommodate any change of legislation or organisational circumstances. All policies and their application are tested with AECL staff before adoption and outline implications for policy breaches.
- ▶ A focus on the Board performance is noted as positive. In addition to the recent external Board Performance Review, a minimum one meeting per annum is allocated to focus on governance matters.

4.4 Application of funds

Confidence in the appropriate application of funds is guided by the rigour of the budget process. The review confirmed the process undertaken is appropriate, rigorous and consistent with guidelines.

4.4.1 Budget development

The budget development commences annually in January and follows an appropriate top-down strategic path, focussed on meeting organisational objectives and cascading to an operational level for implementation. The process timeline was confirmed, as shown in Figure 5:

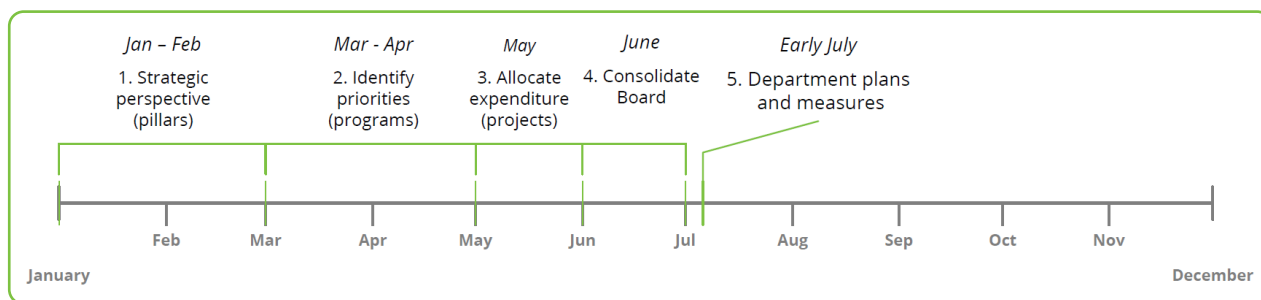


Figure 5 - Timeline of top-down strategic path

4.4.2 Monitoring

The review confirmed the existence of monitoring of expenditure and activity through performance measures. It is noted that the AECL operates in a 'limited people resources' environment. As such, productivity requirements dictate a strong need to prioritise activity to optimise results. This requires an effective approach to measurement of strategic outcomes. The review identified:

- ▶ Regular and extensive reporting of KPI measures. These measures constituted a mixture of activity indicators and output indicators.
- ▶ While these measures may be valuable at operational levels for resource allocation, the benefit diminishes as these are reported at Board level. The end result is that there are too many measures to provide a true line of sight to the strategic objective. Strategic effectiveness measures by exception would prove more effectual. Effective KPI measurement should drive innovation and organisational priorities.
- ▶ Strategic management and oversight would benefit from strategic performance measures rather than KPI indicators. Appropriateness measures would be established at the outset, with progress versus outcome measures adopted, preferably using a dashboard.
- ▶ It is noted that AECL does have a robust Return on Investment (ROI) model for the investment of egg promotion levies, developed in 2004. This ROI was externally reviewed in 2012 and found to be effective. It is calculated monthly and reported at each AECL Board meeting as part of the egg industry KPI's. AECL doesn't have access to an ROI measure to evaluate R&D, however every year budget is set aside to evaluate Benefit Cost Analysis (BCA) of the cluster of R&D projects. While difficult to evaluate, enquiries should be made to develop such an ROI measure.
- ▶ The organisation does not have compliance and risk management software but do have a records management system and supporting IT software, which is utilised with month end checklists. This is labour intensive and requires considerable replication of administration activities to produce compliance audit trails. AECL should investigate the benefits of implementing such a system, to not only reduce administrative burden but also provide greater visibility of risk for the Board.

4.5 Operations management

AECL operates on a lean human resource allocation, supported by outsourced agencies as required. The stakeholder expectations of the organisation are considerable and create some pressure from a generally very collegial and supportive team. In general terms, management, in particular program managers, confirmed that their resource allocation is adequate for meeting the established plans; however, the nature of the business means that other unforeseen activities arise regularly through external changes, ad-hoc phone calls or changes to scope from Board or regulatory bodies. This creates difficulty meeting deadlines.

The limited resources drives management focus to a critical assessment of balancing competing priorities. Consultation confirmed that front-of-mind for executive management is the need to maximise the financial resources available by meeting the first test: is an activity eligible for R&D, thereby attracting matching government contribution?

Management could benefit by better alignment of PD's and appraisals to the overall plan.

Summary of recommendations – Section 4

1. Compliance: Investigate implementation of a compliance and risk management system to enhance administrative productivity.
2. Renewal: Given the long tenure of senior executives, actively pursue organisational development and renewal initiatives, spanning operating system improvements and research of innovation and growth approaches in other operating spheres.
3. Renewal: Implement nomination committee model for Board renewal as per section 3.4.3.
4. ROI: In collaboration with other RDC's, investigate potential solutions in development of a suitable measure for calculating return on investment for R&D.
5. Measurement and reporting: Work to adopt single page or dashboard reporting of key effectiveness measures and include more focus in Board papers on challenging strategic issues rather than primary focus on data and information.
6. Strategic risk: Consider the application of framing all strategic decisions within a risk and benefit priority matrix so as to bring risk-based thinking to the fore in strategic discussions and incorporate into regular reporting.

5. Performance review: Planning and reporting

5.1 Introduction

This review assessed the process AECL undertakes in the development of its strategic plan. This process is assessed in line with the requirements set out by the SFA, as well as those considered to be effective strategic plan practices within representative organisations in contemporary Australia.

5.2 Strategic planning

The review has concluded that AECL's strategic planning has been conducted in accordance with the following practices, as outlined in the SFA:

Component	Review findings
Adherence to policy guidelines	<ul style="list-style-type: none"> ▶ Strategic priorities are overlaid against the map of RR&D priorities. ▶ Further, a check is undertaken through productivity committee review of RDCs. ▶ Also noted is confirmation of approved uses of levy and Government (industry) funds.
Allows for appropriate stakeholder input	<ul style="list-style-type: none"> ▶ The approach adopted is a whole-of-industry, consultative approach. ▶ This is evidenced by the conduct of a whole-of-industry workshop to formulate priority investments. ▶ This is a 4-5 month process, as confirmed in Figure 5.
Conducted using suitable analysis of the external and operating environment	<ul style="list-style-type: none"> ▶ A comprehensive questionnaire is circulated to assess industry issues, performance levels and perceived challenges. ▶ Findings are fed into an externally facilitated planning day of Board and senior management, where initiatives are prioritised.
Conducted within clearly articulated risk appetite	<ul style="list-style-type: none"> ▶ AECL has defined strategic risks against which assessments are made. ▶ Overall risk appetite appears less formal, however, and could be more formally adopted by the Board in line with the principles of three lines of defence, as outlined in appendix 10.6.1 (Figure 10).

While not obliged, AECL could benefit by more specific mapping of the strategic planning assessment process, whereby risk appetite is overtly considered in the formulation of objectives. Refer to Figure 6 for suggested process map.

AUSTRALIAN EGG
CORPORATION LIMITED

Strategic Planning Assessment
Planning Model

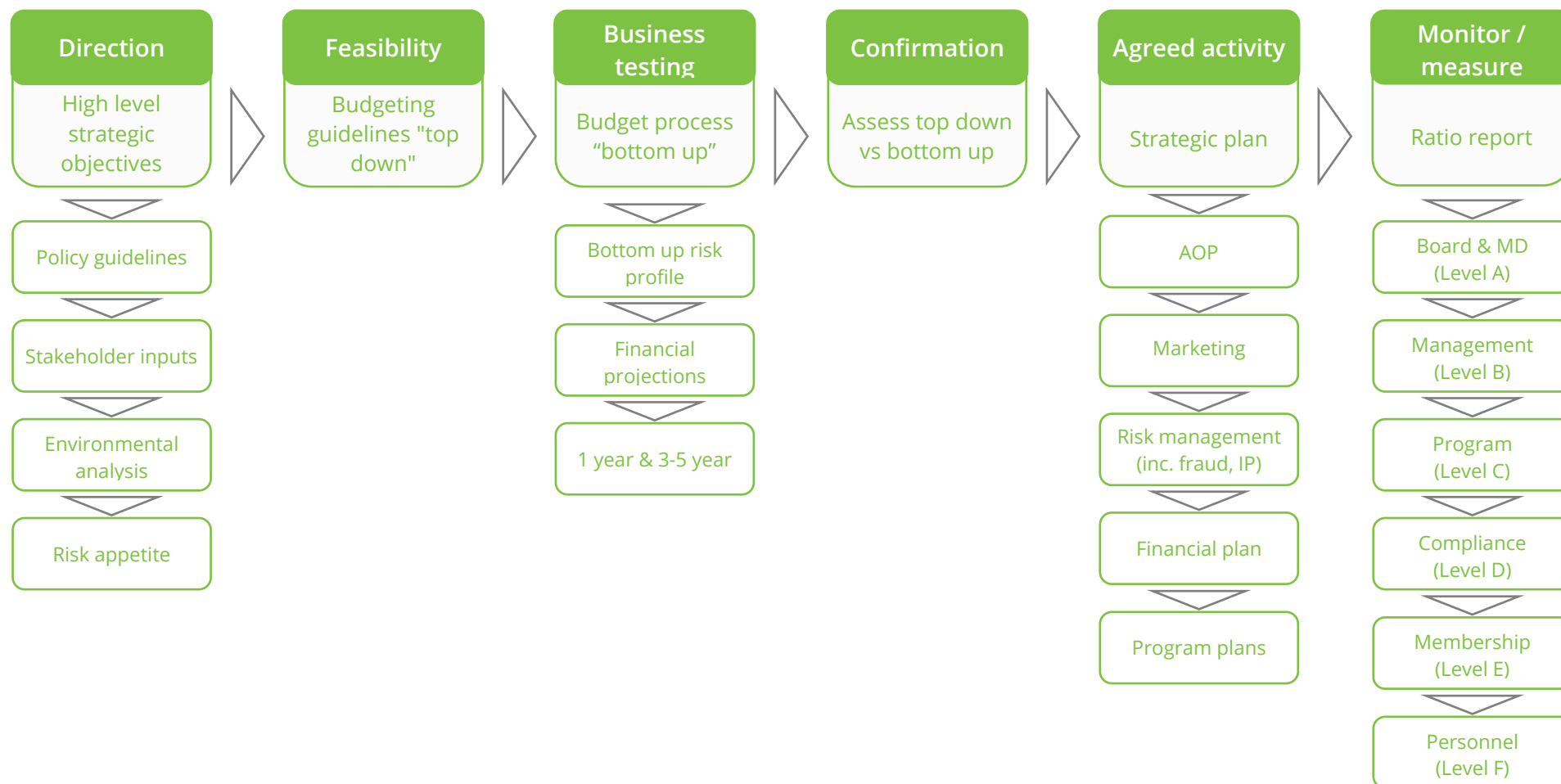


Figure 6 – Strategic planning assessment

5.3 Risk Management Plan, Fraud Control Plan and IP Management Plan

The review assessed the framing and management of risk and the application of fraud control and intellectual property plans as outlined in the SFA. The review was conducted to assess not only compliance with the SFA but also the effectiveness of the management and monitoring of such risk.

5.3.1 Compliance

The terms of the SFA (outlined in clause 9.1) specify that the AECL is required to develop and implement a Risk Management Plan, a Fraud Control Plan and an Intellectual Property Management Plan. The Risk Management Plan is to be prepared and maintained by the AECL, specifying the measures to be implemented to manage its material, commercial, legal and administrative risks.

The Risk Management plan is outlined in a document, designed to fulfil the requirement. A review of the document confirms that:

SFA Requirements	Compliance
Framework: <ul style="list-style-type: none"> ▶ Risk Management Plan ▶ Fraud Control Plan ▶ Intellectual Property Plan 	<p>The Risk Management Plan, Fraud Control Plan and IP Management Plan were established in 2004. These were rewritten in 2013 and continue to be reviewed and updated annually.</p> <ol style="list-style-type: none"> 1. SED reviewed the Risk Management Plan dated April 2016. It is in a format consistent with the standard AS/NZS 31000:2009 Risk management - Principles and guidelines. 2. SED reviewed the Fraud Control Plan dated February 2016 assessed against the Australian Standard (AS8001 – 2008). 3. The AECL Intellectual Property Plan policy and procedures dated August 2015 were reviewed including an intellectual property register. There is acute awareness that levies have invested funds for IP and, therefore, they need to be protected.
<ul style="list-style-type: none"> ▶ Management of Risk, Fraud Control and IP 	<p>It is clearly defined that the AECL Board is responsible for ensuring that any business risks that may affect AECL's ability to deliver against its vision and mission statements, should be:</p> <ul style="list-style-type: none"> ▶ identified and analysed and, where possible; and ▶ have controls and mitigation strategies in place to manage the causes, likelihood or consequences of the risks. <p>The AECL Board has delegated this responsibility to the Audit & Risk Committee, which is responsible for ensuring that the identification, monitoring and treatment of AECL's risks are carried out effectively on a continual basis. This includes fraud and IP management, including review of registers, the IP implications and wider recording of IP not just formal trademarks and protections.</p>
<ul style="list-style-type: none"> ▶ Measures 	<p>The Statutory Funding Agreement (SFA) between the Commonwealth and AECL allows for the Commonwealth to make promotion payments, research and development payments, and the Commonwealth matching research and development payments to AECL.</p> <p>The payments are derived from the collection of levies from egg producers and from matched payments on a dollar-for-dollar basis from the Commonwealth of up to 0.5 per cent of the gross value of egg production in Australia.</p> <p>In a wider organisational perspective, a closer link between the strategic risk and the measurement of those risks could be enhanced.</p>

5.3.2 Implementation and effectiveness

AECL invested considerable resources into improving its risk management practices during the review period. Observations and feedback identified the following:

- ▶ Management of the people risk is difficult given the limited personnel resources, i.e. second cover in event of unplanned absences is limited. This situation necessitates greater focus on system and procedural approaches to mitigate this risk.
- ▶ Initially the Risk Management Plan was predominantly copied from other RDC's and thus generic in nature. Over the past 12 months, considerable work has gone into tailoring the plan to reflect AECL needs. It is appropriate that the Company Secretary continues to regularly attend meetings of business managers from other RDC's to share industry knowledge.
- ▶ Risk is contextualised within the seven categories listed below. These adequately cover the major risks within AECL's environment:
 - ▶ Financial;
 - ▶ Operational;
 - ▶ Public and Legal liability;
 - ▶ Compliance;
 - ▶ Industry and stakeholder;
 - ▶ Technological; and
 - ▶ Work health and safety.
- ▶ A high level review of documentation indicated a limited role by the Board in risk management. A newly formed Audit & Risk Committee was established at the April 2016 meeting, which reflects a merging of the Finance & Audit and Governance & Risk committees. In this review it is too early to determine the effectiveness of this new committee. It is noted, however, that its existence does not minimise the need for the whole Board to play an active role in strategic risk.
- ▶ While AECL is consistent with the risk standards, it is not clear that the organisation assesses its strategic risks within an agreed risk appetite set by the Board. With a stated risk appetite it is more likely to shift the emphasis from operational to strategic.
- ▶ Clear financial delegations are in place and adhered to. The review confirms that these are both reasonable and practical.

Limit	Contract required	Within Annual Operations Plan	Outside Annual Operations Plan
5 – 10K	N	Program Manager	Managing Director
10 – 20K	N	Managing Director	AECL Board
20 – 50K	Y	Managing Director	AECL Board
50 – 100K	Y	Invoices MD Contracts AECL Board	AECL Board
>100K	Y	AECL Board	AECL Board

5.4 Annual Operating Plans

As required by obligations contained in the SFA, AECL adopts a thorough, appropriate and compliant AOP process. Review of AOP's conclude that they contain a detailed industry overview and profile, a planning framework as outlined in Figure 7 and are integrated into an ongoing measurement and monitoring system.

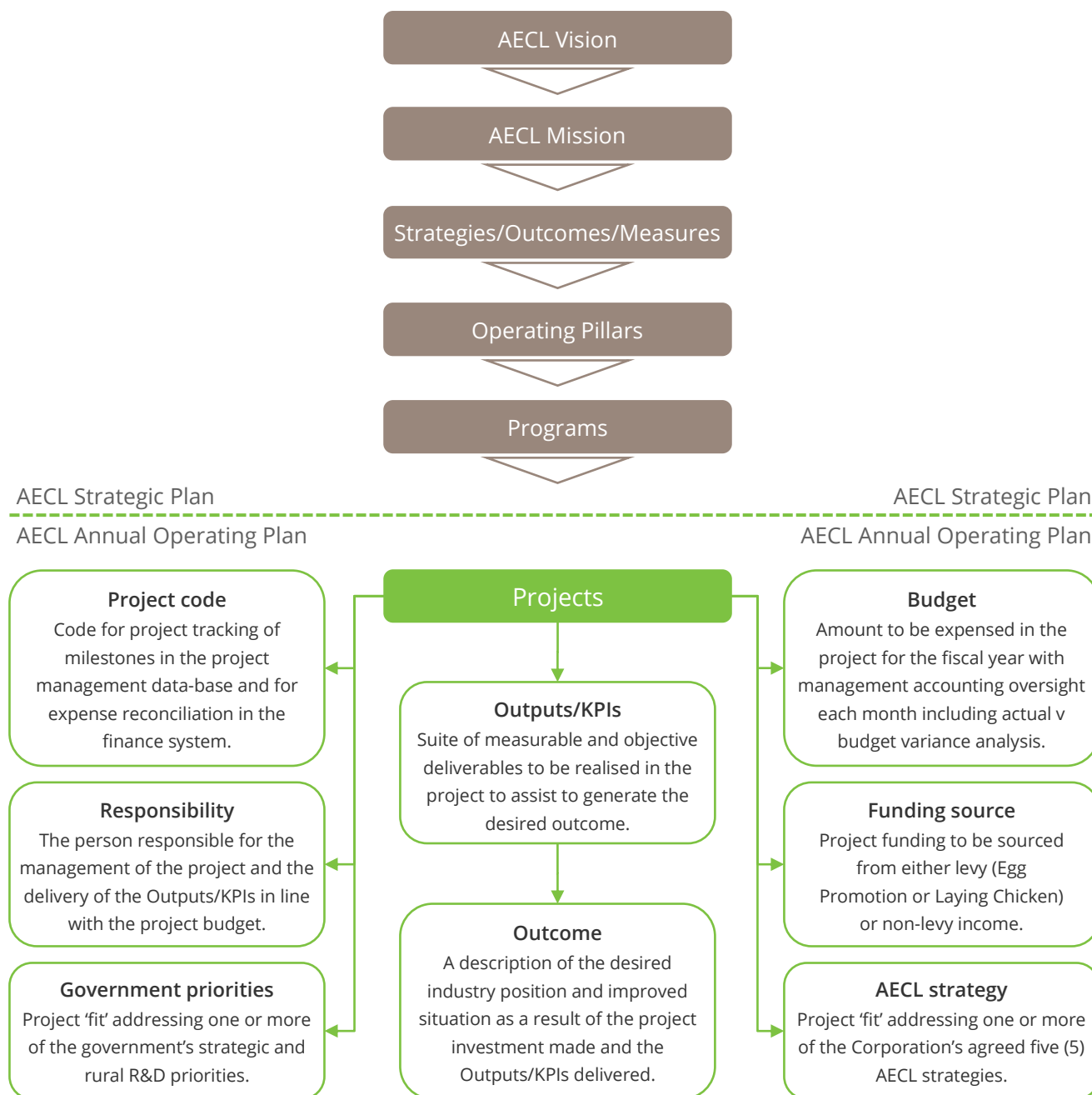


Figure 7 – AECL strategic planning process

5.5 Performance monitoring

AECL has established a thorough and comprehensive model of reporting performance measures. While they are compliant and provide some benefit, it is observed that there are considerable numbers of KPI's that measure outputs, often colloquially referred to as 'busyness indicators'. Examples cited include things such as number of recipes uploaded to Facebook and number of press articles.

AECL could benefit by separating the measurement of activity (appropriate for assessment of efficiency and resource use) and the measurement of effectiveness of strategic outcome (appropriate for assessment of strategic alignment and focus). A suggested model for consideration is provided at Appendix 10.6.3.

AECL applies a very effective approach to weighting projects, as contained in the strategic plan. This assessment, undertaken through the respective lens of a) By person; b) By category – RR&D priorities; c) By investment (76 projects); d) By pillars; and e) By programs, provides for strong validation of the prioritised projects.

5.6 Annual reports

A review was undertaken of four annual reports spanning financial years 2012 to 2015 inclusive. Observations conclude that they are of high professional standard, transparent, compliant and informative. These conclusions are formed based on confirmation of the following reporting elements:

- ▶ Member report: provision of information outlining number of members and representation of flock numbers;
- ▶ Finance report that articulates:
 - ▶ Movement in revenue, cost and investments;
 - ▶ Comparative measures to previous reports;
 - ▶ Balance Sheet; and
 - ▶ Graphical representation of key income and expense data.
- ▶ Transparency of payments: including those made to directors;
- ▶ Audit report: provided by *BDO Australia*, noting an unqualified report in the most recent report released in September 15;
- ▶ References to:
 - ▶ AECL Succession Planning Paper Oct 15 with a succession planning strategy;
 - ▶ MD's KPI's set Sep 15;
 - ▶ Reviewing QA Audits and Accreditations;
 - ▶ AOP 15/16 approval of plan by DAWR; and
 - ▶ Board calendar at end of each year.

Summary of recommendations – Section 5

1. More formally incorporate the risk appetite settings at the commencement of strategic objective setting as per Figure 6. This can also be incorporated into the priority project assessment model for completeness.
2. Consider adoption of the three lines of defence risk model into managing risk and, if adopted, incorporate changes into the Audit & Risk Committee terms of reference.
3. Seek to implement more effective KPI monitoring to measure effectiveness in addition to activity measures and incorporate into exception and dashboard reporting.
4. Develop a clear position on the strategy of retained earnings, reserves and reinvestment.

6. Performance review: Liaison with stakeholders

AECL manages records of stakeholders effectively. The SFA requires the review to consider feedback from a range of stakeholders. SED mapped the information to be sought from stakeholders as outlined in Table 1 and further mapped the stakeholders based on influence and engagement, as highlighted in Figure 8. This mapping is contained in Appendix 10.3 (Figure 9) and determined the type of consultation undertaken.

Table 1 – Survey content

Section 1: Profile respondents	Section 2: Assessment of AECL	Section 3: Assessment of membership
▶ Name	▶ Familiarity with AECL activities	▶ Clarification if member (why not)
▶ Role in the industry	▶ AECL performance	▶ Ease of becoming a member?
▶ AECL membership	▶ AECL efficiency	▶ How information is received from AECL
▶ Business location (producers)	▶ Value for money	▶ How well AECL communicates
▶ Size of farm (producers)		▶ How well AECL addresses concerns of producers
		▶ Future

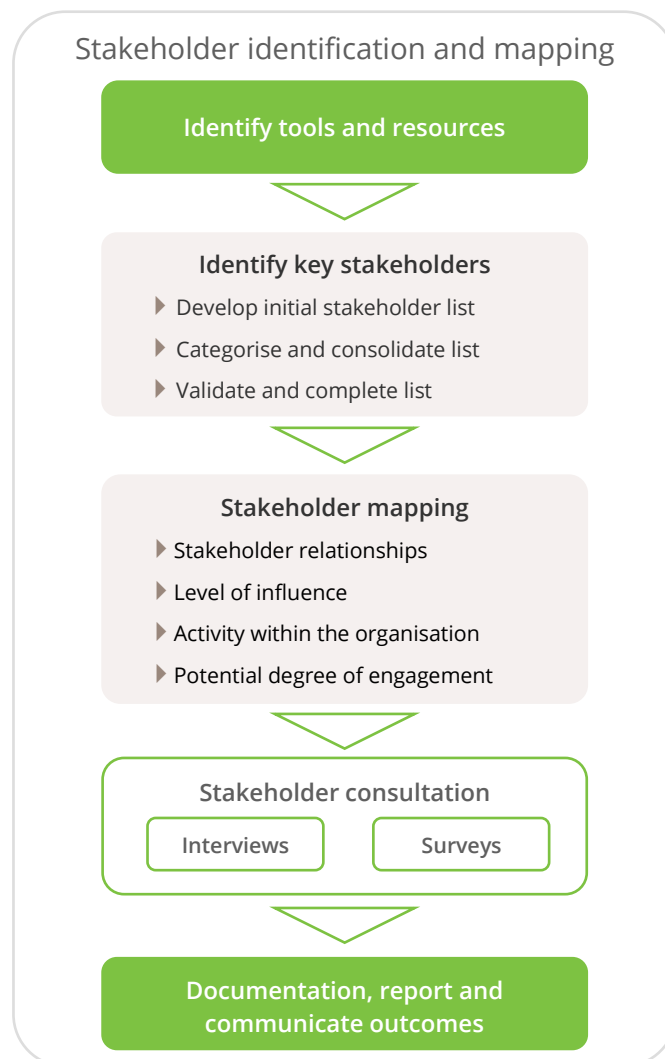


Figure 8 – Stakeholder identification and mapping process

Understanding the different relationships between these stakeholder groups helped guide the selection of approaches to stakeholder engagement, and the development of appropriate responses to stakeholder issues.

6.1 Levy payers

Upon initial scoping of the review, it was identified that a comprehensive survey was being undertaken in May 2016 of all egg producers, its purpose to review and obtain comment on initiatives being pursued by the AECL. Upon review of the survey content, and an assessment that any follow-up survey by SED would not be viewed favourably, SED determined that it could rely on the findings of this report.

Consultation with management revealed the following comments:

► **Members**

- It is clear that key stakeholders considered by the business are the egg farmers.
- There is a widespread belief that AECL's focus is on the big producers, with some tension between the small and large producers, and concern about wasting resources with undue focus on smaller egg producers.
- The delay in setting up a representative structure to deal with these advocacy issues causes further tension.

► **Communications**

- In efforts to overcome or counter these perceptions, AECL:
 - Conducts a bi-annual event at no charge to members which focusses on training/marketing, industry information, access to research, marketing activities and notable speakers. Feedback to this initiative is positive.
 - Publishes an EggCorp EggsPress newsletter on a fortnightly basis plus special editions. These have traction with a closed audience recording a 53% open rate versus a 21% industry standard.
 - Publishes an industry magazine on a quarterly basis titled Eggstra Eggstra, 1000 copies of which are distributed to a broad stakeholder group within the egg industry.
- Role of AECL versus EFA has meant that some activities are juggled to accommodate producer expectations, such as emergency management. The establishment of EFA facilitated by AECL administrative support is being managed.
- AECL embraces social media with active use of a YouTube channel, a Facebook page and a Twitter account.

6.2 Government

AECL undertakes its formal reporting relationship within guidelines. The compliance to content and timeframes is summarised in the SFA in clause 10.6.

In addition, some observations are drawn from review of documentation and meeting with Department representatives:

- Overall recognition of effective operational management and complying with its key purpose.
- There is ongoing concern about the AECL's role in policy advocacy in the absence of a representative body. It asserts that AECL must continue to undertake its governance role strictly within the constitution and SFA agreement.
- While acknowledging difficulty with stakeholder expectations, education and communication programs to clarify the role of the AECL should be considered.
- It is also noted that some projects are subject to timing and application risk, including issues such as biosecurity and product labelling.

- ▶ No outstanding issues from the previous 2011 review were noted, outside of those separately reported in section 8.1.

6.3 Partners, collaborators and service providers

AECL has demonstrated an active approach in collaborating with partners and service providers to deliver benefits to stakeholders.

In terms of partner collaboration there is evidence within the R&D sphere of working with a range of groups, including the council for rural R&D managers, the Feed Grain Partnership, the annual Animal Welfare RD&E Strategy, the Poultry RD&E Strategy and Biosecurity RD&E Strategy. The RDC's now actively leverage funding streams on collaborative projects.

This is supported by conducting annual forums together with other stakeholders, such as the RSPCA, and collaborative projects together.

A common sentiment expressed through the review is an organisational emphasis on “achieving change” not simply “enabling change” and, in many cases, this is effectively conducted through collaboration and partnerships.

Summary of recommendations – Section 6

1. To effectively discharge its responsibility, AECL should not refrain from all public comment. To mitigate potential for contention, AECL should obtain clarity as to what constitutes appropriate industry comment as opposed to Agri-political activity. This should be framed within clear guidelines and overseen by the Audit and Risk Committee.
2. As a high priority, continue to work on resolving the establishment of a suitable representative body for the egg industry.
3. When resolved, reframe communication with levy payers to provide education and communication programs on the role of the AECL.

7. Performance review: Delivery of benefits to the industry

7.1 Introduction

SFA requirements require the AECL to demonstrate benefits achieved for the egg industry. The AECL reports such benefits extensively through stakeholder communication mediums and formally through annual reports. This review notes the information stated in such reports as a demonstration of the benefits to industry and has not sought to independently verify the veracity of these. Rather, SED has reviewed the process for evaluation of project selection and assessed primary feedback from the industry on performance and suitability of investment in the three key pillars.

7.2 Evaluation approach

AECL undertakes a transparent and consistent process in determining suitability for project investment. These are driven by market research, tracking of usage every four years, tracking of consumer studies to understand key purchase drivers and restrictive consumer elements that drive food choice. The focus is primarily retail sales and in-home cooking.

In summary terms this follows a six step approval and management process:

1. Identification of potential needs at AECL organisational level.
2. Assessment of priority projects through Industry Consultative Committees (ICCs).
3. Assessment of projects by researchers to ensure relevance.
4. Signoff on priorities by ICCs.
5. Submit to Board for signoff for investments greater than \$50k.
6. Becomes management responsibility for respective program manager.

This process is deemed to provide a balance between initial project rigour, alignment with strategic priorities and ongoing measurement through a steering committee. It is noted that AECL utilises external consultants to assess specialist elements of projects where required.

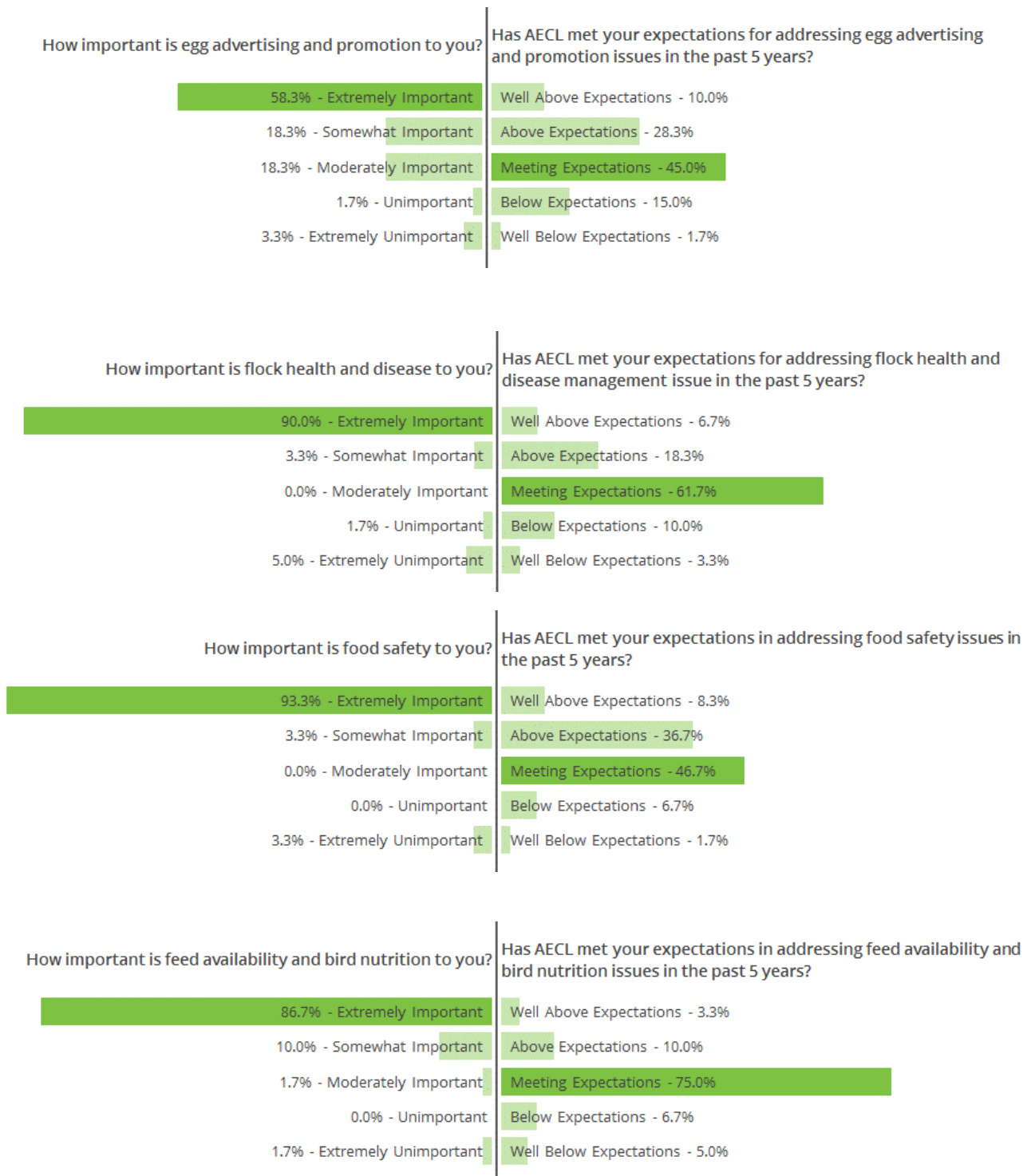
Project investment is allocated to the complying pillar and becomes the management responsibility for the nominated program manager, that is R&D (Credibility); Communication (Cohesion) and Marketing (Consumption). Informal weekly reporting is undertaken to Managing Director level with formal reporting to the Board (seven reports per year) through the Pillar management report.

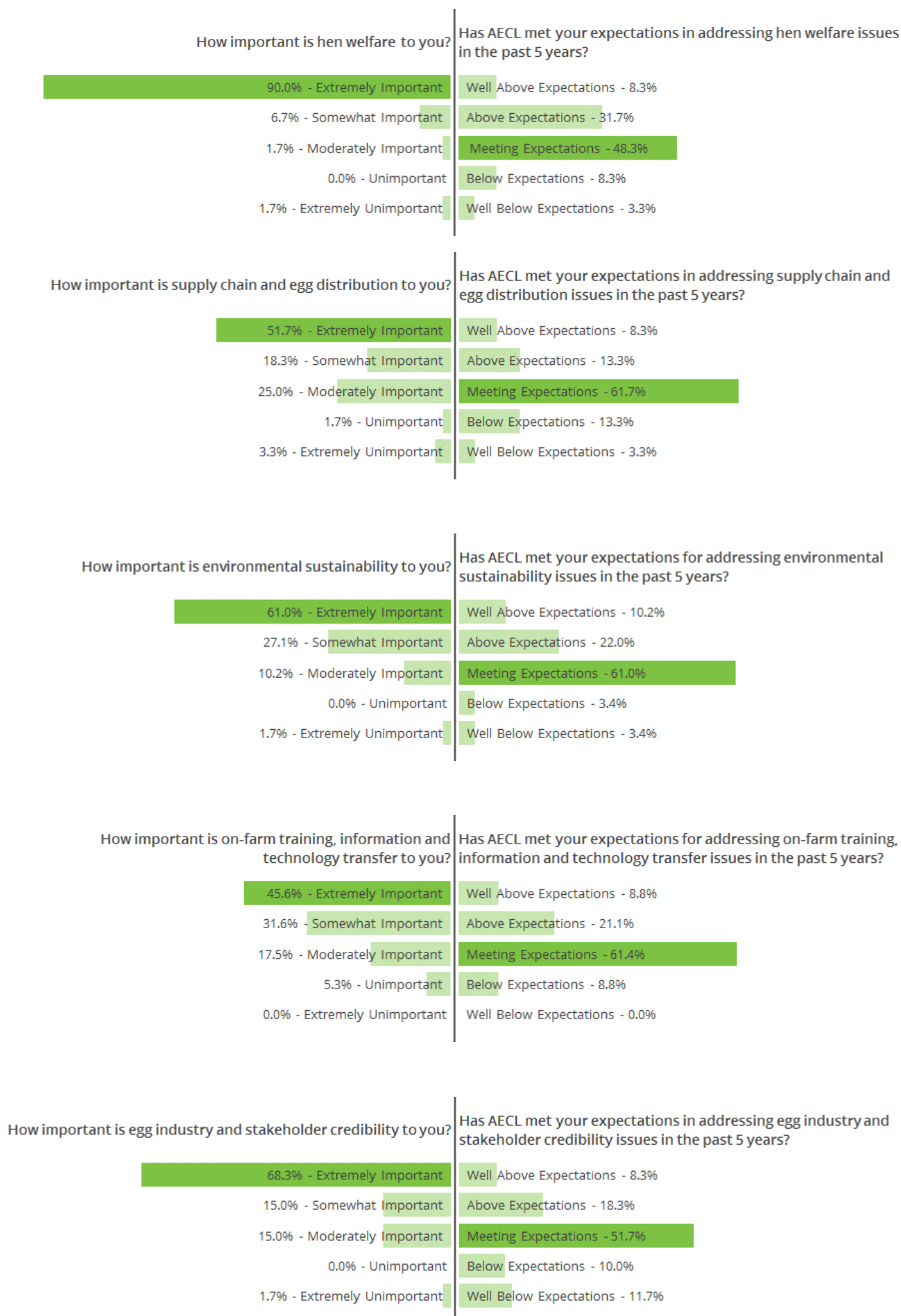
Specifically with evaluation there is ongoing deliberation as to how to more appropriately measure effectiveness in a market that is supplier-driven over which AECL has no control. The focus is increasing consumption, managing shelf space in supermarkets and consumer attitudes, as opposed to supply and pricing matters. There exist ongoing dilemmas in managing attitudes impacted by activism groups.

Management has identified that more input on research matters from Board members would be welcome, requiring increased research experience in the composition of the Board.

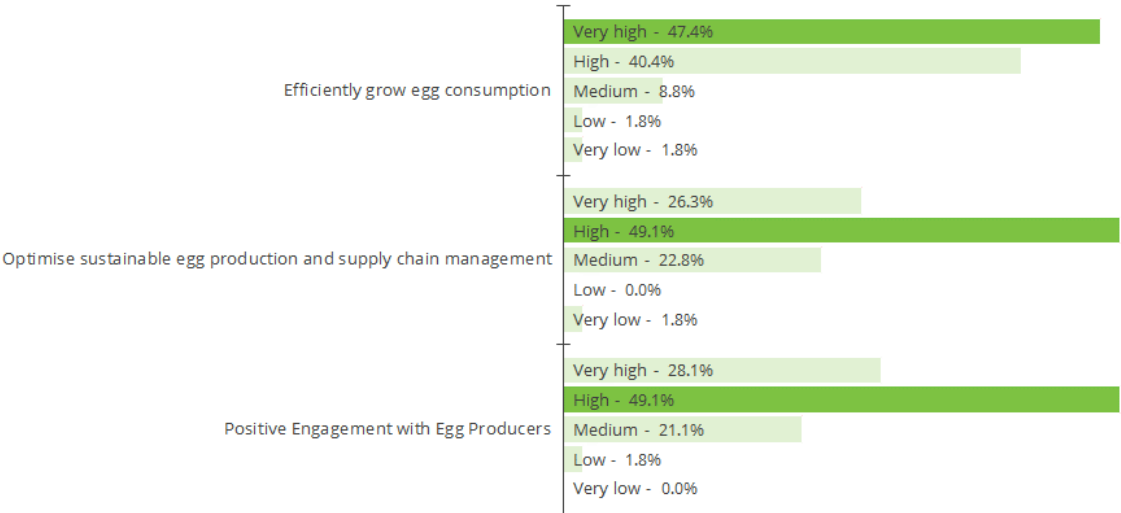
7.3 Evidence of benefits

This report does not seek to replicate the findings of the Effective Governance Pty Ltd review of May 2016; however, the summarised results have been formatted to reflect key messages applicable to this review. They indicate general satisfaction that AECL meets levy payers' expectations in addressing needs, but the results also challenge the organisation to continue to pursue innovative programs for the benefit of the industry.





How important is this issue to you?



Summary of Recommendations – Section 7

Nil

8. Performance review

8.1 2011 recommendations

The following table summarises the April 2016 AECL response to the 17 recommendations contained in the AECL Performance Review report undertaken by AgEconPlus Pty Ltd in May 2011. In line with good governance practice, it is noted that the former AECL Governance & Risk committee had added the AECL Performance Review as a standing item on its agenda where updates or status of recommendations emanating from the review are considered.

Recommendation	Action Taken	Assessment
1. Commission an external review of the AECL Board consistent with what other RDCs do and ASX recommendations (Section 3.1). Chapter 6 includes a list of issues the external review might address (Section 6.3).	The AECL Board actioned this item during the second-half of 2013. AECL sought many proposers and under a competitive tender process, and based on prior experience, Ixion Corporation was successful in being appointed to undertake this review.	The process was rigorous with one-on-one director questionnaires and interviews prior to a whole-of-Board debrief on the findings. Please see attached summary of recommendations. The AECL Board has responded to and actioned the recommendations contained within the attached report.
2. AECL step back from roles that might be perceived as advocacy and either leave this function to others or make use of a revitalised AEIA with improved governance arrangements. AEIA governance arrangements need to provide DAFF and others with confidence that AEIA is separate from AECL (Section 3.2).	AECL has registered Egg Farmers of Australia (EFA) as an incorporated association in NSW and AECL is currently the parent entity as it is the sole member. AECL is in discussions with DAFF as it relates to establishing a suitable entity or arrangement to ensure such important functions can be exercised by the Australian egg industry without the industry incurring unnecessary costs or organisational structures. As agreed during the August 2013 SFA meeting with DAFF, AECL drafted a Service Level Agreement, changed the EFA Constitution and considered a path forward which will either utilise EFA as a separate and arms-length entity to AECL or seek changes to the Egg Industry Service Provision Act 2002 to allow AECL to be the Industry Representative Body (IRB) in addition to its core role of being the Industry Services Body (ISB) for the egg industry.	Recent communications from the Minister has suggested his willingness to consider a change to the Act to allow AECL to also fulfil the IRB function. EFA is currently treated as a project within the AECL AOP and the activities are disclosed accordingly and approved by DAFF (though it is noted by SED that the department does not approve strategic or annual plans in which EFA has been written about) These activities are funded through 'Non-Fund' income as defined by the SFA and are accounted for separately by AECL.
3. The content and duration of the current SFA should guide a new statutory funding agreement (Section 3.2).	A new Statutory Funding Agreement (SFA) was signed and executed on 28 September, 2012.	AECL is subjected to various reporting under the terms of the SFA. Since its signing, AECL has become aware of various changes which have been accommodated by AECL.

Recommendation	Action Taken	Assessment
4. Establish more transparent AECL policies and procedures for the separate reporting of R&D and marketing programs as part of a continuous improvement process and to help AECL demonstrate ongoing performance improvement (Section 3.3).	The AECL Board has reviewed management practices in relation to the planning, execution, monitoring and reporting of projects/activities funded from the Egg Promotion levy and from the Laying Chicken levy.	AECL considers that this separation is transparent and can be traced accordingly, given the Corporation's financial and performance reporting systems. The Corporation is content with the track and trace mechanisms and reporting frameworks in place to ensure there is transparent reporting and separation of both statutory funding streams for accountability purposes.
5. AECL adopt the 'Outcomes and Programs Framework for the 2009-10 Portfolio Budget Statements' as the template for its new Strategic Plan and work with DAFF to ensure that cost of compliance with the new SFA is manageable for a small autonomous RDC like AECL (Section 3.5).	AECL management proceeded through a robust and proven consultative framework to develop its third Strategic Plan, which included the outcomes and program framework highlighted in the 2009-10 Portfolio Budget Statements. The Plan clearly enunciates, prioritises and budgets work program areas that address the industry's vision, AECL's mission and overall objectives which are in line with the Objects of the Company as per the AECL Constitution and the application of statutory levy funds as per the SFA.	Every project or activity undertaken by the Corporation has clear links through to the Corporation's mission statement and each project or activity has clearly enunciated outputs or KPIs and an outcome. The AECL Board is satisfied with the Corporation's planning, monitoring and reporting frameworks against agreed Annual Operating Plans in line with the stakeholder-agreed Strategic Plan which is reviewed by the AECL Board once each year.
6. The new AECL Strategic Plan give consideration to ensuring greater uptake and understanding of the importance of supply chain investments. Industry consultation revealed a low level of understanding of AECL activity in this space (Section 4.1).	As requested by the egg industry, AECL has moved away from a focus on the supply chain to enhance programs more applicable on-farm and in the market in promoting eggs.	So, while the Corporation's new Strategic Plan has less focus on supply chain issues, there are still discrete project opportunities towards making tangible improvements in and across supply chains. One project previously commissioned in this space was titled "supply chain mapping", which is a mapping exercise of the supply chain to see where the current volume of eggs is being channelled and where possible opportunities of growth may exist.
7. AECL work with the AECL Extension Officer to identify a replacement in advance of the incumbent's retirement (Section 4.1).	AECL management has already achieved this after undertaking a competitive search and contracting a resource to build on the work undertaken by the previous Extension Officer.	This resource is titled AECL Farm Extension Services Manager and has been building a strategic model to ensure continuous improvement on-farm.
8. AECL give consideration to the framework used by the red meat industry for strategic planning. This framework includes an industry plan (MISP) that	The AECL Board has reviewed the Meat Industry Strategic Plan (MISP) and the AECL Board considers it to be inappropriate to adopt a similar format or approach to strategic planning in the egg industry.	Given the size of the Australian egg industry and AECL, as the industry's services body, compared to the Australian red meat industry and the AECL-equivalent, Meat & Livestock Australia

Recommendation	Action Taken	Assessment
articulate a broad set of aspirational goals under which the Industry Services Body (MLA) plan sits (Section 4.2).		(MLA), AECL does not consider it appropriate to develop separate strategic plans for the egg industry and AECL. However, within the context of the AECL Strategic Plan, there is a clear enunciation of what AECL can achieve as the industry's services body to assist the egg industry achieve its vision.
9. Build risk management policies and processes into compliance audits to help ensure that risk is actively managed. Give consideration to reporting risk analysis results, in summary form, in the Company's annual report (Section 4.4).	The AECL Governance & Risk Committee considers and reviews the Risk Management Plan for AECL once each year. Subsequent to the Committee approving it, AECL forwards a copy to DAFF for their review and comment. AECL staff are also trained to the contents of the Plan once each year and how to recognise risks associated with the Corporation's business.	AECL has improved induction practices in terms of formalising the procedure of introducing new staff and directors to the Corporation.
10. Build fraud risk management review into compliance audits to help ensure that fraud control is actively managed. Ensure any new key staff (marketing, R&D, finance, communications, Managing Director, etc) receive fraud detection training as part of their induction (Section 4.5).	The AECL Finance & Risk Committee considers and reviews the Fraud Control Plan for AECL once each year. Subsequent to the Committee approving it, AECL forwards a copy to DAFF for its review and comment. AECL staff are also trained as to the contents of the Plan and how to recognise potential fraud associated with the Corporation's business.	AECL has improved induction practices in terms of formalising the procedure of introducing new staff and directors to the Corporation.
11. Update the IP Management Plan to ensure that IP is best managed for the benefit of the industry. (Section 4.6).	The AECL Governance & Risk Committee has added this item onto their agenda to review the IP Management Plan once each year.	AECL management has reviewed and enhanced the Plan, based on the commercialisation or potential commercialisation of projects.
12. Given the importance of the 'Freebairn Model' to the objective measurement of AECL's performance and that the model is now seven years old, it is appropriate that it be revisited by a suitably qualified academic economist, or similar, during the life of the next SFA to ensure the tool remains an accurate and up to date gauge of Company success (Section 5.1).	AECL commissioned and completed a project titled 'reviewing and updating the break-even assessment for the Egg Promotion levy' and the final report has now been published. The AECL Board considered this project appropriate to update and 'take stock' of the work undertaken by Professor John Freebairn in 2003 prior to the commencement of the Egg Promotion levy. A project brief was developed by the Corporation and distributed as part of a competitive tender process and Economic Research Associates Pty Ltd (ERA) were commissioned to undertake the work in line with the Procurement of Services Policy.	An outline of the project and associated results of the project were reported at the 16th and 17th AECL Industry Forums convened in Launceston during November 2011 and Sydney during November 2012. AECL plans to undertake a review of the break-even assessment for the Egg Promotion levy every five years. This model is used once every month to determine the ROI for Egg Promotion Levy investments and is reported to AECL stakeholders on an irregular basis.
13. AECL respond to emerging policy issues through the new strategic plan including difficulties in	AECL will find this difficult to progress and/or administer given our core focus as the egg industry's service provider or ISB (Industry Services Body). However, AECL has facilitated such discussion through	Please see response to Recommendation 2.

Recommendation	Action Taken	Assessment
compliance with the 4th Edition of the Model Code in peri-urban areas (Section 5.3).	Egg Farmers of Australia (EFA) which is made up of state representative bodies or IRBs (Industry Representative Bodies).	
14. That the external review of the Board include precautionary succession planning for the Managing Director, that consideration be given to additional resources to support the current project manager and that the Managing Director consider use of tools such as 360° feedback reviews to facilitate staff retention (Section 6.4).	<p>Upon reviewing AECL's core business, the AECL Board considered that the primary function fulfilled by the Program Manager should be outsourced. As a result, this position has been made redundant.</p> <p>The AECL Managing Director, as part of the staff performance appraisal process conducted formally once each year and informally every half-year, seeks input, feedback and guidance from all staff regarding how they could be managed better. This is considered appropriate and will continue.</p> <p>Most recently, the AECL Managing Director instituted a 360 Degree Feedback process and retained a consultant to undertake this work. To progress outcomes associated with this process, AECL has developed a resource plan to ensure staff strengths and interests are optimised. This plan is yet to be fully implemented and has been delayed through staff movements.</p> <p>AECL has also instituted a process of exit interviews to be conducted at arms-length through an independent process. Outcomes from such interviews are considered for incorporation into staff management and resource planning.</p>	The AECL Board has considered these issues and during the current SFA period, will adopt a succession planning strategy for the Managing Director. This will form part of the AECL Board Performance Review. Please see response to Recommendation 1 and attached AECL Board Performance Review report by Ixion Corporation.
15. A review of AECL's web strategy be completed by its new Communications Manager. The review should give consideration to the current practice of reporting animal welfare initiatives through a separate site (Section 6.7).	<p>A review of the web strategy was undertaken during early 2011 and the development of a Multi-Site Platform or MSP has now been completed.</p> <p>AECL owns many websites for different target audiences. These include: the AECL corporate website for stakeholders; a consumer-based site promoting the virtues of eggs and why consumers should be eating more eggs; a healthcare professionals website which is where the health messages from the Egg Nutrition Council (ENC) are distributed; and various sites promoting ECA, the Corporation's R&D program initiatives and egg labelling.</p>	The new sites are now fully operational and R&D content was first uploaded into the new platform during late 2013. New content is always being uploaded and the AECL websites remain dynamic.
16. The Layer and Egg Supply Forecasting Report funded by AECL is valued by industry and consideration should be given to its expansion to include demand analysis (Section 6.7).	<p>AECL supports the continued publication of Layer & Egg Supply Forecast reports for all egg producers and will be part of the Annual Operating Plans (AOPs) into the future.</p> <p>AECL management is always seeking ways to expand the forecasting service and any egg producers can subscribe to the service. AECL only receives aggregated industry data. No one egg producers' data is known to AECL.</p>	Demand analysis was assessed by Economic Research Associates Pty Ltd (ERA) based at the University of Western Australia. As part of their work, AECL commissioned reviewing and re-assessing the break-even analysis first established by Professor John Freebairn at the University of Melbourne and his research team. AECL will continue assessing market demand for eggs.

Recommendation	Action Taken	Assessment
<p>17. QA was revealed as an issue during consultation – cost, complexity, duplication and support for the staff managing the system were all issues of concern for levy payers and require management attention (Section 6.8).</p>	<p>Given some of the issues surrounding egg industry Quality Assurance (QA), the AECL Board considers this to be an important program for the egg industry but has questioned AECL continued involvement.</p> <p>AECL must balance the needs of many stakeholders, a highly-varied marketplace and passionate views as to the makeup and format of the egg industry's QA program.</p> <p>Currently titled EggCorp Assured (ECA), the program underwent a major review and AECL developed Egg Standards of Australia (ESA) which is based on ISO Guide 65. AECL planned to seek international accreditation of ESA through JASANZ with all audits being independently conducted by nominated third parties. The AECL Board also considered options to ensure ESA is affordable to all and that additional resources are made available to ensure the program direction, administration and governance arrangements are well managed and co-ordinated.</p> <p>More recently, AECL commissioned a review of the QA program currently owned, managed and administered by AECL which report in 2014. Questions asked during the review included:</p> <ul style="list-style-type: none"> • Given all of the proprietary QA schemes prevalent in the egg industry/market adopted by egg producers for certain customers and government authorities, should the egg industry maintain an industry-based QA scheme? • If so, should AECL as the egg industry provider of marketing and RD&E services (not the Industry Representative Body) own the industry-based QA scheme? • If so, should AECL manage/administer the industry-based QA scheme as well? • If not, suggestions of who could or should own and/or manage/administer the QA scheme to ensure the following KPIs: <ul style="list-style-type: none"> - Relevance - Recognition - Independence - Effectiveness - Efficient delivery 	<p>As a result of this review, AECL determined it appropriate to outsource the administration and operations of ECA to a third party. Please see response to Recommendation 14.</p> <p>This occurred in January 2015 and the experience to date is that this has ensured appropriate resourcing of industry-based QA, thereby driving efficiencies in its delivery. AECL will review this contract after 12 months and the performance of the service provider.</p> <p>SED noted that though not reviewed externally, and internal review supported the continuation of this contract on an ongoing basis.</p>

Recommendation	Action Taken	Assessment
	<ul style="list-style-type: none"> • Either way, how should the management/administration of an industry-based QA scheme be financed and what level of resourcing is required to ensure the above KPIs? <p>On the assumption that an industry-based QA scheme is appropriate and despite whether AECL will own or manage/administer it, AECL will continue to have input into an industry-based QA scheme through ongoing investments being made in RD&E to help improve QA scheme standards that should reflect a balance of:</p> <ul style="list-style-type: none"> • the latest peer reviewed science in the scopes of the QA scheme (such as food safety, environmental stewardship, animal health, quarantine/biosecurity and animal welfare); • the expectations of consumers analysed periodically through conducting market research to gauge their expectations; and • the reality of commercially producing sufficient quantities of a quality protein product at a cost effective price which needs to be made available to all consumers. <p>This is the Corporation's way of undertaking a 'reality check' on our QA scheme to ensure continuous improvement. All other schemes should be subjected to the same rigour.</p>	

9. Conclusion

Notwithstanding the recommendations made for organisational improvements, the review concludes that several positive elements are evident with the AECL operation. While this is not intended to repeat the detail contained in the report, it is appropriate to summarise the effectiveness of key elements within the organisation:

1. Financial Management: The organisation is financially sound, with appropriate financial management processes in place for safeguarding the investment by contributors.
2. Stakeholders: AECL effectively manages the diverse expectations of funders, beneficiaries and regulators though understands that this is an ongoing work in progress.
3. Operations: Quality management and governance structures are in place supported by work systems that are aligned to strategic objectives. There is evidently a good culture of supportive cooperation from the small team.
4. Innovation and development: There is a strong desire for continuous improvement and challenging the status quo.

Recommendations outlined in this report are framed on the basis of continuous improvement to organisation operation and should not be concluded that they are rectifying any substantive compliance or structural problems within AECL.

10. Appendixes

10.1 Documents reviewed

Table 2 - Documents reviewed

Document
▶ Egg Industry Service Provision Act 2002
▶ Egg Industry Service Provision (Transitional & Consequential Provisions) Act 2002
▶ Statutory Funding Agreement (SFA) 2011-2015
▶ AECL Constitution 2007
▶ AECL Strategic Plan 2012-2016
▶ AECL Annual Operating Plans (AOP) – covering the period in review
▶ AECL Annual Reports 2012, 2013, 2014, 2015
▶ AECL Risk Management Plan 2016
▶ AECL Fraud Control Plan 2016
▶ AECL Intellectual Property (IP) Management Plan 2015 (and property register)
▶ AECL – Collated stakeholders Responses – Effective Governance May 2016
▶ AECL Strategic Directions Document and Strategic Plan 2016
▶ AECL performance review – Ag-Econ-Plus 2011
▶ AECL responses to the recommendations contained in the AECL performance review – 2011
▶ AECL 2015/16 RD&E Portfolio publication
▶ AECL Report 2 nd quarter 2015-2016
▶ AECL Board Papers
▶ AECL Optimal Egg Marketing Under Changing Market Structures 2004
▶ AECL Reviewing and updating the break-even assessment for the Egg Promotion Levy 2012
▶ AECL Board Performance Assessment Report 2013 Ixion Board Governance
▶ ACCC vs AECL – Judgement findings Feb 2016
▶ EggCorp EggsPress – fortnightly e-newsletter
▶ Eggstra Eggstra – quarterly magazine

10.2 Abbreviations used

Table 3 – Abbreviations

ACCC	Australian Competition and Consumer Commission
AHA	Animal Health Australia
AOP	Annual operating plan
ASX	Australian Stock Exchange
AECL	Australian Egg Corporation Limited
AEIA	Australian Egg Industry Association
ASIC	Australian Securities and Investments Commission
BCA	Benefit/cost analysis
CRRDC	Council of Rural R&D Corporations
DAWR	Department of Agriculture, Water, Resources
DAFF	(Note former acronym for department)
DPI	Department of Primary Industries
ECA	Egg Corporation assured
EFA	Egg Farmers of Australia
GRDC	Grains Research and Development Corporation
ICC	Industry consultative committee
IP	Intellectual Property
IRB	Industry Representative Body
ISB	Industry Services Body
KPI	Key performance indicator
MAT	Moving annual total
PR	Public Relations
PIRD	Primary Industries and Energy Research Development
PISC	Primary Industries Standing Committee
R&D	Research and Development
RR&D	
ROI	Return on investment
RDAC	Research & Development Advisory Committee
(R)RDC	(Rural) Research & Development Corporation
SFA	Statutory funding agreement
SG	Specialist Group

10.3 Stakeholders consulted

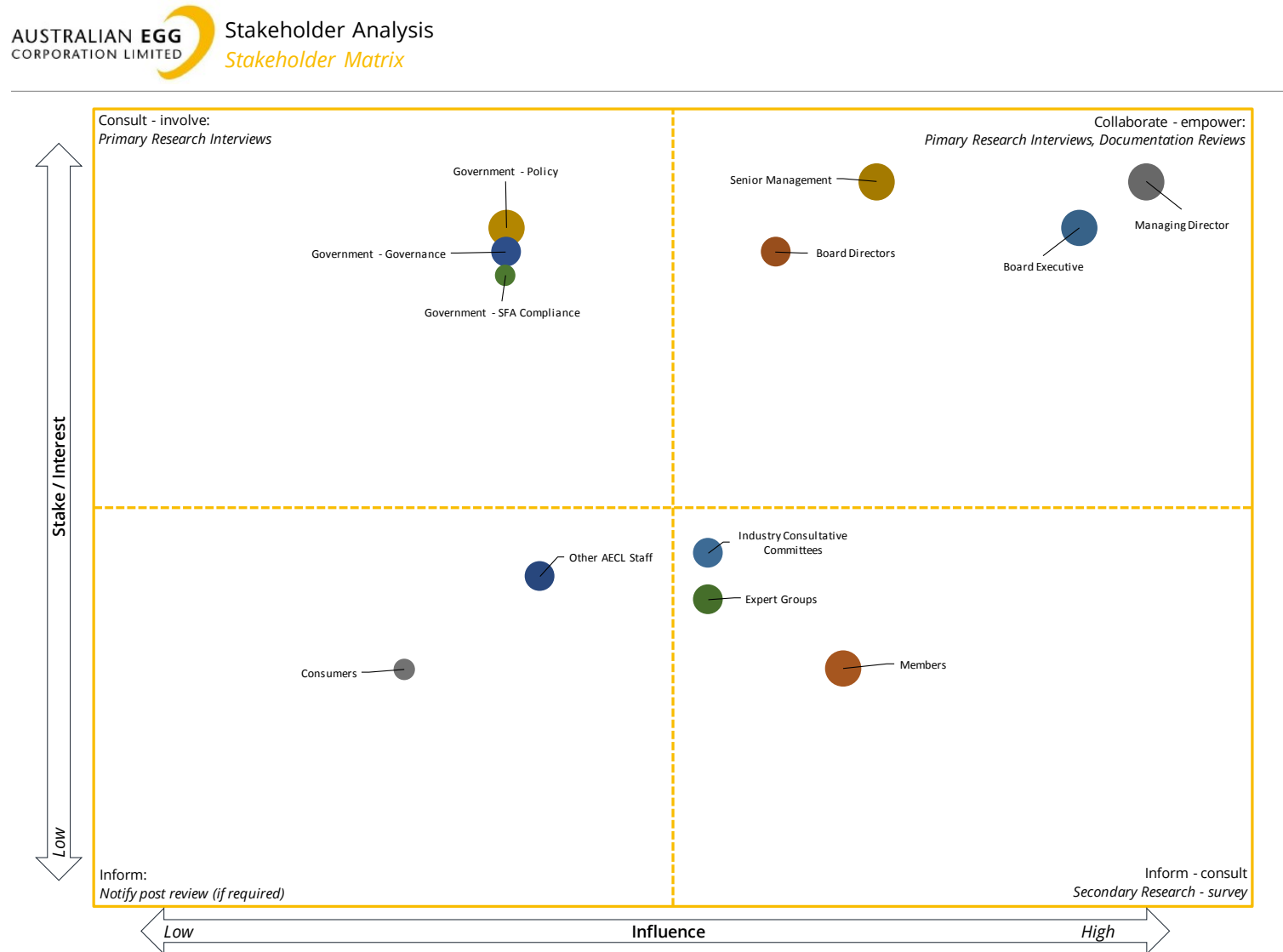


Figure 9 – Stakeholder analysis

10.3.1 Board/Management Consultation

Personnel	Focus of consultation
1. a) Jeff Ironside (Board Chair) b) Danny Jones – (Elected Director)	1. Funding agreement - Board's role in strategic planning 2. Assess Board processes for performance monitoring 3. Oversight risk management framework 4. Board renewal processes
2. James Kellaway (MD)	1. Corporate organisation structure for program delivery 2. Management/implementation of strategic and operational plans 3. Management of stakeholder relationships 4. Validate survey content and stakeholders
3. Sue Hardwick (Finance & Corporate)	1. Performance management and reporting 2. Audit/reference the adherence to funding agreement obligations including audits 3. Board meeting practices (annual agendas, formats, reporting, reviews)
4. Kai Ianssen (Communications Manager)	1. Review engagement, consultation and communication processes with stakeholders 2. Validate survey content and stakeholders 3. Funding agreement - Dissemination of information to stakeholders 4. Relevant program roles – consumption, credibility and cohesion pillars
5. Jojo Jackson (Program Manager - RD&E)	1. Collaboration with other R&D corporations 2. Validate survey content and stakeholders 3. Funding agreement - application R&D payments 4. Relevant program roles – consumption, credibility and cohesion pillars
6. David Mogford (Program Manager - Marketing)	1. Marketing program development and its connectivity with stakeholder needs 2. Validate survey content and stakeholders 3. Funding agreement - application promotion payments 4. Relevant program roles – consumption, credibility and cohesion pillars

10.3.2 Stakeholder consultation

Stakeholder Group	Discussion Topics
1. Expert groups	1. Collaboration processes 2. Effectiveness and relevance of AECL focus 3. Effectiveness of oversight and input to three operating pillars
2. Industry consultative committees	
3. Survey members	Assessment of: <ol style="list-style-type: none"> 1. Performance 2. Efficiency/value for money 3. Communication effectiveness In areas of: <ol style="list-style-type: none"> 1. Production and on-farm support 2. Undertaking R&D 3. Managing industry issues
4. Commonwealth Department of Agriculture, Water, Resources	<ol style="list-style-type: none"> 1. Adequacy of responses to 2011 review 2. Compliance with SFA 3. Conduct and communications 4. Emerging issues

10.4 ACCC court case

10.4.1 Overview

Given the profile and significance of the Federal Court Case brought against AECL and others by the ACCC hearing, the findings have been reviewed to identify implications for governance. It is important to note, however, that these are observations from a non-legal perspective, namely:

- ▶ In relation to whether there was an attempt to 'induce a cartel'; while Justice White determined that there was none proved, his decision is subject to an appeal by the ACCC, hence it is a matter still to be determined before the courts. As such, it is a question best left to the courts and will not be commented on by SED.
- ▶ Furthermore, while the points of law Justice White used to arrive at his verdict are subject to challenge, the facts of the case as stated by him, particularly in relation to the matters covered by the current review, are unlikely to be contested and, to that extent, may be regarded as a legal opinion of the rights and responsibilities of AECL.

Based on these premises, an assessment has been made from reading the judgement in relation to some key governance questions.

10.4.2 Summary of judgement

Governance issue	SED observations
1. Review findings from a governance perspective (i.e. behaviour) under constitution	<ul style="list-style-type: none"> i. Notwithstanding the judge's comments; it could argued there was a perceived failure of governance within AECL that resulted in the matter proceeding to court ii. The judge variously describes the AECL as an 'industry services body' [7] limited to certain activities by legislation (the EISP Act) [109] its constitution [114], specifically 'industry service provision' [115] and SFA [127]. iii. The ACCC's interest in the case lies in the fact that it is of the opinion that AECL and/or its officers exceeded its mandate as a statutory authority, a fact the judge accepts [257] - [262].
2. AECL consistency with its role under Statutory Funding Agreement	<ul style="list-style-type: none"> iv. Apart from whether or not other technical breaches occurred, the crux of the action would appear to revolve around AECL's role, particularly its interpretation of 'industry service provision'. v. Its legislated industry role is specifically restricted to collect, analyse and disseminate industry information. vi. Collusion issues aside, where there has been a transgression worthy of note from a governance perspective is via the use of this information to advocate a course of action (reducing supply) through AECL publications and at a specially convened summit for major producers. vii. These actions are more appropriately relevant to potential breaches of constitution (cl.1.4) than the SFA.

<p>3. Review alternate models/approaches for RDC's separating advocacy role and R&D role</p>	<p>Preamble:</p> <ul style="list-style-type: none"> ▶ SED reviewed this with the knowledge that AECL (or more accurately the industry) is currently trying to establish Egg Farmers of Australia to undertake this role. ▶ It was also noted from consultation that Australian Pork Ltd had established the management of the "fine line" with great sophistication. <p>Findings:</p> <ul style="list-style-type: none"> i. It is important to clarify, according to legal opinion, the judgement, is; <i>'AECL is prohibited by its constitution and by the Statutory Funding Agreements (the SFAs) into which it has entered with the Commonwealth from engaging in agri-political activities.'</i> [8] ii. While there may be some debate as to the difference between advocacy and agri-politics, which is a fine blurred line at best, it should be avoided, as it could create potential conflicts of interest and constitute governance complexity. iii. From SED's previous reviews and consultation, support is not evident for a similar model to that adopted by Australian Pork Ltd. It is clear that there are particular sensitivities surrounding the use of levies, particularly when they are used in a manner not acceptable to a levy payer. iv. SED would conclude on governance merits that an argument exists for the advocacy role to be autonomous and unrelated to AECL. This, as with the ACCC issue, indicates the need for greater focus and understanding of Board governance responsibilities more broadly. v. It is noted that AECL is working to establish Egg Farmers of Australia and is encouraged to continue working to this objective, or alternatively engaging with an already established agri-political organisation that features commodity committees/councils.
<p>4. Strategic Plan consistency with government policy</p>	<p>Our assessment suggests that this refers to R&D functions that the AECL is involved in. AECL demonstrates processes that ensure:</p> <ul style="list-style-type: none"> 1. Understanding of the set of National Research Priorities and consultation with such through periodic reviews of the Strategic Plan; 2. AECL meets requirements under its SFA to submit copies of its strategic and operational plans to government within seven days of adoption; and 3. The Chairperson or Managing Director of AECL meets with the Minister or nominated representative every six months on such issues.

10.5 References

- ▶ AECL Annual Report 2014
- ▶ AECL Annual Report 2015
- ▶ AECL Collated Stakeholder Responses (May 2016)
- ▶ AECL Constitution 2007
- ▶ AECL Fraud Control Plan 2016
- ▶ AECL Intellectual Property Register 2015
- ▶ AECL Intellectual Property Plan 2015
- ▶ AECL Performance Review - Statutory Funding Agreement 2011
- ▶ AECL Performance Review 2011 (April 2015 update)
- ▶ AECL Risk Management Plan 2016-2017
- ▶ AECL Strategic Plan 2007-2011
- ▶ AECL Strategic Plan 2009-2013
- ▶ AECL Strategic Plan 2012-2016 (October 2015)
- ▶ Annual Operating Plan 2011-2012
- ▶ Annual Operating Plan 2012-2013
- ▶ Annual Operating Plan 2013-2014
- ▶ Annual Operating Plan 2015 -2016
- ▶ Egg Industry Service Provision (Transitional and Consequential) Act 2002
- ▶ Statutory Funding Agreement between the Commonwealth of Australia represented by the Commonwealth Department of Agriculture, Fisheries and Forestry and the Australian Egg Corporation Limited 2007-11
- ▶ Statutory Funding Agreement between the Commonwealth of Australia represented by the Commonwealth Department of Agriculture, Fisheries and Forestry and the Australian Egg Corporation Limited 2011-15

10.6 Obligations of AECL under the SFA; summary table of performance

The Statutory Funding Agreement represents the contract under the Act between the Commonwealth of Australia and AECL for the purposes of the *Egg Industry Service Provision Act 2002*. The SFA entails a set of obligations for AECL in discharging its duties to stakeholders. Listed below is a summary table noting the provisions and the assessments made from this review:

Table 4 – SFA performance

Clause and requirement	Meaning	Status
3. Constitution		
3.1 The Company must: (a) consult with the Commonwealth on changes to its Constitution to ensure that it will remain appropriate. (b) give the Commonwealth a copy of each notice of a motion to modify the Company Constitution. (c) Give the Commonwealth notice setting out the modification and explaining its effect.	As described in SFA Schedule 2 and described in greater detail in the sections below. Notes AECL must facilitate levy payers becoming Company members on a voluntary basis.	Obligation not invoked during the review period.
4. Board Corporate Governance		
4.1 The Company should implement a framework of good corporate practices in managing and investing the Funds drawing on the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, Second Edition, August 2007.	AECL must demonstrate effective governance framework and have practices in place to discharge its obligations to stakeholders.	Fully satisfied. Ongoing requirement.
4.2 The Company must report to the Minister in the six-monthly meetings held under clause 10.2 of steps taken to improve Board Corporate Governance in accordance with clause 4.1		
5. Payment of Funds		
5.3 Notwithstanding any other provision of this Agreement: (b) The Company shall pay any amount so invoiced to the Commonwealth within 30 days of receipt of the invoice; and (c) An amount to be deducted by the Commonwealth or paid by the Company under this clause shall be deducted or paid from the promotion payments or from the Research and Development Payments.	The Commonwealth must pay AECL 1. Promotion payments, 2. R&D payments and 3. Matching payments less collection costs.	N/A

Clause and requirement	Meaning	Status
6. Application of the Funds		
6.1 The Company must spend the Funds only on Approved Activities, and in a manner consistent with strategic plan, operating plan and the Guidelines	<p>Expenditure on funds must be consistent with AECL's strategic plan, operating plan and guidelines, specifically focusing on key activities including:</p> <ol style="list-style-type: none"> 1. Promotion (investigation, planning, delivery evaluation); 2. Industry Service Provision (membership register, general meetings); and 3. Remuneration and Borrowing. <p>► R&D levy payments for research must focus on benefiting the industry</p> <p>► Must be able to evidence clear separation of reporting of R&D and other expenditure</p> <p>► Also note a prohibition on the use of funds for agri-political activity.</p>	Fully satisfied ¹ . Financial audit letters sighted.
<p>6.3 Promotion Payments may only be applied by the Company:</p> <p>(a) in making payments for or in relation to promotion or Industry Service Provision for the benefit of the Industry;</p> <p>(b) maintaining membership register and holding general meetings;</p> <p>(c) in making payments to the Commonwealth in accordance to clause 5.3;</p> <p>(d) making any other payment the Company is authorised or required to make by law;</p> <p>(e) making any other payment with prior agreement of the Commonwealth;</p> <p>(f) paying allowances or remuneration to directors, employees, consultants and agents of the company and in meeting administrative, operating and capital expenses reasonably necessary to be incurred</p> <p>(g) in the repayment of money borrowed by the Company and payment of interest and other financial costs incurred</p>		Fully satisfied . Financial audits sighted and other checks made. Requirement to consult with the Minister not invoked during the review period with respect to any matters.
6.4 Research and Development payments and Commonwealth matching Payments may only be applied by the Company for, research and development activities related to the Industry or benefit of the Industry.		Fully satisfied . Financial audit letters sighted.
6.6 The Company must ensure there is a clear distinction between expenditure on research and development activities and other activities.		Fully satisfied . Assessment of financial statements notated the distinction in reporting between R&D expenditure and other activities.
6.7 and 6.8 The Company must not engage in Agri-Political activities and must use any of the Funds.		Partially satisfied . Sighted correspondence between AECL and the Department confirming that support for Egg Farmers Australia (EFA) is treated as a project, disclosed and funded through Non-Fund Income.

¹ SED has relied on the veracity of the audits and their findings as an input to this performance review.

Clause and requirement	Meaning	Status
6.9 The Company shall not spend the Funds on making payments to Industry Representative Bodies which are established for the purpose of or substantially engaged in Agri-Political activity.		Not specifically satisfied: See 6.7 and 6.8 above
6.10 Paragraph 6.9 does not preclude: (a) payments by way of membership fees; (b) payments on an arm’s length value for money basis to acquire goods or services or fund research and development; and (c) The Company may seek consultation with the Secretary or nominee in relation to any matter connected with this Agreement.		
7. Use of Transferred Assets and Liabilities		
7.1 The Company must establish accounting systems, procedures and controls as necessary to ensure: (a) Funds are spent only in accordance with this Agreement and Act; (b) dealings with Funds are properly authorised, conducted and accounted for; and (c) an Auditor is able to readily verify the Funds have been used in accordance to Agreement.	AECL must be able to demonstrate the existence of suitable accounting systems, procedures and controls to manage the funds in its control and employ appropriate external verification of such.	Fully satisfied Accounting systems appropriate to enable verification of expenditure of Funds and financial audit letters sighted. No issues noted by DAWR.
7.2 The accounting systems, processes, and controls to manage the Funds are required to take into account the Risk Management and Fraud Control plans developed under clauses 9.1 (a) and (b).		
7.3 Notify the Commonwealth on request of the details of the systems, procedures and controls established in accordance to paragraph 7.1.		
7.4 The Company must: (a) Keep complete and detailed accounts and records of receipt, use and expenditure of Funds; (b) Keep accounts and records referred to in paragraph (a) separately in relation to Promotion Payments, Research and Development Payments and Commonwealth Matching Payments; and (c) Keep accounts and records to enable disclosure of the full costs of the Research and Development and Promotion Program under Schedule 2.		

Clause and requirement	Meaning	Status
8. Strategic and operational plans		
<p>8.1 The Company's Strategic Plan must cover a 3 to 5 year period and must:</p> <p>(a) Review and update the strategic plan at least once every year;</p> <p>(b) work with the Department to ensure its strategic and annual operational plans meet the intent of the Program Framework;</p> <p>(c) make the Strategic Plan generally available to Levy Payers and Industry representative bodies; and</p> <p>(d) Accept a strategic plan within 28 days after directors pass a resolution, and provide the Minister with a copy of the plan.</p>	<p>Prepare and adopt a three-to-five year strategic plan and update the strategic plan on an annual basis, being formally adopted by the Board.</p> <p>Format plan in such a way to make accessible and understandable to levy payers.</p> <p>Develop plan in a consultative manner with levy payers and the Minister and consistent with government R&D priorities.</p> <p>There exist also several items prescribed for inclusion in the plan that shall be adhered to by AECL.</p>	<p>Fully satisfied. Plans are for a rolling five-year period, the industry standard, and have been reviewed and updated annually</p>
<p>8.2 The Strategic plan must cover:</p> <p>Vision/Mission, objectives and priorities of the Company for the delivery of promotional and R&D services, assessment of the operating environment, views of key stakeholders and clients including Levy Payers, planned outcomes from the expenditures of R&D Payments, Promotion Payments and commonwealth Matching Funds, programs intended to be adopted to achieve planned outcomes, key deliverables to achieve planned outcomes, performance indicators that enable progress being made towards achieving planned outcomes to be monitored and reported, collaboration with research/promotion providers on priority issues, collaboration with other RDCs on priority research and development issues, how funded activities align with Guidelines, consultation with Industry and which priorities are reflected in the plan, consistency of funds expenditure with national and Rural R&D priorities, estimates of income and expenditure for the life of the plan, and a corporate governance statement.</p>		<p>Fully satisfied.</p> <p>Noted that also reviewed the AECL Strategic Direction statement 2016-2020 provided in March 2016.</p> <p>Strong linkages evident in strategic plans in respect to vision, purpose, clarity of core objectives, strategies and industry outcomes. Some possible improvements are suggested with respect to strategic outcome measurement.</p>
<p>8.3 In developing the strategic plan, the Company must consult with the Minister, consult with Levy Payers and hold formal consultation to seek input from key Industry Representative Bodies.</p>		<p>Fully satisfied. Evidence was obtained of extensive and appropriate consultation and plans show linkages to government priorities.</p>

Clause and requirement	Meaning	Status
<p>8.4 The Company must, prior to 1 July each year, provide to the Commonwealth and annual operational plan to implement the strategic plan setting out:</p> <p>Intended operations for the next financial year, key activities funded by the Company under Promotion and R&D programs, how the funded activities align with the Guidelines, key deliverables, performance indicators, timetables and milestones relating to proposed activities and expenditure which enable progress being made towards planned outcomes, estimates of income and expenditure for the financial year, and any other matters.</p>		<p>Fully satisfied. Over successive years, improvement is evident 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.</p> <p>The review has suggested some possible improvements with regard to priority setting and measurement.</p>
<p>8.5 In developing the Annual Operational Plan the Company must consider:</p> <p>Any direction given by the Minister, community and levy payer expectations when setting Company senior executive board remuneration packages, investments to support the development and implementation of the National Primary Industries Research, Development and Extension Framework, collaboration with other R&D corporations on priority research and development issues, and the establishment of a structure evaluation plan in consultation with the Department for the systematic evaluation of the costs and benefits of Company investment in R&D.</p>		<p>Fully satisfied. The strategic and annual operating plans align with the annual reports and with reporting obligations.</p>
<p>8.6 The Company must ensure that systems, processes, and controls are put in place to deliver the planned outcomes and meet reporting obligations under Schedule 2.</p>		
<p>8.7 Report on progress against its plans including against matters set out in clause 8.5 in the six-monthly meetings.</p>		<p>Fully satisfied. Confirmation through consultation; no concerns expressed by DAWR.</p>

Clause and requirement	Meaning	Status
9. Other plans		
9.1 The Company must implement a Risk Management, Fraud Control and Intellectual Property Management Plan.	A Risk Management Plan, a Fraud Control Plan and an Intellectual Property Management Plan must all be prepared and implemented and reviewed at least every three years.	Fully satisfied. Plans were developed prior to the review period and updated in 2016.
9.2 The Company must prepare these plans in consultation with the Department, and must be reviewed at intervals of no more than 3 years. The Company within 28 days after a plan or amendment is accepted by the Company Board, must provide the Commonwealth a copy of the plan or amended plan.		
10. Reports, Meetings and Consultations		
10.1 The Company must provide the Minister with four copies of the annual report, and to be given to Company members.	AECL must provide the Minister with a copy of the annual report at the same time as members; Six-monthly financial statements to be prepared and submitted to the Commonwealth.	Fully satisfied. Annual reports provided as part of ongoing requirement.
10.2 The Chairperson of the Company, or nominee, must meet with the Minister at six-monthly intervals.		Partially satisfied. Confirmation that any such matters have been covered in six-monthly meetings if applicable. Only issue raised is the sometimes difficult relationship between the Chair and DAWR, though it is deemed a robust and professional relationship between AECL and DAWR
10.3 The Company must meet with key industry representative bodies at six-monthly intervals to review industry priorities for R&D and promotion investment, and report on its performance against each of the plans.		Fully satisfied. Meetings were held with the Minister in accordance with scheduled dates.
11. Additional Reports		
11.1 The Company shall report to the Minister within 30 days, any significant matters that have come to the Company's notice that will or may impact on their ability to achieve the objectives stated in its operational plan or comply with obligations under this Agreement.	AECL must report any significant matters to be reported to the Commonwealth on a 30 day basis, meet with the Minister at six monthly intervals, annual reports can be tabled in Parliament.	Fully satisfied. Additional significant matters reported. No issues raised by DAWR.
11.2 The reports required under clause 10 and 11.1, the Company must give to the Minister with a reasonable period as the Commonwealth specifies.		
11.3 Where relevant, when giving reports or explanations referred to in 11.1 and 11.2 the Company must consult with the Commonwealth on the nature of the remedial action required.		

Clause and requirement	Meaning	Status
12. Review of performance		
<p>12.1 The Company must complete a Performance Review six months before the expiry of this Agreement and must:</p> <p>(a) Engage an independent organisation to undertake the Performance Review and instruct it to prepare a report on all matters dealt with in the Report;</p> <p>(b) Agree the terms of reference of the review with the Department to ensure it will meet the requirements;</p> <p>(c) provide the Department with a copy of the draft review report at the same time the Company Board receives a copy;</p> <p>(d) Give the performance review report to the Minister within 14 days of acceptance by the Board;</p> <p>(e) provide the Minister with a detailed response to the recommendations of the performance review report and proposed implementation plan, including dates and milestones within 28 days of the Board's development of a response;</p> <p>(f) Report to Minister in the meetings required of the progress made in implementing the recommendations;</p> <p>(g) publish the performance review report on the company website; and</p> <p>(h) Make available copies of the Performance Review Report at the Company's next annual general meeting.</p>	<p>AECL shall engage an independent organisation to undertake a performance review within timeframes and guidelines set by the Department.</p>	<p>Fully satisfied.</p> <p>SED has not previously conducted work on behalf of AECL and has conducted the review consistent with the terms of reference supplied.</p>
<p>12.2 The organisation engaged to carry out the Performance Review must be an organisation that has not, within the previous 4 years, been involved in providing corporate governance or related advice to the Company.</p>		

Clause and requirement	Meaning	Status
13. Access to records and use of information		
<p>13.1 The Commonwealth, Auditor-General and any duly authorised representative, may:</p> <p>(a) Have access to premises occupied by or under the control of the Company; and</p> <p>(b) Have access to data, records, accounts, and other financial material, and any property of the Commonwealth, in the possession or control of the Company.</p> <p>The company must grant this access on request:</p> <p>(c) During business hours – at any time; and</p> <p>(d) outside business hours – on 48 hours notice given to Company and marked for the attention of the Managing Director of the Company.</p>	<p>AECL records must be made available to the Commonwealth and the Commonwealth must protect commercially sensitive information.</p>	<p>Fully satisfied. Access to records provided within specified timeframes and respecting confidentiality of such information.</p>
13.2 Must provide access to all its accounts and records and fully cooperate with the Commonwealth, the Auditor-General, or any duly authorised representative.		
<p>13.3 Each party shall, in respect of Confidential Information given by the other party:</p> <p>(a) Use the Confidential Information only for the purposes of administering or enforcing this Agreement, the Act, and</p> <p>(b) Not disclose Confidential Information to any person without the prior approval in writing from the other party.</p>		
13.5 The Company grants the Commonwealth a licence to use the copyright in any document provided to the Commonwealth under this Agreement in any way for any purpose. This clause does not amount to an assignment of copyright.		

Clause and requirement	Meaning	Status
14. Compliance Audit Report and Certification Report		
<p>14.1 The Company must, within 5 months after the end of financial year, give the Minister a Compliance Audit Report, providing an audit opinion on whether the Company has complied with its obligations. A compliance audit report must:</p> <p>(a) be prepared in accordance with relevant Australian Auditing and Assurance Standards;</p> <p>(b) include a review of the efficacy of the accounting systems, processes, and controls required under clause 7.1;</p> <p>(c) indicate whether qualification to the Compliance Audit report and any non-compliances that have come to the auditors attention are material; and</p> <p>(d) include a statement that the compliance audit report has been prepared for the Commonwealth for the purposes of this Agreement and an acknowledgment that the report will be relied upon by the Commonwealth.</p>	<p>Copy of the audited financial report to be provided to the Minister at the same time as Company members; providing an Audit Compliance Report and a Certification Report.</p> <p>Compliance Audit report is prepared by an auditor and reports AECL's compliance with relevant SFA clauses and a Certification Report signed by the Chair and MD stating that AECL is in compliance with the SFA and the Act.</p>	<p>Fully satisfied. Auditors' reports were submitted within specified timeframes.</p>
<p>14.2 The Compliance Audit Report need not include an opinion whether the Funds have been applied for the benefit of Industry, or efficiently, effectively and ethically, or for agri-political purposes.</p>		
<p>14.3 The Company must within 5 months, after the end of financial year, give the Minister a report signed by the Chairperson of the Directors and the Managing Director of the Company:</p> <p>(a) Certifying whether the Company has complied with its obligations under the Act and this Agreement during the financial year;</p> <p>(b) Stating whether, in their opinion, any non-compliances are material; and</p> <p>(c) if any non-compliances are, in their opinion, material, giving an explanation of the non-compliance.</p>		
<p>14.4 and 14.5</p> <p>If the Commonwealth requests an audit report, the Company must at its own expense:</p> <p>(a) obtain the audit report or opinion from the Company's auditor;</p> <p>(b) if, in the opinion of the Commonwealth, the audit report or opinion cannot be properly given by the Company's auditor, engage another auditor; and</p> <p>(c) give a copy of the audit report or opinion to the Commonwealth within 14 days after the Company receives it.</p>		<p>Obligation not invoked during the review period.</p>

Clause and requirement	Meaning	Status
15. Indemnity		
<p>15.1 and 15.2</p> <p>The Company indemnifies the Commonwealth, its officers and agents against all expenses, losses, damages and costs sustained or incurred as a result of:</p> <p>(a) any breach of this Agreement by the Company; or</p> <p>(b) any loss of damage to any property or injury to or death of any person caused by any negligent act or omission or wilful misconduct of the Company or its officer and employers.</p>	<p>AECL indemnifies the Commonwealth against breach of the SFA and any loss or damage caused by its actions.</p>	<p>Fully satisfied. Ongoing requirement.</p>
<p>15.3 The Company agrees that a person indemnified under clause 15.1 may recover a payment under an indemnity before the person makes the payment in respect of which the indemnity is given.</p>		
<p>15.4 and 15.5 The company agrees that the Commonwealth holds the benefit of an indemnity under clause 15.1 in favour of an officer or agent of the Commonwealth in trust for the officer or agent.</p>		

Clause and requirement	Meaning	Status
16. Suspension or termination of fund payments		
<p>16.1 The Commonwealth may, by giving written notice to the company, immediately:</p> <p>Suspend payment of any or all funds, reduce the amount of payment of the Funds, Direct the Company to deal with all or any of the Funds in a certain way and/or, terminate this Agreement.</p> <p>If: An insolvency event occurs, the Company is in breach of any obligation, including without limitation: a breach of obligations under clause 6.1, failed to provide a satisfactory report or explanation under clause 11, failed to take any remedial action referred to in clause 11.3 either at all or within the timeframe agreed, the Company has not provided with a satisfactory report in relation to a breach within 28 days of becoming aware of it, or the Company has not rectified the breach within 28 days of receiving notice to do so from the Commonwealth.</p> <p>Or</p> <p>The Commonwealth considers that it is appropriate because of change of Constitution, or declaration of the Company as the Industry Services Body under the Act is revoked, or there is a change in the Commonwealth policy relating raising or spending of the levies of the payment or spending of Commonwealth Matching Funds.</p>	<p>Such an action may occur if:</p> <ol style="list-style-type: none"> 1. AECL is in breach of the SFA, or 2. It fails to comply with a Ministerial directive, or 3. AECL becomes insolvent. 	<p>Obligation not invoked during the review period.</p>

Clause and requirement	Meaning	Status
17. Repayment of Funds		
17.1 If Funds have been used by the Company otherwise than in accordance with this Agreement, the Commonwealth may, by written notice to the Company, require them to repay the amount that has been used or expended by the Company.	This enables the Commonwealth to require repayment of funds associated should a breach occur in the SFA.	Obligation not invoked during the review period.
17.4 The Company must repay funds to the Commonwealth in accordance with a notice under clauses 17.1 and 17.2 as a debt due to the Commonwealth.		
17.5 If the Company repays the Funds to the Commonwealth, the Commonwealth must either pay those Funds to another body that is declared under the Act to be the Industry Services Body under the Act or otherwise apply those funds for the benefit of the Industry.		
18. Conflict of interest		
18.1 Warrant that no conflict exists at date of Agreement.	AECL must warrant that there are no current conflicts of interest and must notify the Minister should any conflict of interest arise.	Not relevant to the review period.
18.2 Notify Minister of any conflict of interest arising or risk thereof.		Obligation not invoked during the review period.
19. Acknowledgment of funding		
19. The Company must ensure that all significant publications and publicity by the Company in relation to matters on which Commonwealth Matching Payments are expended, acknowledge the provision of the Matching Payments by the Commonwealth.	AECL must acknowledge the Commonwealth funding contribution in relevant publications and publicity.	Fully satisfied. Numerous examples of publications and publicity sighted, all conforming.
23. Resolution of disputes		
23.1, 23.2 Must not start arbitration or court proceedings in respect of a dispute arising out of this deed, and must notify the other party, giving details of dispute.	In effect noting that legal action to be used as a last resort in solving disputes between the Commonwealth and AECL.	Obligation not invoked during the review period.
23.4 Continue to perform obligations in the event of legal action.		Fully satisfied.
24. Assignment		
24. The company must not assign or novate this Agreement or any right or obligation unless: It is not in breach of this Agreement, obtains prior written consent of the Commonwealth, and ensures the assignee agrees to be bound by the Company's obligations.	AECL may not assign any rights under the SFA to other parties without prior consent.	Fully satisfied.

Clause and requirement	Meaning	Status
26. Alteration		
26. The agreement may be altered only by an agreement in writing signed by each party.	Change to the SFA can only be made in written and signed form.	
28. Severability		
28. Part or all provision that is illegal or unenforceable may be severed from the Agreement and the remaining provisions continue in force.	Practical terms any illegal or unenforceable part of the SFA may be removed.	Obligation not invoked during the review period.
30. Notice		
30.1 Must give notice in writing: directed to the recipient's address, or hand delivered.	In relation to any matters either arising from, or related to the SFA, they must be provided in writing.	Obligation not invoked during the review period.
30.2 The notice is taken to be received: if hand delivered, on delivery; if prepaid post, 3 days after posting.		

10.6.1 Strategic Risk Ownership model

Three Lines of Defence

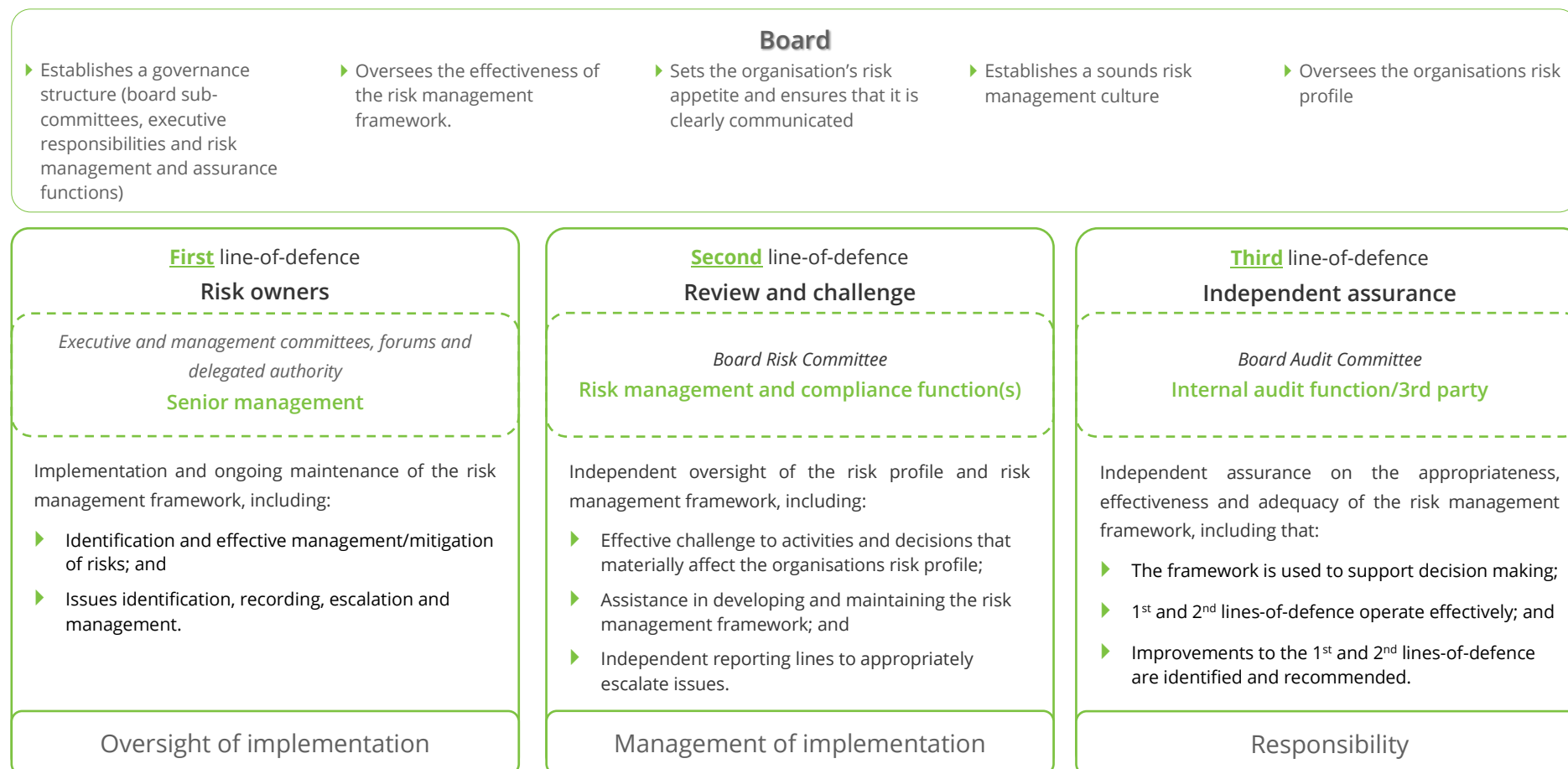


Figure 10 – Three lines of defence risk model

10.6.2 Priority project model

Mapping strategic initiatives in accordance with industry benefit (y axis) and strategic risk (x axis) is recommended, mapped in a similar format to the sample provided in Figure 11. This process promotes rigour and more considered assessment of risk. Further, it enables ongoing integration of risk management into Board thinking, by concentrating critical thinking in the right quadrants within the agreed risk appetite and supporting and monitoring management with activities conducted in the left quadrants.

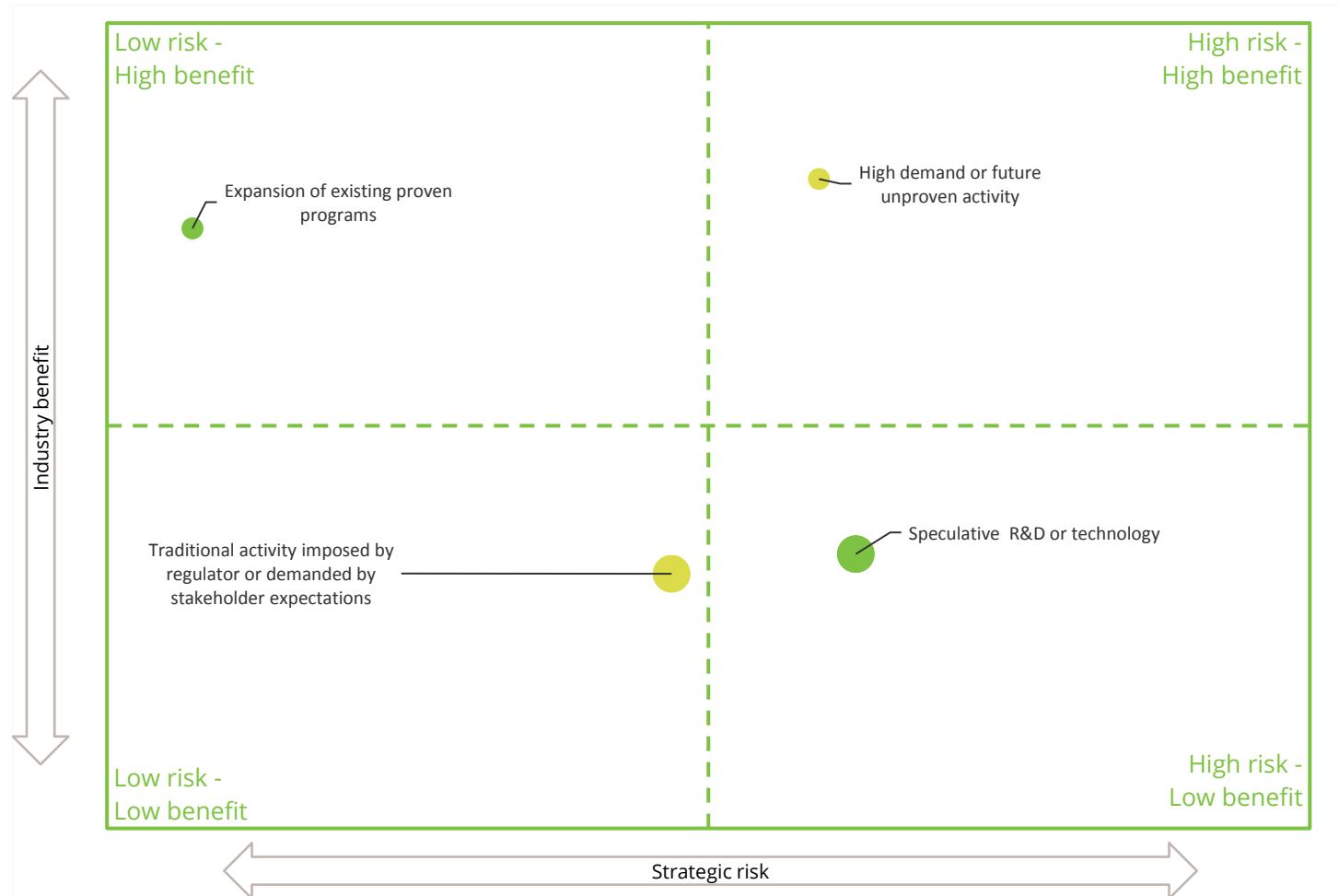


Figure 11 - Priority project model

10.6.3 Strategic mapping for measurement model

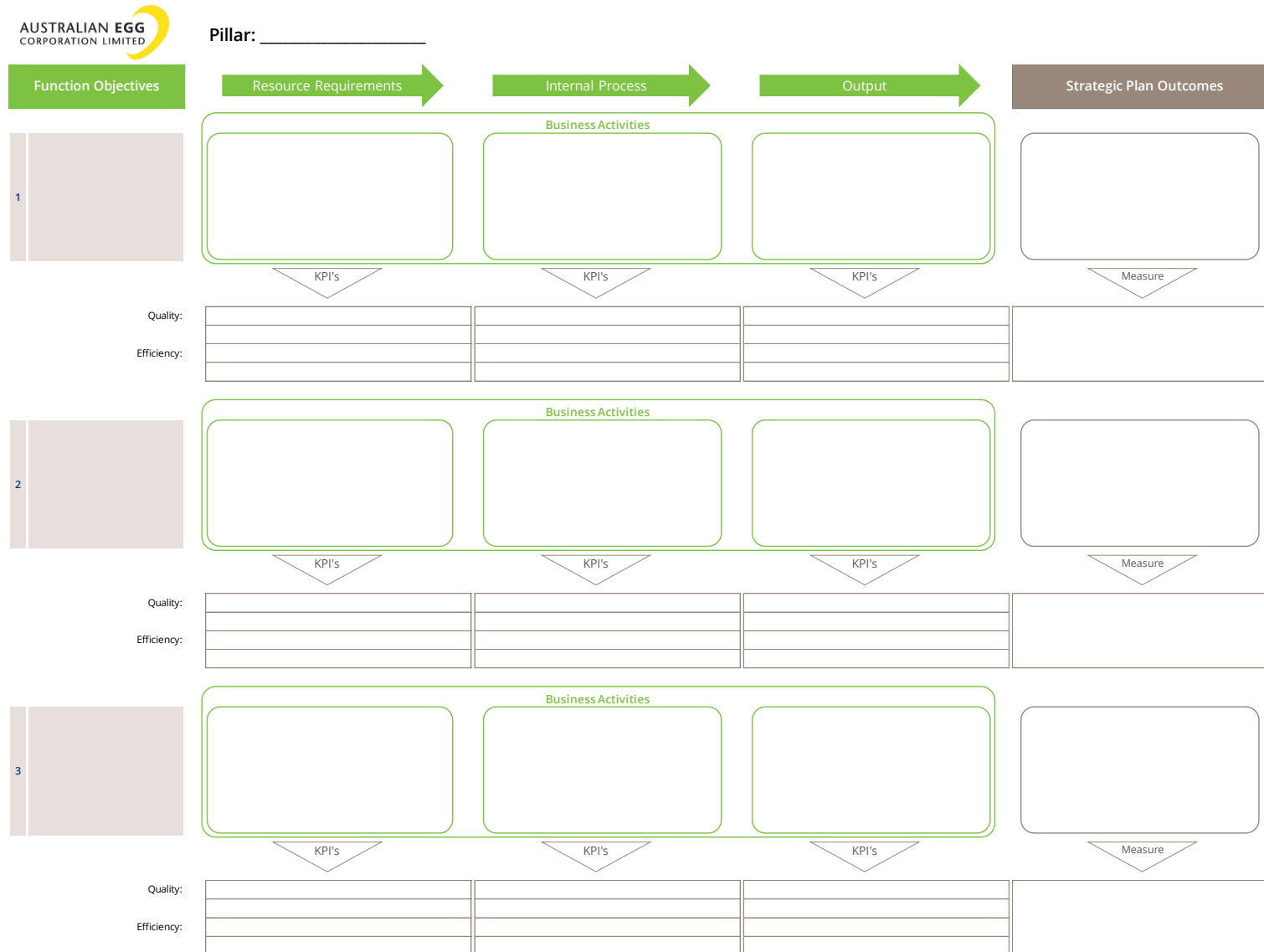


Figure 12 – Strategic mapping for measurement model



Project Brief

AECL Performance Review – SFA

Project description

As per the third Statutory Funding Agreement (SFA) that the Australian Egg Corporation Limited (AECL) entered into with the Australian Government during October 2012, AECL needs to commission a performance review of AECL's performance, activities and operations. After which, it is envisaged that a new SFA will be negotiated with the Australian Government.

AECL background

The Australian Egg Corporation Limited (AECL) is a Sydney-based, public, unlisted company limited by guarantee established under the Egg Industry Service Provision Act 2002. AECL integrates on-farm, through chain and market service provision for the benefit of all stakeholders. AECL was registered with the Australian Securities and Investments Commission (ASIC) on 18 November 2002 and commenced operations on 1 February 2003.

AECL is mainly funded through statutory promotional and Research & Development (R&D) levies, received from all egg farmers and collected under the Primary Industries (Excise) Levies Act 1999, and through Australian Government funds for the purposes of conducting R&D activities in agreed program areas. AECL is one of 15 rural Research and Development Corporations (RDCs) which are also known as portfolio agencies of the Department of Agriculture and Water Resources.

The Egg Industry Service Provision Act 2002, a Statutory Funding Agreement (SFA) between the Australian Government and AECL, the Corporations Act 2001 and AECL's Constitution provide the legal framework for all AECL operations.

AECL operates on behalf of all levy-paying egg farmers who are entitled to register as a member of AECL under the terms of the AECL Constitution and in line with Section 231 of the Corporations Act 2001. AECL services all known Australian egg farmers irrespective of their size, location or farming system who distribute a wide variety of eggs and egg products to the local and international market.

Project background

AECL commenced operations on 1 February 2003. The proclamation of the Egg Industry Service Provision Act 2002 and the Egg Industry Service Provision (Transitional and Consequential Provisions) Act 2002 allowed the Australian Commonwealth to nominate AECL as the industry services body. In so doing, the directors of AECL entered into a Statutory Funding Agreement (SFA) with the Australian Government. The SFA clearly enunciated AECL's duties and responsibilities for the remittance of levy funds to AECL. During May 2011, a review of AECL performance was conducted and a new SFA was negotiated and signed by AECL and the Australian Government during October 2012.

There are many requirements for AECL to meet as outlined in the SFA. This helps to ensure effective corporate governance and diligence in fulfilling AECL's duties. Clause 12 of the SFA, titled Review of Performance, clearly enunciates the need for AECL to undertake a performance review at its own expense.

Project scope

This third review will assess the performance of AECL against its strategic and annual operational plans since the last review was undertaken, during 2011, and should include a cost benefit achieved for stakeholders given the levy funds remitted.

As per clause 12 of the SFA, the project needs to focus on the following:

12. REVIEW OF PERFORMANCE

- 12.1 The Company must complete a Performance Review six months before the expiry of this Agreement and must:
- (a) engage an independent organisation to undertake the Performance Review and instruct it to prepare a report on all matters dealt with in the Performance Review (Performance Review Report);
 - (b) agree the terms of reference of the Performance Review with the Department to ensure that the Performance Review will meet the requirements under this Agreement;
 - (c) provide the Department with a copy of the draft Performance Review Report at the same time as the Company Board receives a copy;
 - (d) give the Performance Review Report to the Minister within 14 days of acceptance by the Board;
 - (e) provide the Minister with a detailed response to the recommendations of the Performance Review Report and a proposed implementation plan including dates and milestones within 28 days of the board's development of a response to the Performance Review Report, being a date within three month's of the board's acceptance of the Performance Review Report;
 - (f) report to the Minister in the meetings required under clause 10.2 of the progress being made in implementing the Performance Review Report Recommendations; and
 - (g) publish the Performance Review Report on the Company website; and
 - (h) make available copies of the Performance Review Report at the Company's next annual general meeting.
- 12.2 The organisation engaged to carry out the Performance Review must be an organisation that has not, within the previous 4 years, been involved in providing corporate governance or related advice to the Company (but this does not prevent an organisation from being engaged on the basis that it has merely carried out evaluations of specific projects, or conducted the performance review under the Agreement).

The Performance Review and Performance Review Report are defined in the SFA under clause 1 as being:

‘Performance Review’ means a review conducted in accordance with clause 12.1 of the Company’s performance against its plans that takes into account:

- (a) the performance of the Company in meeting its obligations under this Agreement;
- (b) the Company’s development and implementation of its Strategic, Operational, Risk Management, Fraud Control and Intellectual Property Management plans, and the Company’s effectiveness in meeting the priorities, targets and budgets set out in those plans;
- (c) the efficiency with which the Company carried out those plans;
- (d) the delivery of benefits to the Industry foreshadowed by those plans; and
- (e) any other matters required to be covered by the Minister.

‘Performance Review Report’ means a report to be prepared in accordance with clause 12.1(a).

In addition, please see attached Appendix one that highlights the Australian Government’s approved Terms of Reference (ToR) for the review.

Please note that AECL will be responsible for ensuring the following:

- Delivery of “...a copy of the Performance Review Report to the Commonwealth...” as per clause 10.6(a).
- Making available “...copies of the Performance Review Report...to Levy Payers...”
- Making the “...Performance Review Report publicly available.”

Project outcome

Identification of AECL’s effectiveness and efficiency in meeting the priorities set out in the AECL strategic and annual operating plans including the cost benefits to industry and government required to be submitted under Clause 7 of the SFA with the Australian Government and include:

- AECL’s accountability and transparency to the government, levy payers and industry stakeholders.
- AECL’s responsiveness to meeting its SFA obligations and the government’s and rural R&D priorities, development and implementing its plans, and the wider public good benefits of its investments.
- the need for consultation with key stakeholders on its performance and value for money being delivered including with the Australian Government, levy payers and industry.

Project outputs

The following project outputs are required throughout the duration of the project:

- A written draft report with recommendations for consideration.
- Presentation of the draft report and recommendations for consideration to the AECL Board.
- A revised written report encompassing the deliberations of the AECL Board.
- A presentation to enable the delivery of the outcomes to an AECL industry forum event.
- A brief, 'user friendly' summary of the project and outcomes suitable for publication on the AECL website.

Service provider's proposal

The proposal to this project brief must address:

1. Methodology

- a. Demonstration of an understanding of the project requirements.
- b. A description of the proposed methodology to address the specific project outcomes and associated timelines.

2. Costing and payment:

- a. A costing including allocation of the service provider's time, material and other costs.
- b. Outline of when project payments are due.

3. Service provider qualifications:

- a. A statement of the names, roles, qualifications and experience of all consultants allocated or involved in the project.
- b. Current references, which would demonstrate the experience of both the service provider and consultants nominated for the project.
- c. Contact details for all consultants nominated for involvement in the project.
- d. A clearly identified project leader, the main contact for correspondence.

Resources

The following resources will be made available by AECL to the appointed service provider but are not limited to:

- Egg Industry Service Provision Act 2002
- Egg Industry Service Provision (Transitional & Consequential Provisions) Act 2002
- Statutory Funding Agreement (SFA)
- AECL Constitution
- AECL Strategic Plan
- AECL Annual Operating Plans (AOP) – covering the period in review
- AECL Annual Reports

- AECL Risk Management Plan
- AECL Fraud Control Plan
- AECL Intellectual Property (IP) Management Plan
- AECL performance review – 2011
- AECL responses to the recommendations contained in the AECL performance review – 2011
- AECL directors and management
- Australian egg producers (levy payers)
- Department of Agriculture & Water Resources personnel

Other resources will include the R&D projects titled *Optimal Egg Marketing Under Changing Market Structures* and *Generic Promotion In The Food Marketing Chain* which provides an objective performance indicator to achieve adequate Return-On-Investment (ROI) and take account of previous assessments or performance reports undertaken during the period in review such as any evaluations on the R&D levy investments completed as a result of combined Council of Rural Research & Development Corporations (CRRDC) efforts.

Project timetable

The following timeline provides a list of indicative milestones to be achieved by AECL and the successful proposer/tenderer during the management and execution of the project.

<i>Due Date</i>	<i>Action</i>
8 January, 2016	Project brief approved by AECL and DAFF
15 January, 2016	Project brief dispatched to 4 prospective service providers
29 January, 2016	Project proposals to be received by AECL
5 February, 2016	Selection of successful proposal, proposer advised and project commences
31 April, 2016	Meeting with DAFF to ensure expectations are met
31 April, 2016	Meeting with AECL to answer questions and provide further information
6 June, 2016	Interim report submitted to AECL & DAFF for comment/feedback
16 June, 2016	Final report submitted to AECL
23 June, 2016	Presentation and final report considered by AECL Board
9 July, 2016	Final report sent to DAFF
TBC	Presentation to AECL stakeholders

Project management responsibilities

The following AECL contact will be responsible for the successful completion of this project and provide a contact for the successful service provider:

James Kellaway
Managing Director
Australian Egg Corporation Limited (AECL)

Level 4, 107 Mount Street
North Sydney, NSW, 2060
Tel: 02 9409 6906
Fax: 02 9954 3133
E-mail: james@aecl.org

Resource allocation

The service provider will provide their own administrative support, including word processing and printing requirements. The AECL contact will provide assistance in accessing relevant documents and other resources as required.

Criteria for selection

AECL will undertake the selection of the service provider based on:

- the degree of understanding of the project demonstrated in the proposal;
- demonstrated ability to make recommendations for improvement that add value to the company's operations, particularly in respect to performance improvements and governance;
- the suitability of the method indicated for undertaking the project;
- the qualifications and relevant experience of the service provider and associated consultants;
- independence of the service provider, as specified in clause 12.5 of the SFA; and
- cost effectiveness.

General conditions of contract

In fulfilling the project, AECL expects the following:

- Confidentiality will be maintained at all times.
- The copyright of all documentation and intellectual property developed, as a result of the project, to be vested in the AECL.
- The project is undertaken in an impartial, objective and professional manner.
- EEO principles will be applied in both the selection of a service provider for the project and in the conduct of the project.
- The service provider and associated consultants have insurance cover for property damage, public risk, public liability and accident or injuries to employees of their company.

- Any areas of potential conflict of interest be identified at the time of the service provider's response to the brief and updated during the course of the project should potential conflicts arise.
- The service provider's contract may be terminated or the work content reduced, with a fair and reasonable monetary adjustment determined by AECL, subject to the service provider being given written notice.
- Any material provided by AECL for this project, which has been developed by another consultancy or agent, will be used only for work done for AECL.
- The service provider adheres to the agreed terms in the contract for consultancy services.

Lodgement of proposal

To respond to this brief, please submit a proposal (both in hard copy and electronic copy) including acknowledgement of all terms and conditions by COB 29 January, 2016 to:

James Kellaway
Managing Director
Australian Egg Corporation Limited (AECL)
Level 4, 107 Mount Street
North Sydney, NSW, 2060
Tel: 02 9409 6906
Fax: 02 9954 3133
E-mail: james@aecl.org



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