

**Australian Wool
Innovation Limited**

Independent Review of
Performance

Summary of findings - July 2015

1. Background

Deloitte has been engaged by Australian Wool Innovation Limited (AWI) to conduct an independent Review of Performance (Review), in accordance with the requirements of the Statutory Funding Agreement (SFA) between AWI and the Commonwealth. The Review assesses the performance of AWI between the 1 July 2012 and the 30 June 2015 against its objectives as set out in the Strategic Plan and relevant operating plans, the extent of compliance with the SFA and general operating procedures.

The findings of this Review are based on the Terms of Reference (TOR) as defined by the Commonwealth Department of Agriculture, (the Department).

2. How has AWI performed over the past three years?

Overall, AWI has performed well during the Review period, and have achieved considerable value for woolgrowers since the previous Review. Further, AWI have achieved these results in the face of challenging industry conditions such as fluctuating wool prices, changing productivity and environmental factors impacting woolgrowers including wild dogs and seasonal changes.

AWI focussed efforts towards implementing the adopted recommendations from the previous Review, enhancing their Monitoring and Evaluation framework, strengthening their governance mechanisms and structures, and improving the extent to which they engage and collaborate with stakeholders.

Achievements of AWI over the preceding three years have focussed on three main areas, being **engagement and collaboration** with woolgrowers and stakeholders, **governance**, and the creation and **delivery of strategic benefits**.

Since 2009, AWI has improved in these key areas:

Engagement and collaboration:

- ✓ Enhanced opportunities for woolgrowers and industry groups to participate in strategic planning

Governance:

- ✓ Increased transparency and reviewed the way in which Board directors are appointed
- ✓ Aligned priorities and established firm schedule of regular meetings with the Executive
- ✓ Focussed activities through improved relations between the AWI Board and Executive

Delivering Strategic benefits:

- ✓ Driven continuous improvement across all aspects of the organisation through defining and refining their Monitoring and Evaluation framework
- ✓ Focussed on operational effectiveness through reviewing processes, mitigation strategies and escalation protocols.

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3. What have been AWI's main achievements?

AWI has achieved a number of achievements across **engagement and collaboration, governance, operations** and **statutory compliance**.

Table 1: AWI Review of Performance: key findings

	Report findings
Engagement and collaboration	<ul style="list-style-type: none"> AWI has effectively implemented and evolved arrangements for engagement, consultation, and communication with, and feedback to, woolgrowers and other stakeholders. This includes providing opportunities for levy payers to influence the investment of levies AWI's M&E Framework underpins the Annual Planning and Consultation Cycle, and AWI ensures that the Strategic Plan and subsequent annual operating plans are developed to reflect the needs and expectations of the stakeholders and broader industry.
Governance	<ul style="list-style-type: none"> AWI continue to evolve the governance, structure and operations of the organisation to ensure good practice and appropriate mechanisms of corporate governance
Operations	<ul style="list-style-type: none"> AWI soundly developed and implemented its Strategic and Annual Operational plans, and been effective as an organisation in meeting the priorities, targets and budgets as set out in these plans AWI have achieved benefits for woolgrowers, the community and broader industry by increasing farm gate returns
Statutory compliance	<ul style="list-style-type: none"> AWI has met its obligations under the Statutory Funding Agreement 2013-16 (SFA) with the Commonwealth AWI has demonstrated an increased effectiveness of their intellectual property, risk management and fraud control plans, which are monitored by the Finance and Audit Committee (FAC) AWI has addressed all and implemented the adopted three of the four recommendations from previous Review.

4. What value has AWI created for woolgrowers?

Over the past three years, AWI has created benefits for woolgrowers through investment in RD&E and marketing and promotion activities, realised through:

- Investment in RD&E activities have created cost savings and/or productivity gains on the on-farm and off-farm programs**
- Investment in marketing and promotional activities have heightened market demand and contributed to an increase in wool prices.**

Of AWI's 27 programs as defined within their Strategic Plan (2013-2016), 12 have had their benefits quantified through cost benefit analysis (CBA). Across those 12 programs, the present value of the quantified benefits to woolgrowers on-farm (if targets are met) is \$198 million.

Table 2 below provides an overview to the return on investment realised by woolgrowers as a direct result of AWI Programs. Greater detail can be accessed in the full Review of Performance, which is available at www.wool.com.

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Table 2: Return on investment of AWI programs with completed CBAs (investment made between 2012-15)

Program	Present value of costs (\$m)	BCR	Present value of benefits (\$m)
Wild Dogs	5.8	8.6	50.7
Reproduction (Lifetime Ewe Management)	2.2	13.0	28.5
Wool Harvesting & Quality Preparation	6.9	2.6	18.1
Managing the Resource Base	4.1	1.5	6.1
Grower Skills Capacity (extension)	6.1	1.4	8.6
Supply Chain Diversification	1.8	4.1	7.3
Trade Engagement and Marketing Services (Merino Touch)	1.7	7.0	11.5
Sports & Outdoor	1.9	6.3	11.9
The Campaign for Wool	7.3	1.2	8.7
No Finer Feeling	15.8	1.7	26.9
Woolmark Gold (China)	7.9	1.6	12.6
Cool Wool	7.1	1.0	7.1
Total	68.7	2.9	198.2

This compares to an aggregate present value of costs of those 12 programs of \$69 million. Comparing the Benefit Cost Ratio of the completed CBAs to current AWI investment commitments demonstrates a weighted average return of \$2.9 of benefit for every \$1 spent. This is an excellent return on investment, when considering that the threshold for net benefits is \$1 for every \$1 spent. Woolgrowers can expect to realise returns where practices are adopted and integrated into their operations.

Monitoring and Evaluation framework

The work completed on the implementation and integration of the M&E framework is significant and to the benefit of woolgrowers, as AWI focus efforts towards achieving, reviewing and reporting on achievements.

When considering all action and investment activities, AWI consistently apply the “woolgrower” test, to ensure that all investment activities align to the Strategic Plan (2013-2016) and the expectations of woolgrowers. Further, AWI overlay the “woolgrower test” with the Monitoring and Evaluation (M&E) framework to drive an environment of continuous improvement.

In response to the recommendations of the Review of 2009-2012, AWI are focussing efforts on creating greater consistency across programs and that annual targets are more closely aligned with longer term objectives as articulated in the Strategic Plan.

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5. How has AWI improved across governance, operations and planning?

The efficient and effective development, delivery and evaluation of RD&E and marketing activities are dependent on the strength, consistency and strategic foresight of the AWI Board and Executive.

Over the preceding three years, AWI has focussed efforts on strengthening and streamlining the governance mechanism, and the roles and responsibilities of the AWI Board, Executive and Committees. This is supported by the findings of an independent governance review conducted in 2014, which highlighted improvements to the focus of Board meetings, the implementation of the Monitoring and Evaluation framework, and the enhanced working relationship between the AWI Board and the CEO.

Over the past three years, the AWI has made a number of tangible improvements to the structure and composition of the Executive, which has enabled the organisation streamline operations and continue creating value for woolgrowers.

6. How have AWI focussed on enhancing efforts across stakeholder collaboration and engagement?

AWI operate in a complex stakeholder environment, which is dominated by the needs of woolgrowers, the expectations of the Department, and the mutual dependencies on other RDCs. Throughout their operations, AWI focus on balancing the needs of all stakeholder groups.

The majority of woolgrowers understand and appreciate that successful engagement and collaboration requires effort by both AWI and woolgrower groups, representatives and individuals.

Over the past three years, AWI has demonstrated proactive engagement and collaboration with stakeholders, and have encouraged involvement in the development of the Strategic Plan. This was evident through the number of available forums for collaboration such as the Woolgrower Industry Consultative Committee (ICC), the annual "Call for Projects" and WoolPoll. Further, in 2013, AWI published the draft Strategic Plan online, and asked for written feedback in the form of submissions.

AWI engage with woolgrowers and other stakeholder through biannual woolgrower forums, quarterly briefings offered to state farm organisations, as well as other face to face and industry events. In FYE 2014, AWI invested \$427K on grower consultation and engagement, through over 50 regional events which included formal and information forums.

In addition, AWI undertook specific consultation on the development of its Strategic Plan through engagement and collaboration with stakeholders. Key improvements identified over the Review period include:

- New and improved forums for consultation on the strategic plan
- Improved and more targeted engagement with woolgrowers in face-to-face engagement with end users including designers and other key members of the supply chain

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- Assessment of attendance at forums and events. The Board is keen to ensure growers are being engaged, rather than just other stakeholders in the industry.

Effectiveness of stakeholder engagement and consultation

Over the earlier three years, AWI have significantly improved the effectiveness of engagement with woolgrowers and the broader industry; however there is scope for some improvement moving forward, particularly around:

- Clarity of communication and connection with woolgrowers
- Transparency and accountability of RD&E projects and fund allocation
- Increased information sharing and collaboration

Opportunities to influence levies

In order to ensure the Strategic Plan meets industry's priorities, input from stakeholders across the supply chain is critical. The Strategic Plan (2013-2016) is based on feedback received over the past three years, through AWI's Annual Planning and Consultation Cycle, from woolgrowers, grower representative groups and other stakeholders along the wool supply chain.

AWI efforts in cross Research and Development Corporations collaboration

AWI have, and continue to invest in developing strong collaborative relationships with the other Rural Research and Development Corporations (RDCs). Annually, AWI document the investment collaboration forums and engagements with other RDCs, to ensure that activities are aligned with meeting the Rural Research and Development Priorities, however still pass the "woolgrower test".

7. Deloitte's conclusions and recommendations

The findings of the independent review of performance have been that overall; AWI operates effectively, complies with its obligations, and focusses on delivering and enhancing value for woolgrowers. This Review provides a number of recommendations for further improvement relating to AWI's performance in delivering research, development, extension and marketing services, notably in the areas of governance and management.

Recommendations provided in Table 3 below have been developed within the context of supporting AWI's evolution and meet the ever-increasing needs, expectations and requirements of their stakeholders. These recommendations will support AWI to continue to build on its achievements to date.

Table 3: AWI Independent Review of Performance 2015 Recommendations

	Recommendations
Strategic benefits	<ol style="list-style-type: none"> 1. A strategic benefits framework should be developed and applied to fully demonstrate and capture the value add and synergies that are being achieved for woolgrowers across Programs and from investments made by others as a result of AWI's efforts. 2. Communication of strategic benefits should be included in future consultation plans (such as for the development of the Strategic Plan) and in extension sessions so as to help all woolgrowers fully understand AWI's efforts on their behalf.
Governance	<ol style="list-style-type: none"> 3. The AWI Board should work closely with the AWI Independent Governance Advisor in the course of the next Review period to evolve to a full skills matrix which be instilled in the Board Charter, reviewed annually, and used in the Nominations Process. This would Matrix would evolve and improve the current documentation in time to inform the 2017 Director elections process. 4. The AWI Board should work with the AWI Independent Governance Advisor over the course of the next Review period to formalise a revised Governance Policy. The Policy will specifically address how the Board intends to manage any Conflicts of Interest. The Policy should incorporate, as Appendices, the AWI Board Charter and all other documentation relating to governance and Board procedure. This will create one single source of governance documentation, and support and amplify the Constitution. 5. The AWI Board should work closely with the AWI Independent Governance Advisor in the course of the next Review period to formalise succession planning for the Board and key executive functions.
Operations	<ol style="list-style-type: none"> 6. The role of the CEO should be supplemented by a COO or CoS to enable the CEO to optimise their focus on impact and benefit for woolgrowers. 7. The AWI Board should work with the Independent Governance Advisor to formalise within 12 months an all-encompassing Deed of Delegation to the CEO (using the Carver model or similar) and supported by formalised role specific Deeds of Delegation to all Executives. 8. To ensure the process for measurement and evaluation is sustainably embedded into the organisation, the AWI CEO should formalise a single policy document within 12 months which documents: <ul style="list-style-type: none"> • whole of business requirements, • processes, • standards, • criterion for implementing and reviewing of the program, and • project measurement and evaluation, including the three year cycle for CBAs.

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